

**FRANK H. MURKOWSKI,
GOVERNOR**

**DEPARTMENT OF NATURAL RESOURCE
DIVISION OF OIL AND GAS**

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CERTIFIED MAIL
RETURN RECEIPT REQUESTED

January 8, 2004

R. F. Buckley, Chairman PTU Owners Committee
ExxonMobil Development Company
P.O. Box 4867
Houston, TX 77210-4876

RE: Point Thomson Unit
Proposed Changes to Expansion/Contraction Decision - Denied

Dear Mr. Buckley:

The Division of Oil and Gas (the Division) approved an application for expansion and contraction of the Point Thomson Unit (PTU) on July 31, 2001, and issued the Findings and Decision approving the *Application for the Second Expansion and Third Contraction of the Unit Area* (the Decision) on May 24, 2002. ExxonMobil Corporation (ExxonMobil), the PTU operator; BP Exploration (Alaska), Inc.; Chevron U.S.A. Inc.; and Phillips Alaska Inc., now ConocoPhillips Alaska, Inc.; (the Owners) agreed to commitments set out in the Decision that constitute a long-term plan of development for the PTU.

On July 14, 2003, the Division approved the PTU Twentieth Plan of Development for the period October 1, 2003 through September 30, 2004, which outlined the Owners' plan to proceed on two parallel paths to meet the commitments in the Decision. ExxonMobil began the permitting process for the PTU gas cycling project while reevaluating the Thomson reservoir structure and in-place, recoverable, hydrocarbon estimates. The Decision provided that if they found the project to be uneconomic by June 15, 2003 (the Contraction Election Deadline), the Owners could elect to contract all of the Expansion Acreage out of the PTU, pay the State of Alaska \$8,000,000 to compensate for the unrealized bonus payments during the period that the acreage was withheld from leasing (Extension Charge), and be released from the remaining obligations imposed in the Decision.

The Division agreed to extend the contraction election deadline on May 15, and again on July 14, 2003, to allow additional time for the Owners to evaluate the commercial viability of the PTU gas cycling project. The Owners presented their current interpretation of the PTU geologic model and updated in-place, recoverable, hydrocarbon estimates to the Division on October 16, 2003. Unfortunately, the Owners current assessment of the gas cycling project indicates higher costs and lower liquid recovery than previously estimated. On December 18, 2003, ExxonMobil requested a

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modification of the Decision that would extend the Contraction Election Deadline until June 15, 2006 and prorate the Extension Charge on a monthly basis.

The Division appreciates the considerable expertise and resources that the Owners dedicated to evaluating the PTU gas cycling project. Over the past year, the Owners reviewed the geologic model, recalculated the recoverable liquid hydrocarbons, refined the engineering design to better estimate the cost of development, began evaluating the environmental impacts through the federal permitting process, and considered alternate development scenarios. Through these activities, the Owners determined that the gas cycling project is currently uneconomic and suspended the permitting process indefinitely. Representatives from ExxonMobil met with division staff on December 2, 2003, to discuss possible revisions to the State's current fiscal system that might make the gas cycling project commercially viable. However, the Owners have not made any specific proposals that would warrant a further extension of the Contraction Election Deadline.

Without a commercially viable project, the Owners may surrender the expansion acreage, pay the \$10 million Extension Charge, and be released from the remaining obligations in the Decision. If the Owners do not exercise this option, they must begin development drilling in the PTU by June 15, 2006, or all of the Expansion Acreage will automatically contract out of the PTU and the Owners will pay \$20 million to the State of Alaska. We trust that the Owners will continue to evaluate options to economically produce the known hydrocarbon resources underlying the PTU, and look forward to reviewing the proposed PTU Twenty-First Plan of Development in July 2004.

Any person affected by this decision may appeal it, in accordance with 11 AAC 02. Any appeal must be received within 20 calendar days after the date of "issuance" of this decision, as defined in 11 AAC 02.040 (c) and (d), and may be mailed or delivered to Thomas E. Irwin, Commissioner, Department of Natural Resources, 550 W. 7th Avenue, Suite 1400, Anchorage, Alaska 99501; faxed to 1-907-269-8918; or sent by electronic mail to dnr_appeals@dnr.state.ak.us. This decision takes effect immediately. If no appeal is filed by the appeal deadline, this decision becomes a final administrative order and decision of the department on the 31st day after issuance. An eligible person must first appeal this decision in accordance with 11 AAC 02 before appealing this decision to Superior Court. A copy of 11 AAC 02 may be obtained from any regional information office of the Department of Natural Resources.

Sincerely,

Original signed by Mark D. Myers

Mark D. Myers
Director

cc: Thomas E. Irwin, DNR Commissioner
Richard LeFebvre, Deputy Commissioner DNR and PTU permit coordinator
Marty Rutherford, Deputy Commissioner
Richard Todd, Department of Law