



THE STATE
of **ALASKA**
GOVERNOR SEAN PARNELL

Department of Natural Resources

Office of the Commissioner
Anchorage Office

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June 5, 2014

**CERTIFIED MAIL
RETURN RECEIPT REQUESTED**

UltraStar Exploration, LLC
1629 West 11th Ave
Anchorage, AK 99501

Denial of Dewline Unit Extension and Notice Unit Expiration

In a May 30 2014 letter, UltraStar Exploration, LLC (UltraStar) requested the term of the Dewline Unit be extended by at least one year. As discussed below, the request is denied. The unit is also past its primary term and has expired.

The State of Alaska (State), Department of Natural Resources (DNR), Division of Oil and Gas (Division) approved formation of the Dewline Unit effective June 4, 2009. Regulation 11 AAC 83.336 states a unit agreement will terminate automatically five years from the effective date unless a unit well has been certified as capable of producing hydrocarbons in paying quantities or exploration activities have been conducted in accordance with an approved unit plan of exploration (POE) and the Commissioner issues an extension of the term. Article 14.2 of the Dewline Unit Agreement also defines the unit term:

14.2 Subject to the terms and conditions of the Approved Unit Plan, this Agreement terminates five years from the Effective Date unless:

14.2.1 A unit well in the Unit Area has been certified as capable of producing Unitized Substances in Paying Quantities; or

14.2.2 The unit term is extended with the approval of the Commissioner. An extension shall not exceed five years.

No certified unit well exists in the Dewline Unit. UltraStar did drill a well, Dewline #1, while its unit application was pending and the Division considered this unit well in satisfaction of a drilling commitment of the initial POE. While this is a unit well, it is not "certified" under 11 AAC 83.361 because UltraStar did not apply for certification or provide the data necessary for the Division to certify that the well is capable of producing in paying quantities.

UltraStar has failed to conduct the exploration operations in accordance with the approved POE, which is required for the Commissioner to consider a unit extension under 11 AAC 83.336(a)(2). The approved POE required UltraStar to drill the Dewline #1 well, which UltraStar did while its unit application was pending, and to drill a second well, North Dewline #1, by May 31, 2013. UltraStar failed to meet its May 31, 2013 drilling commitment and has not conducted its exploration operations in accordance with the approved POE.

The request states an extension is necessary so UltraStar “can successfully drill its North Dewline #1 well when the appeal [of a denial to extend the deadline to drill that well] is successfully concluded.” The pending appeal did not prohibit UltraStar from drilling the well and curing the default for failure to meet its May 31, 2013 drilling deadline. I did not stay the May 31, 2014 deadline pending UltraStar’s appeal, nor did UltraStar request a stay.

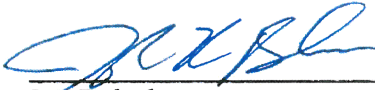
The request further states an extension is needed because UltraStar did not secure a drilling rig to meet the May 31, 2014 deadline, due in part to Mr. Weeks passing away in August 2013. The request does not, however, provide any guarantees that extending the unit will result in the well being drilled. UltraStar committed to drilling the North Dewline #1 in 2009 when the unit was formed. By the May 31, 2013 drilling deadline, UltraStar had failed to meet this commitment. I found the unit in default and gave UltraStar until May 31, 2014 to cure default by drilling the well. UltraStar failed to meet the 2014 deadline. In the extension request, UltraStar states it does not currently have financing to drill the well.

With no guarantees or concrete commitments that UltraStar will drill the well or conduct any other operations during the next year, I find extending the unit for a year will not protect the public interest. In general, units promote conservation of natural resources, prevention of waste, and minimization of environmental costs by facilitating joint development. UltraStar states in its extension request it has not determined at this point whether oil exists in paying quantities within the Dewline Unit. With no known prospect of production and no specific commitments to conduct any operations in the coming year, extending this unit would not provide those benefits of conservation and waste avoidance. Extending the unit without firm work commitments also fails to protect the State’s interest in encouraging assessment of its oil and gas resources or the public’s interest in maximizing economic and physical recovery. AS 38.05.180(a). Without work commitments, there is also no guarantee this extension will not delay the exploration and production of resources for another year, postponing the economic benefits of production for the State. Considering the criteria in 11 AAC 83.303, I deny UltraStar’s request for an extension.

Dewline Unit Agreement has expired. Because there is no certified well, and because I have denied your request for an extension, the unit automatically terminates under 11 AAC 83.336.

An eligible person affected by this decision may request reconsideration, in accordance with 11 AAC 02. Any request for reconsideration 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 Joe Balash, 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 request reconsideration of this decision in accordance with 11 AAC 02 before appealing this decision to Superior Court. If the commissioner does not act on a request for reconsideration within 30 days after issuance of this decision, the request for reconsideration is considered denied and this decision becomes a final administrative order and decision on the 31st day after issuance for the purposes of an appeal to Superior Court. A copy of 11 AAC 02 may be obtained from any regional information office of the Department of Natural Resources.

Sincerely,



Joe Balash
Commissioner
Department of Natural Resources

6/5/14

Date