



THE STATE
of ALASKA

GOVERNOR MICHAEL J. DUNLEAVY

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

March 7, 2019

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Teresa Imm, President
ASRC Exploration, LLC
3900 C Street, Suite 1000
Anchorage, AK 99503

Re: Placer Unit Amendment to 2018–2019 3rd POD — Approved

Dear Ms. Imm:

The Division has completed its review and approves AEX's amendment to the 3rd POD.

The Department of Natural Resources, Division of Oil and Gas (Division), conditionally approved the Placer Unit 3rd POD on September 7, 2018. A written update on the progress of the Placer 3 well work from ASRC Exploration, LLC (AEX) was received by the January 31, 2019 as required under the conditional approval of the 3rd POD. Subsequently, AEX submitted a proposed Unit Plan of Operations Amendment Application (Plan of Ops Amendment) on January 8, 2019. In that application, AEX denoted that all the proposed operations had been approved under the existing POD. However, several proposed operations AEX included in its application neither were discussed in its existing POD nor approved in the September 7, 2018 Placer Unit 3rd POD decision. The Division emailed AEX on February 22, 2019 and stated AEX had two options regarding the operations proposed within the Placer Unit: (1) include the newly proposed operations in the next POD, the deadline for which was March 2, 2019 for the new POD period beginning May 31, 2019; or (2) submit an amendment to the current (3rd) POD to include the operations in the proposed Plan of Ops Amendment. AEX submitted an amendment to the current 3rd POD on February 28, 2019 (POD Amendment). In its POD Amendment, AEX requested a three-month extension of its current POD. In a March 1 letter, the Division informed AEX that it expected to issue a decision on the POD Amendment the following week and thus a lengthy extension of time to submit its 4th POD covering the 2019–2020 period was unnecessary. The Division provided AEX until March 15, 2019 to submit its 4th POD, which still would allow the Division to complete the review process before expiration of the 2018 POD period.

In its POD Amendment, AEX commits to the following operations for the POD period, not previously proposed in its 3rd POD:

- Conduct an 18–20 day extended flow test on Placer 3 well, in addition to the previous work commitment of testing bottom hole pressure response
- Construction of a two-mile ice road (four miles if alternate route used) from the Oil Search Pikka C access road to Placer 3 well site within Placer Unit
- Construct an ice bridge crossing over Miluveach River to access the Placer 3 well
- Separation of processed fluids on site, and transport to Brooks Range Petroleum Corporation (BRPC) facilities at the Southern Miluveach Unit (SMU) Mustang Pad

- After conclusion of well testing, suspend the Placer 3 well per Alaska Oil & Gas Conservation Commission requirements¹

AEX commits to completion of these operations by no later than May 31, 2019.

During this period, AEX also plans to billet its work crew(s) and store equipment at the SMU Mustang Pad and transport any drilling and completion fluids used during these operations to a Class II designated disposal facility on the North Slope. The Plans of Development and Plans of Operations for a unit approves activities within the unit boundary only. This POD Amendment decision therefore does not approve any proposed activities outside of the Placer Unit, including activities within Pikka or SMU. Nor will the pending Placer Plan of Ops Amendment approve those activities. AEX will need to secure the appropriate permits or other approvals for activities outside the unit.

In addition to describing additional proposed operations, AEX's POD Amendment makes certain statements about its POD and Plan of Ops that necessitate clarification. First, AEX states that "in retrospect," its January 31, 2019 Progress Report "could have been submitted as an amendment to the approved 3rd POD." To the extent AEX acknowledges that it needed to submit an amendment to add additional proposed operations to its POD, that is correct. But the Progress Report was not an amendment. It was a condition of the 3rd POD approval because AEX has failed to continually conduct operations at the Placer Unit since 2016. By regulation, the Placer Unit automatically terminates unless AEX is conducting operations. The purpose of the Progress Report was to monitor AEX operations, not to alter or add to the operations AEX had already committed to completing by May 31, 2019 in its 3rd POD.

Second, AEX states it assumed that since 'reentering the Placer 3 well for a bottom-hole pressure test' was required by the Division in its approval of the 3rd POD, the 3rd POD was automatically amended to perform this 'on the ground' activity." AEX is required to conduct operations to keep its unit from automatically terminating under 11 AAC 83.336(a)(1). The Division pointed this out to AEX numerous times during the POD review process in 2017 and 2018. For both those years, AEX submitted a POD with no proposed operations. At the Division's suggestion, AEX amended its proposed 3rd POD to add reentering the Placer 3 well, but the Division did not *require* this commitment. It is AEX's responsibility to determine what operations to perform. AEX chose to propose reentering the Placer 3 well. The Division then approved the POD with that work commitment as described the 3rd POD. That description did not include the additional operations AEX submitted with its Plan of Ops Amendment.

AEX also asserts that "the Division has been withholding its approval of [AEX's] amended POO until AEX provide an amendment to the 3rd POD." Any minor delay here is one of AEX's own making. It was AEX who included proposed operations in its January 8, 2019 Plan of Ops Amendment that it had not included in its POD. It was AEX who indicated in the Plan of Ops Amendment that the proposed operations had been included in its approved POD, when in fact they had not been included. And, it was AEX who included proposed operations outside the unit, which cannot be approved through a unit Plan of Operations. The Division cannot consider much less approve applications that propose operations not set out in the Plan of Development. As soon as the Division discovered these errors, on February 22, it notified AEX how to remedy them. The Division reviewed and is issuing this decision on AEX's POD Amendment in one week's time, when by regulation the Division has at least 60 days to complete this process. The Division is also issuing a decision on AEX's Plan of Ops Amendment concurrent with this decision.

¹ AEX also refers to undefined "summer studies." It is not clear from these references whether these studies would qualify as operations. Nonetheless, summer activities are outside the current POD period, which ends May 31, 2019. The Division encourages AEX to describe these activities in greater detail when it submits its 4th POD on March 15, 2019.

With these clarifications, the Division has reviewed AEX's Amended POD. When considering a POD, the Division must consider the criteria in 11 AAC 83.303(a) and (b). Accordingly, the Division considered the public interest, conservation of natural resources, prevention of economic and physical waste, protection 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).

In approving the prior POD(s) for the Placer Unit, the Division considered the 11 AAC 83.303(b) criteria 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 public has an interest in diligent exploration, evaluation, and development of the State's resources. The plans set forth in both AEX's 2018 POD and this amendment protect this public interest by development of the Placer Unit for commencing oil production in the very near future. AEX's POD Amendment therefore is necessary and advisable to protect the public interest, and should not increase the impact to the land, further demonstrating the conservation and environmental benefits of unitized development.

The Division finds AEX's POD Amendment protects the public interest, promotes conservation, prevents waste, and protects the parties' interests. Accordingly, the 3rd POD is amended to include the proposed operations set forth in the POD Amendment. That POD period ends May 31, 2019. AEX's request that the current POD period be extended to September 8, 2019 is unnecessary because of the Division's quick review of the POD Amendment, and therefore the request is denied.

This approval is only for a general plan of development. Specific field operations within the unit require separate approval under 11 AAC 83.346, Unit Plan of Operations. Any activities outside the unit require separate permits or other approvals. In accordance with both 11 AAC 83.343 and the Division's March 1, 2019 notification of receipt of AEX's POD Amendment, the 2019-2020 period 4th POD is due March 15, 2019.

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 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 Ken Diemer with the Division at 907-269-8784 or via email at ken.diemer@alaska.gov.

Sincerely,



James B. Beckham
Acting Director