

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

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CERTIFIED MAIL
RETURN RECEIPT REQUESTED

May 14, 2012

James W. White, President
Alaskan Crude Corporation
4614 Bohill
San Antonio, Texas 87217

Re: Arctic Fortitude Unit—Notice of Termination

Dear Mr. White:

On April 2, 2012 you were sent notice triggering your opportunity to be heard on the appropriate remedy for Alaskan Crude Corporation's (ACC) default for failure to deliver a drilling rig to the Arctic Fortitude Unit (AFU). Your counsel responded on April 22, 2012 proposing that ACC be allowed "to reenter the Burglin 33-1 well in the 2012-2013 drilling season."

I have considered ACC's proposal and its arguments to further delay its obligations. I find the company's proposal unacceptable and terminate the AFU for the following reasons.

First, as outlined in the April 2, 2012 notice, the Alaska Supreme Court affirmed the-then DNR Commissioner's decision 1) defaulting the AFU because ACC failed to move a drilling rig onto the Burglin 33-1 well pad by May 15, 2008 (as required under the DNR-approved AFU Plan of Exploration (POE)), and 2) demanding, among other things, that ACC cure the default by moving a drilling rig onto the pad by March 31, 2009. The arguments presented by ACC in its most recent proposal largely repeat the arguments rejected by the Supreme Court when it upheld the default and cure decision. As you know, the Court ruled that the pending appeal of the Alaska Oil and Gas Conservation Commission's (AOGCC) response planning standard (RPS) decision on the Burglin 33-1 well was not a force majeure that tolled ACC's rig delivery obligation and that the DNR Commissioner's cure was consistent with the AFU Agreement.

Second, ACC did not deliver a drilling rig to the Burglin 33-1 well pad by the cure date - March 31, 2009.

Third, DNR approved the formation of the AFU nearly six years ago - June 2006.¹ After many delays, ACC was to have delivered a drilling rig to the AFU well pad four years ago - May 2008.

¹ Under 11 ACC 83.336(a), units become effective when approved by the commissioner and expire five years from the effective date unless certain circumstances exist. Under this regulation, the AFU would have expired in June 2011. But the-then DNR Commissioner defaulted the unit in 2008 under 11 AAC 83.374(b) because ACC failed to meet its POE obligation and noted that if ACC failed to cure the default by March 2009, the Commissioner may

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ACC still has not delivered a rig to the pad. Now, ACC proposes more delay - drilling the Burglin 33-1 well in the 2012-2013 drilling season despite the fact that the company continues to pursue its appeal of the AOGCC's RPS determination and there exists no oil spill contingency plan - circumstances that may well continue beyond the 2012-2013 drilling season. In essence, ACC proposes a remedy that is virtually assured to lead to significant additional delay.

Fourth, ACC continues to assert that its disagreement with the AOGCC on the appropriate RPS prevents the company from re-entering the Burglin 33-1 well. But, the Supreme Court settled this matter in DNR's favor. The ongoing ACC/AOGCC appeal is not a force majeure that tolls ACC's rig delivery and drilling obligations.

Given the record here, coupled with your longstanding failure to abide by work commitments, I have no reason to believe that further extensions of ACC's AFU obligations will result in any activity by the company in the AFU.

For these reasons, I hereby reject ACC's proposal to further delay its AFU obligations and terminate the AFU under 11 AAC 83.374(c).

A person affected by this decision may request reconsideration, in accordance with 11 AAC 02. Any reconsideration request 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 Daniel S. Sullivan, 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. If reconsideration is not requested by the deadline, this decision becomes a final administrative order and decision of the department on the 31st day after issuance. Failure of the commissioner to act on a request for reconsideration within 30 days after issuance of this decision is a denial of reconsideration and is a final administrative order and decision for purposes of an appeal to Superior Court. The decision may then be appealed to Superior Court within a further 30 days in accordance with the rules of the court, and to the extent permitted by applicable law. An eligible person must first request reconsideration of 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,



Daniel S. Sullivan
Commissioner

Cc: Heather Gardner, Esq., Shortell Gardner LLC
Tab Ballantine, DOL
Jeff Landry, DOL
Don Perrin, Division of Oil and Gas

terminate the unit under 11 AAC 83.374(c). While 11 AAC 83.336(a) is a basis for AFU expiration, the five year date occurred after the default notice issuance under 11 AAC 83.374(b) and during the pendency of the DNR/ACC appeal, which was not decided by the Supreme Court until October 2011. Thus, this termination notice is issued under 11 AAC 83.374(c).