



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  
Fax: 907.269.8939

July 5, 2018

CERTIFIED MAIL

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

Re: Southern Miluveach Unit Proposed Fifth POD Amendment – Partial Approval

Dear Mr. Armfield:

The Department of Natural Resources, Division of Oil and Gas (the Division) received an Amendment from Brooks Range Petroleum Corporation's (BRPC) to its Fifth Plan of Development (POD). The Director hereby partially approves BRPC's proposed Amendment to the Fifth POD. BRPC's proposal to flare gas in conjunction with certain 2018 operations for an indeterminate but estimated three-to-six-month period is denied.

The Division approved BRPC's POD on December 20, 2017. That approval was conditioned upon BRPC conducting operations at quarterly intervals as outlined in the Director's approval.

BRPC submitted a proposed Amendment to the Fifth POD on March 28, 2018. The Division deemed that Amendment incomplete on April 5, 2018.

On April 2, 2018, BRPC submitted its first quarterly update, as required under the Fifth POD. BRPC reported that it had "updated its strategy" for the unit and cited its proposed Amendment to the Fifth POD. BRPC did not report any operations at the Unit, indicating that it had failed to fulfill its first quarter 2018 commitment to install remaining on-pad piles.

The Division's approval of BRPC's Fifth POD required that BRPC conduct certain operations as proposed in its application and report on its progress on a quarterly basis. The approval made clear that timely performance of operations was imperative, noting:

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.

On May 16, 2018, BRPC submitted a proposed Amendment to the Fifth POD reflecting new completion dates for certain work commitments set forth in the Fifth POD and a new strategy for

unit operations described below and not previously contemplated in the Fifth POD. The Division deemed the proposed Amendment to the Fifth POD complete on May 23, 2018.

The Division may approve an amendment to an approved POD pursuant to 11 AAC 83.343(e). The Division considers the same criteria relevant to POD applications in reviewing proposed amendments. 11 AAC 83.303(c)(3). 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 also considered these factors in approving earlier PODs for SMU and incorporates those findings by reference.

BRPC's proposed Amendment largely delays work commitments from its Fifth POD until later in the POD period or into the next POD period. As a POD, this schedule is acceptable. Whether this schedule and BRPC's action will be sufficient for the Division to conclude that "operations are being conducted" remains an open question. If BRPC is not conducting operations, SMU will automatically expire. The Division will revisit this issue as it receives BRPC's next quarterly update.

BRPC's proposed Amendment to its Fifth POD includes a proposal to flare gas associated with pre-produced oil from its SMU M-02 well for three to six months, potentially longer if the Alpine tie-in is not constructed. BRPC anticipates flaring all gas not used for power generation. In a follow-up email, BRPC indicated that less than a third of the total amount of gas expected to be produced might be used for power generation. The Division considered whether BRPC's plan to flare gas for an indeterminate period of time would "promote the prevention of economic and physical waste," pursuant to 11 AAC 83.303(a)(2). The Division finds that BRPC's flaring proposal is unusual and would result in unnecessary physical waste. Thus, the Division denies this portion of BRPC's proposed Amendment to the Fifth POD.

Although the Division is approving the remainder of BRPC's proposed Amendment to the Fifth POD, BRPC should consider SMU lease terms addressing transportation costs in relation to the proposal to truck production from SMU M-02 to the Alpine Pipeline until a tie-in is completed. Trucking oil under these circumstances may not qualify as a "reasonable cost of transportation" under SMU lease terms.<sup>1</sup> If BRPC proceeds with trucking oil, the Division will evaluate these costs when it audits BRPC's royalty filings. Underpayment of royalties is subject to interest.

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](mailto:Becky.Kruse@Alaska.gov).

---

<sup>1</sup> See paragraph 36 of BRPC's relevant SMU leases.

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](mailto: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 black ink, appearing to read "James B. Beckham". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

James B. Beckham  
Deputy Director