



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Natural Resources

Division of Oil & Gas
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December 20, 2017

CERTIFIED MAIL

Bart Armfield
Vice President, Exploration
Brooks Range Petroleum Corporation
510 L Street, Suite 601
Anchorage, AK 99501

Re: Southern Miluveach 2018 (5th) Plan of Development — Approval

Dear Mr. Armfield:

Brooks Range Petroleum (BRPC) submitted a proposed 2018 Fifth Plan of Development for the Southern Miluveach Unit (SMU) to the Department of Natural Resources, Division of Oil and Gas (Division) on October 4, 2017. The Division notified BRPC that the POD was incomplete by email on October 13, 2017. BRPC then submitted a revised 2018 POD on October 18. The 2018 POD, as revised, provides information about development and operational activities as prescribed by 11 AAC 83.343. Accordingly, the Division notified BRPC by email on November 2, 2017 that the Division had deemed the POD submittal complete. Director Walsh has delegated authority to Deputy Director Beckham to review this matter. This decision approves the 2018 POD.

For its 2017 POD, BRPC committed to:

- Contract, retrofit, and commission a drilling rig for start-up in Q4 2017.
- Re-engage engineering contractors to complete remaining engineering scope of work for facilities.
- Engage procurement contractors for remaining equipment and services.
- Solicit Requests for Proposals for fabrication work and North Slope installation work.
- Fabricate remaining modules December 2016 through July 2017.
- Install on-pad piles during Q1 2017.
- Complete the Alpine tie-in to a ConocoPhillips pipeline in Q1 or Q2 2017.
- Install cross-country pipelines in Q1 or Q2 2017.
- Install Alaska-fabricated modules on-pad from April to September 2017.
- Set and tie-in Canada-fabricated modules from August to October 2017.
- Produce first oil in December 2017.

BRPC reports that it did not complete any of these work commitments. In late-2017, BRPC amended its POD to add reentering and flow testing the North Tarn 1A well. BRPC has

reported reentering and testing this well. Thus BRPC met the singular work commitment from its POD amendment, but otherwise failed to conduct any of the work it promised.

This is not the first time BRPC has failed to meet its commitments for SMU. In its Initial Plan of Exploration (POE), BRPC committed to drill, evaluate, and test three wells by March 31, 2012 or BRPC would voluntarily relinquish the unit. BRPC drilled two of the three wells by this deadline. Instead of relinquishing the unit as it promised in its POE, BRPC asked the Division to extend its time to drill the third well, Mustang 2, until May 31, 2014. The Division approved the extension.

BRPC's First POD, for work in 2014, committed to start development drilling and install facilities and infrastructure to begin production near the end of the 2014. BRPC did not perform any of this work. In particular, BRPC failed to drill the Mustang 2 well by the May 31, 2014 deadline. The Commissioner gave notice that the unit was in default for failure to meet that deadline and gave BRPC until May 31, 2015 to drill, evaluate, and test Mustang 2 to cure the default. BRPC drilled Mustang 2 by the deadline, but asked to operate it as an observation well rather than evaluate and test the well. The Commissioner accepted this alternative and found that BRPC had cured default. BRPC did not meet the other work commitments from its first POD.

In its Second POD (2015), BRPC committed to drilling between three and 13 wells. BRPC drilled the Mustang 2 well during this period. BRPC attempted to drill the Mustang 3 and Mustang 1A wells, but encountered difficulties and suspended both wells above the target reservoir interval. BRPC did not attempt to drill any other wells.

For its Third POD (2016), BRPC stated that it would reenter, complete, and test two wells. It did not do so.

BRPC has now done the same with its 2017 POD: promising multiple work commitments that would culminate in production by the end of this year, then failing to deliver.

BRPC's pattern of failing to meet its work commitments is concerning because the life of the unit is now dependent on BRPC doing work. SMU is set to expire December 31, 2017. For the unit to automatically extend beyond that date, BRPC needs (1) a certified unit well; and (2) to be actively producing from that well or to be conducting operations under an approved POD.

11 AAC 83.336(a)(1). Concurrent with the 2018 POD, BRPC has applied to certify the North Tarn 1A well. The Division is addressing well certification in a separate decision. This decision addresses the second criteria. BRPC does not have plans for continuous production from the North Tarn 1A, so it needs an approved POD and to conduct operations under that approved POD.

The regulation requires that "operations *are being* conducted." 11 AAC 83.336(a)(1) (emphasis added). Thus, BRPC must conduct operations on a continual, sustained basis. That does not mean that if there is day without activity, the unit will expire. But it does mean that BRPC needs to be actively operating the unit to achieve production so that sustained production can then provide the basis for extending the unit.

“Operations” are the type of activities that require a Plan of Operations under 11 AAC 83.346. BRPC promises the following operations for 2018:

- Install any remaining on-pad piles in first quarter 2018;
- Begin installing Alaska-fabricated modules in June 2018 and complete installation of these modules by end of December 2018;
- Install the Canada-fabricated modules by September 30, 2018;
- Install cross-country pipelines in fourth quarter 2018 (or first quarter 2019, which is the next POD period); and
- Complete the Alpine tie-in in fourth quarter 2018 (or first quarter 2019, which is the next POD period).¹

If BRPC conducts these operations along the specified timelines, it will likely be sufficient to find that “operations are being conducted.” But if, for instance, BRPC delays the module installation and the unit sits untouched for many months, the Division might conclude that BRPC has ceased operations and the unit would automatically terminate. Thus, it will be critical for BRPC to timely complete the above work commitments or risk losing the unit.

BRPC’s operations also need to be conducted under an approved POD. When considering a POD, the Division considers 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 of 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 these factors in approving earlier PODs for SMU and incorporates those findings by reference.

BRPC’s 2018 POD work commitments, listed above, all relate to infrastructure. BRPC has not proposed any drilling of development wells or exploration activities for this POD period. The purpose of the proposed infrastructure is to achieve sustained production from the unit. Production would protect the State’s economic interests in its oil and gas resources. Any development and production activities pose some environmental risk, but BRPC’s proposed facilities minimize the impact to the land, particularly as compared to multiple facilities for individual leases.

Having considered the 11 AAC 83.303(a) and (b) criteria, the Division finds that the 2018 POD complies with the provisions of 11 AAC 83.303. Accordingly, the 2018 POD is approved for the period January 1, 2018 through December 31, 2018.

This decision thus provides the approved POD for BRPC to operate under for purposes of extending the unit. As discussed above, it is essential that BRPC actually complete its work

¹ Under “operations” for 2018, BRPC also included some activities that are not operations in or on the unit, such as the arrival of modules or their fabrication elsewhere.

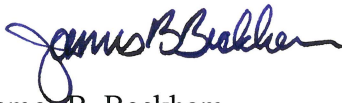
commitments so that it will be conducting operations sufficient to keep the unit from expiring. The Division also needs to monitor BRPC's activities on a regular basis to ensure it is conducting operations. Accordingly, BRPC shall provide the Division with a written update at the end of each quarter that details the operations it conducted during that quarter and when it conducted them.

BRPC must submit a 2019 POD by October 2, 2018, 90 days before the 2018 POD expires. This approval is only for a general plan of development. Specific field operations will require an approved Plan of Operations.

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.

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.

Sincerely,

A handwritten signature in blue ink, appearing to read "James B. Beckham".

James B. Beckham
Deputy Director