



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Natural Resources

DIVISION OF OIL & GAS

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August 17, 2016

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Ms. Teresa Imm
ASRC Exploration, LLC
3900 C Street, Suite 1000
Anchorage, AK 99503

Re: Placer Unit 1st POD – Approved

Dear Ms. Imm:

On June 13, 2016, the Department of Natural Resources (DNR), Division of Oil and Gas (Division), received the proposed 2016 Placer Unit (PLU) Initial Plan of Development (POD) and annual report from ASRC Exploration, LLC (AEX). The Division notified AEX by email on June 22, 2016 that the POD submittal was deemed complete and it was under review. AEX provided an annual technical review to the Division on July 13, 2016.

Unit History

The Placer Unit was formed September 8, 2011 from portions of four state leases (ADLs 391023, 391024, 391027, and 391028) totaling 1,480 acres. On August 20, 2012, AEX applied to expand the PLU by 7,288 acres and amend the Plan of Exploration (POE) based on a reprocessed 3D seismic survey. The Division denied the request to expand the PLU and amend the POE on January 14, 2013, and AEX timely appealed the decision on February 4, 2013. On July 25, 2013, the Division provided notice to AEX that the PLU was in default for failure to comply with the drilling requirement in the POE. On November 4, 2013, the Division then issued a conditional approval after remand from the DNR commissioner to expand the PLU and amend the POE. AEX was unable to comply with the conditions presented in the decision on remand, and the appeal was returned to the DNR commissioner. The appeal was remanded to the Division a second time, and the Division issued a second decision on remand to conditionally approve the PLU expansion and amended POE (PLU Expansion Decision) on November 13, 2014. The PLU Expansion Decision became effective upon AEX's submittal of a \$2.5 million surety performance bond to the Division on January 23, 2015.

Amended POE

The PLU Expansion Decision prescribed four commitments with deadlines to be included in AEX's amended POE. The commitments were developed as steps towards drilling the Placer #3 well as set forth below.

- Submit to the Division a fully-executed agreement securing a drilling rig for the winter/spring 2016 drilling season on or before June 30, 2015.
- Submit for approval a Placer Unit Plan of Operations to the Division to drill the proposed Placer #3 well on or before August 30, 2015.
- Provide evidence of approval from the Department of Environmental Conservation for the Placer Unit's Oil Discharge Prevention and Contingency Plan on or before December 1, 2015.
- On or before May 31, 2016, AELLC must drill and test or plug and abandon an exploratory well in the PLU Expansion Area. The exploratory well needs to be drilled in the Expansions Leases to a depth sufficient to evaluate the Kuparuk River Formation as correlated in the Placer #1 well.

AEX proceeded to satisfy each of the conditions from the PLU Expansion Decision and amended POE. A drilling contract was executed in June 29, 2015 for the Kuukpik #5 rig. A Plan of Operations from the Division and an Oil Discharge Prevention and Contingency Plan from the Department of Environmental Conservation were obtained prior to drilling. An ice road and pad were completed in January 2016 with the Placer #3 well drilled, tested, and suspend in February 2016. The performance bond was returned to AEX upon demonstrating all conditions of the PLU Expansion Decision were satisfied.

First PLU POD

AEX proposed a two-year initial POD after conducting operations in accordance with the amended POE. The first year of the proposed POD focuses on determining reservoir extent and characteristics and defining infrastructure needs. AEX will conduct analysis on all geologic and engineering data for the three Placer wells, engage in discussions with other operators for terms of facility access, and develop high level infrastructure cost estimates. AEX also plans to obtain and merge the Tabasco 3D seismic data with existing surveys for reprocessing and interpretation.

The second year of the POD proposes reservoir mapping and development well planning, performing engineering and cost studies for infrastructure locations, and proposing a participating area.

Findings and Decision

When considering a POD, the Division must consider the criteria in 11 AAC 83.303(a) and (b). Accordingly, the Division considered the public interest, conservation of natural resources, prevention of economic and physical waste, protection of all interested parties including the state, environmental costs and benefits, geological and engineering characteristics or reservoirs or potential hydrocarbon accumulations, prior exploration activities, plans for exploration or development, economic costs and benefits to the state, and any other relevant factors, including mitigation measures. 11 AAC 83.303(a),(b).

The Division considered 11 AAC 83.303 and found that the POD promoted conservation of natural resources, promoted prevention of waste, and protected the parties' interests. The Division incorporates by reference those findings.

AEX satisfied the condition set forth under the amended POE by drilling an exploration well penetrating the Kuparuk Formation at the Placer Unit. AEX is working to obtain seismic data to merge with their existing data to formalize well and development planning. Reprocessing the seismic data will help determine the extent of the Kuparuk reservoir and commerciality of the project. The public benefits if the PLU moves to production in the near-term which increases tax and royalty revenue for the state and employs Alaskans. It is also in the public interest for its resources to be evaluated and produced. The PLU #3 well and reprocessed seismic data promotes that interest. However, in order to protect the interests of all parties, approving a two-year POD is not consistent with recent POD decisions for any units in the state.

Considering the 11 AAC 83.303 criteria, the Division finds the 1st PLU POD is approved for the period of September 8, 2016 to September 7, 2017.

This approval is only for a general plan of development. Specific field operations require separate approval under 11 AAC 83.346, Unit Plan of Operations. Under 11 AAC 83.343, the 2nd POD is due June 10, 2017, 90 days before the 1st PLU POD expires.

An eligible 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 Andrew T. Mack, 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@alaska.gov. This decision takes effect immediately. 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.

If you have questions regarding this decision, please contact Kyle Smith with the Division at (907) 269-8807 or via email at kyle.smith@alaska.gov.

Sincerely,



Corri A. Feige
Director

CC: DOL