



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Natural Resources

Division of Oil & Gas
550 W. 7th Avenue, Suite 1100
Anchorage, Alaska 99501-3560
Main: 907.269.8800
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November 7, 2016

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

John M. Martineck, President
BlueCrest Alaska Operating LLC
3301 C St., Ste. 202
Anchorage, AK 99503

Re: Cosmopolitan Unit Third Plan of Development – Approved

Dear Mr. Martineck,

On October 12, 2016, the State of Alaska, Department of Natural Resources, Division of Oil and Gas (Division) timely received the proposed Cosmopolitan Unit (CU) Third Plan of Development (POD). The Division notified the operator, BlueCrest Alaska Operating LLC (BlueCrest), by email on October 12, 2016 that it deemed the POD application complete. This letter approves the POD.

The Cosmopolitan field was discovered by the Pennzoil Oil Company in 1967 when it drilled the Starichkof State 1 well on State lease ADL 18790. In 2001, Phillips also completed the Hansen 1 well, drilled directionally from an onshore drill site approximately 2.5 miles away from the target reservoirs. The Hansen 1 well reconfirmed the presence of producible oil in the previously-discovered Starichkof zone, and it also confirmed productive sands in the Hemlock interval. In 2003 ConocoPhillips drilled the Hansen 1A well (a sidetrack of Hansen 1) in ADL 384403. The well was certified as capable of producing in commercial quantities in 2005. In 2007 Pioneer Natural Resources acquired working interest from ConocoPhillips. Pioneer conducted a fracture stimulation of the Hansen 1AL1 well in 2010 and produced over 33,000 barrels of oil from the Starichkof zone. In the summer of 2013, Buccaneer Cosmopolitan and BlueCrest jointly drilled the Cosmopolitan State 1 well in ADL 384403 from an offshore surface location. The Cosmopolitan State 1 well discovered numerous oil and gas zones within the Upper and Lower Tyonek (above the previously-known Starichkof and Hemlock zones). BlueCrest acquired 100% working interest ownership of all Cosmopolitan State leases in 2014.

During the Second POD BlueCrest planned to drill three onshore wells after completion of a new drilling rig. Additionally, up to three offshore wells drilled with a jack-up rig were planned. Construction of onshore production facilities was planned and first oil expected in the second quarter of 2016.

The onshore oil processing facility was completed, and production from the existing Hansen 1AL1 restarted on March 31, 2016. Production is trucked to the Tesoro refinery. Cumulative production for the Hansen 1AL1 was 63,734 stock tank barrels (STB) at the end of August 2016 and oil produced by Bluecrest from the Hansen 1AL1 was 30,230 STB at the end of August 2016. Work continues on the new land drilling rig, and no new wells were drilled because of delays in the rig construction. BlueCrest states that no offshore wells were drilled due to uncertainty in the Governor's tax credit policies.

For the Third POD, BlueCrest plans to complete construction of the new drilling rig and drill up to three wells, five production laterals, and one disposal well. No offshore wells are planned for the Third POD.

When considering a POD, the Division must consider whether the POD is necessary or advisable to protect the public interest. The Division will approve a POD upon a finding that it will (1) promote conservation of all natural resources, including all or part of an oil or gas pool, field, or like area; (2) promote the prevention of economic and physical waste; and (3) provide for the protection of all parties of interest including the state. 11 AAC 83.303(a). In evaluating conservation, prevention of waste, and the parties' interest, the Division will consider (1) the environmental costs and benefits of unitized exploration or development; (2) the geological and engineering characteristics of the potential hydrocarbon accumulation or reservoir proposed for unitization; (3) prior exploration activities in the proposed unit area; (4) the applicant's plans for exploration or development of the unit area; (5) the economic costs and benefits to the state; and (6) any other relevant factors, including measures to mitigate impacts identified above, the commissioner determines necessary or advisable to protect the public interest. 11 AAC 83.303(b).

Considering the criteria established in the leases and the additional development work proposed here, the Division finds that the Third POD protects the public interest, promotes conservation, prevents waste, and protects the parties' interests. The Third POD is approved for January 1, 2017 through December 31, 2017. The Fourth POD is due on October 2, 2017, 90 days before the Third POD expires. This approval is only for a general plan of development. Specific field operations require separate approval.

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 Department of Natural Resources regional information office.

If you have questions regarding this decision, please contact Kevin Pike with the Division at (907) 269-8451 or via email at Kevin.Pike@alaska.gov.

Sincerely,



James B. Beckham
Acting Director

cc: DOL