



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Natural Resources

Division of Oil & Gas
Anchorage Office

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December 8, 2016

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Jon Iversen
Stoel Rives LLP
510 L Street, Suite 500
Anchorage, AK 99501-1959

Re: Kitchen Lights Unit – 4th Plan of Development – Approved

Dear Mr. Iversen:

The Department of Natural Resources, Division of Oil and Gas (Division) received Furie Operating Alaska, LLC's (Furie) proposed 4th Plan of Development (POD) for the Kitchen Lights Unit (KLU) on October 7, 2016. The Division notified Furie by email on October 11, 2016 that it had deemed the POD application complete. This letter approves the POD.

The KLU consists of 83,394 acres across 30 state leases in the middle of Cook Inlet, just south of the Village of Tyonek. KLU is divided into four exploration blocks: North, Corsair, Southwest, and Central. Furie is one of several working interest owners and operator of the unit. As of September 2016, KLU has produced 2.55 billion standard cubic feet of cumulative gas at a daily rate of 6.38 million standard cubic feet for 2016.

In the 3rd POD period, Furie committed to: (1) deliver a jack-up rig to Alaska waters, on or before May 15, 2016; (2) drill two development wells in the Corsair Block and acquire the logs and data necessary to properly evaluate the two new wells; (3) complete one of the wells by December 31, 2016; (4) provide a revised Exhibit A by February 14, 2016; (5) complete seismic interpretation for the entire unit and provide bottom-hole locations for exploration and development wells, based on geologic and geophysical data, by September 1, 2016; and (6) provide verification of the jack-up rig contract for use and transportation of the rig by January 15, 2016.

Furie met most of these work commitments. Furie timely provided the jack-up rig verification and revised Exhibit A. Furie emailed a letter to the Division on August 30, 2016 stating that it had obtained and started interpreting seismic data, but that its analysis "is ongoing and will continue for some time." The letter further directed the Division to its Plan of Operations for its proposed well locations. The Plan of Operations includes surface locations, but not bottom-hole locations as required by the 3rd POD. Furie stated in the proposed 4th POD that it intends to drill the wells set forth in its Plan of Operations as vertical wells.

Furie reports that the Randolph Yost jack-up rig was delivered before May 15, 2016, that it drilled the KLU #A2 and KLU #A2-A wells, and that it has begun drilling the KLU#A1 well. Furie stated in its proposed 4th POD that it was currently producing from the #A2-A well.

Furie's proposed 4th POD covers development activities in the Corsair block, with a possibility for exploration activities in the North block. In the POD, Furie commits to:

- Complete the KLU #A1 well in the Corsair block by November 30, 2017.
- Either (a) by November 30, 2017, drill and log a development well in the Corsair block to the Sterling flow test zone reached by the KLU #3 well and present DNR with a plan for completing the well; or (b) by December 30, 2017, drill and log the KLU #4 exploration well in the North Block.

When considering a POD, the Division must consider whether the POD is necessary or advisable to protect the public interest. 11 AAC 83.303(a). 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. *Id.* 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).

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

The 4th POD includes activities to continue development of the Corsair block. This development and potential production protects the State's and public's economic interests in the resources. The KLU #A1 well and potential development well utilize existing facilities, thus minimizing potential adverse impacts to the land. The POD also provides for potential exploration in the North Block. If this exploration leads to development of that block, the production will further protect the State's and public interest in the resources.

Considering the 11 AAC 83.303 criteria and the work commitments Furie made with this POD, the Division finds the 4th POD complies with the provisions of 11 AAC 83.303, 11 AAC 83.343, and protects the public interest. Accordingly, the 4th POD is approved for the period January 5, 2017 through January 4, 2018. Under 11 AAC 83.343, the 5th POD is due October 6, 2017, 90 days before the 43rd POD expires. This approval is only for a general plan of development. Specific field operations will require an approved Plan of Operations.

Furie is advised that under 11 AAC 83.356(e), the Director, on delegation from the Commissioner, may exercise her discretion to contract the unit area 10 years after the effective date of the unit agreement, which was February 1, 2007. The Division approved a unit expansion and name change in 2009, but this approval neither formed a new unit nor approved a new unit agreement. The Director may thus contract the unit starting February 1, 2017.

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, Acting 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, contact Becky Kruse with the Division at 907-269-8799 or via email at Becky.Kruse@Alaska.gov.

Sincerely,

A handwritten signature in black ink, appearing to read "Chantal Walsh". The signature is fluid and cursive, with the first name "Chantal" being more prominent than the last name "Walsh".

Chantal Walsh
Director