



THE STATE  
of **ALASKA**  
GOVERNOR SEAN PARNELL

Department of Natural Resources

Division of Oil & Gas  
Anchorage Office

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Anchorage, Alaska 99501-3560  
Main: 907.269.8800  
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March 20, 2014

CERTIFIED MAIL  
RETURN RECEIPT REQUESTED

Dale Hoffman  
Pioneer Natural Resources USA, Inc.  
700 G Street, Suite 600  
Anchorage, Alaska 99501

Re: Request to Approve Revised Tract Allocation Formula for Oooguruk Unit Participating Areas

Dear Mr. Hoffman:

On February 26, 2014, the State of Alaska, Department of Natural Resources (DNR), Division of Oil and Gas (Division), received Pioneer Natural Resources Alaska, Inc.'s (Pioneer) request to approve a proposed revised division of interest for allocation of production and costs for the Oooguruk Unit (OU) participating areas (PAs). Pioneer submitted the request under Article 11.4 of the OU Operating Agreement.

DNR approved the OU on July 11, 2003. The unit is currently comprised of three PAs--the Nuiqsut, Kuparuk, and Torok. The Nuiqsut and Kuparuk PAs were approved in 2009, effective June 1, 2008. The Torok PA was approved in 2011, effective March 1, 2010. In 2013, the Nuiqsut and Torok PAs were expanded to include additional acreage. The Division is currently adjudicating Pioneer's application for the 2<sup>nd</sup> expansion of the Nuiqsut PA.

Under 11 AAC 83.371(a), the proposed or revised division of interest or formula allocating hydrocarbon production and unit operating costs among the leases in the unit area may not take effect until approved by the DNR Commissioner in writing. Under the Oooguruk Unit Agreement Article 11 (Allocation of Production), production and costs will be allocated according to 11 AAC 83.371.

The OU Operating Agreement provides for three tract participation determinations: 1) Initial – acreage based; 2) Interim – based on original oil in place (OOIP); and 3) Final – based on value. Allocation of production and costs for the OU PAs is currently the Initial tract participation based on an acreage basis. Pioneer proposes to revise the allocation formula for the PAs using the Interim tract participation based on OOIP. The Division is not a party to the OU Operating Agreement and will evaluate the proposed tract factors based on 11 AAC 83.371.

Pioneer previously provided the Division with the data and analysis used to calculate the revised tract factors based on OOIP. The Division met with Pioneer on February 20, 2014 to discuss the data and analysis. Pioneer provided additional data to the Division on February 25, 2014. The data included grids of reservoir properties, PA and tract boundaries, and information on reservoir parameters for the Nuiqsut, Kuparuk, and Torok reservoirs necessary to calculate OOIP for each of

the PAs. The Division determined, based on the technical data that Pioneer provided, that the proposed OOIP tract factors are reasonable.

There are four Net Profit Share (NPS) leases within the OU, three of which have production assigned to them from the three Oooguruk PAs. Each of these leases has a 12.5 percent royalty rate, and a 30 percent net profit share. Currently, production from two PAs (Nuiqsut and Kuparuk) have had their royalty rates modified to be 5 percent until one of the NPSLs (ADL 355036) goes into payout, at which time the royalty rate is increased over four years in equal increments to the lease rate, or by a larger increase to reach a lease rate of 16.67%. Production from Torok is not subject to royalty modification, and its production is assessed the lease rate of 12.5 percent. This decision will require the filing of NPSL reports as specified below.

Under 11 AAC 83.303(c)(5), the Commissioner will consider the criteria in 11 AAC 83.303(a) and (b) when evaluating a proposed or revised production or cost allocation formula. The Division considered these criteria in evaluating Pioneer's proposed Interim tract participation based on OOIP and finds that the revised division of interest for allocation of production and costs for OU PAs equitably allocates production and costs among the leases comprising the OU PAs. Considering the 11 AAC 83.303 criteria, and the geological and engineering characteristics of the OU reservoirs, the Division finds Pioneer's proposed revised division of interest for allocation of production and costs for the OU PAs complies with the provisions of 11 AAC 83.303, and protects the public interest.

I approve the Interim tract participation factors in accordance with the criteria set out in 11 AAC 83.303 subject to the following conditions:

1. Under Article 11.1 of the Oooguruk Unit Agreement, Pioneer shall provide the Division updated exhibits within 30 days of this approval.
2. The OU working interest owners shall file revised Net Profit Share Lease reports. Volume/Value report (VV Form) must be revised back to June 1, 2008 and the Account (AC Form), and the Production Tax Lease Allowance Report (PT Form) must be revised back to the first capital expenditures. Note: PT Forms are only required starting with April 2006. These reports are subject to audit under AS 38.05.036.
3. The OU working interest owners shall file revised Royalty reports (A1 Form) back to June 1, 2008 for the Nuiqsut and Kuparuk PAs and March 1, 2010 for the Torok PA. These reports are subject to audit under AS 38.05.036.

A 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 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](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.

If you have any questions regarding this decision, contact Don Perrin with the Division at 269-8813, or by email at donald.perrin@alaska.gov.

Sincerely,



W.C. Barron  
 Director

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Sent To <b>Dale Hoffman, Sr Staff Landman</b> Pioneer Natural Resources Alaska, Inc. 700 G Street, Suite 600 Anchorage, AK 99501	
PS Form 3800, August 2006 <span style="float: right;">See Reverse for Instructions</span>	

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