

**REMAND BY THE COMMISSIONER OF THE  
DEPARTMENT OF NATURAL RESOURCES FOR THE STATE OF ALASKA  
OF APPEAL FROM THE SEPTEMBER 10, 2012 DECISION  
OF THE DIRECTOR OF THE DIVISION OF OIL AND GAS  
DENYING FORMATION OF THE ANGEL OIL AND GAS UNIT  
TO THE DIRECTOR FOR ADDITIONAL CONSIDERATION**

**January 15, 2013**

On October 1, 2012, Linc Energy Alaska, Inc. (Linc) appealed to the Commissioner of the Alaska Department of Natural Resources (DNR) from the September 10, 2012 decision of the Director of Oil and Gas (Director) denying Linc's application to form the Angel Oil and Gas Unit (Linc Appeal). The appeal is remanded to the Director for additional explanation and discussion of the following issues:

1. Whether it is consistent with the 11 AAC 83.303 criteria including the public interest for DNR to approve a unit agreement that requires:
  - joint management by DNR and the Mental Health Land Trust (MHLT) of the proposed Angel unit instead of preserving the state's authority to unilaterally issue decisions concerning state leases;
  - that unit disputes between Linc and/or the MHLT and DNR are to be resolved by binding arbitration instead of by the DNR administrative appeal process established by statute and regulation that preserves DNR's authority and discretion regarding state leases;
  - that an arbitrator, rather than DNR, decide unitization disputes involving state leases even though an arbitrator is unlikely to receive the deference on court review of unit decisions that DNR may receive; and
  - that all unit disputes be resolved by arbitration without first setting the terms and procedures for arbitration.
  
2. Regarding the conclusion reached in the Director's decision that the information Linc submitted failed to show the proposed unit includes a hydrocarbon trap:
  - Set forth an explanation for this conclusion that addresses the data and information Linc submitted to DNR.
  - The Director should consider whether the unit application and supporting data reasonably defined and delineated a structural or stratigraphic entrapping mechanism through geophysical, geological, or other means that contains one or more intervals, zones, strata, or formations having the necessary physical characteristics to accumulate and prevent the escape of oil and gas. 11 AAC 83.395(5).

- The Director should also consider Linc's appeal especially at pages 7 and 8 where Linc appears to draw conclusions from the confidential data it submitted such as the following:

As presented in the Angel Unit Application, Geologic and Engineering Report, Linc Energy has defined a structural closure that includes both the Tyonek and Hemlock (or equivalent) stratigraphic zones. The closure is situated approximately 4,000 feet west of the Pan Am Big Lake USA #1 well and some 13,000 feet southwest of the LEA #1 well. The closure is on the southwestern end of the greater Pittman Anticline, a well-known, southwest trending structural feature within this region.

Linc Energy's initial primary proposed drilling target (Sec.2, T15N, R4W) within the proposed Angel Unit is situated on the closure. At the Tyonek formation depth, the structure appears largely as a southwest plunging nose with four way dip closure at the crest. At the Hemlock depth, four way dip closure appears to develop into a larger more expansive closure.

Seismic indicates strong amplitude anomalies . . . strong potential for gas charged sands.

The basic elements of a reservoir and trap are readily apparent within the Angel Unit area. Both the LEA #1 and the Pan Am Big Lake USA #1 displayed sands in the Tyonek that can be classified as good candidates to serve hydrocarbon reservoirs. The sands are appropriate thickness, areal extent and reservoir quality to qualify as good reservoirs. Trapping mechanisms abound within and surrounding the proposed Angel Unit area. Signatures in the historic 2D seismic data point to the possibility of a Direct Hydrocarbon Indicator (velocity induced depressions of the amplitude of the seismic reflectors) over the structural feature, which would indicate the entrapment of gas phase hydrocarbons. Gas charge is evident, although not in economic flow rates, in both the LEA #1 and the Pan Am USA #1 wells.

- If the Director's explanation discusses additional information or data that the Director considers confidential, it should be submitted in a separate document with every page marked confidential.

The Director is requested to send the response to this remand order to the DNR Commissioner's office and to Linc. Linc may file a notice of appeal to the DNR Commissioner from the Director's response to this remand order, and Linc may supplement or continue to rely on the appeal materials it has filed to date. If Linc does not appeal from the Director's response to this remand order, this appeal will be processed based on the existing record and the Director's response.



Daniel S. Sullivan  
Commissioner  
Department of Natural Resources

Date: January 15, 2013