

**KITCHEN LIGHTS UNIT**

**APPLICATION FOR THE EXPANSION OF THE KITCHEN UNIT AREA TO  
FORM THE KITCHEN LIGHTS UNIT**

**FINDINGS AND DECISION OF THE DIRECTOR,  
DIVISION OF OIL AND GAS UNDER DELEGATION OF AUTHORITY  
FROM THE COMMISSIONER,  
DEPARTMENT OF NATURAL RESOURCES  
STATE OF ALASKA**

**JUNE 30, 2009**

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## **I. DECISION SUMMARY**

Escopeta Oil Company, LLC (Escopeta), as the designated Kitchen Unit Operator, filed an application to expand the Kitchen Unit (KU) and rename the expanded KU as the Kitchen Lights Unit (Application) with the State of Alaska (State), Department of Natural Resources (DNR), Division of Oil and Gas (Division) on February 20, 2009. Escopeta revised the Application's initial Plan of Exploration (initial POE) with an amended initial POE on March 17, 2009 (Amended Application). Escopeta submitted confidential and public portions of the Amended Application that met the requirements for a complete application under 11 AAC 83.306. The Division deemed the Amended Application complete effective April 2, 2009. The public comment period closed on May 6, 2009, and DNR received no comments.

The Division finds that the approval of the Amended Application promotes conservation of all natural resources, promotes the prevention of economic and physical waste, and provides for the protection of all parties of interest, including the State. In accordance with the criteria set out in 11 AAC 83.303, DNR approves the expansion of the KU, the renamed Kitchen Lights Unit (KLU), subject to the conditions set out in this Findings and Decision.

## **II. BACKGROUND**

The current KU covers approximately 40,733 acres within 16 individual State oil and gas leases. Escopeta filed the Application and Amended Application with DNR, on behalf of itself, as the sole working interest owner (WIO) in the KU.

The proposed expansion area is located in the center of Upper Cook Inlet, southwest of the North Cook Inlet Unit and field. The proposed KU expansion area covers approximately 42,661 acres within 14 individual State oil and gas leases. The expansion leases are described in Attachment 1 and shown on the map provided by Escopeta as Attachment 2. The proposed expansion leases are grouped into two areas:

| <u>Area</u>                           | <u>Acreage</u> |
|---------------------------------------|----------------|
| Northern Tract "C" area (six leases)  | 15,930         |
| Corsair Tract "B" area (eight leases) | 26,721         |

The proposed Northern Tract "C" area identified in Attachment 1 includes six leases and approximately 15,930 acres. The relevant lease information for the Northern Tract "C" area leases is set out on Table 3 of Attachment 5. The six leases were originally part of the Renaissance Alaska, LLC (Renaissance) application to establish the Northern Lights Unit, submitted on December 3, 2008 (Renaissance Application).

On January 3, 2009, the Division deemed the Renaissance Application incomplete under 11 AAC 83.306 and requested additional information from Renaissance. No further action has taken place with respect to the Renaissance Application.

The proposed Corsair Tract "B" area identified in Attachment 1 includes eight leases and approximately 26,721 acres. Four of the leases, ADLs 389196, 389197, 389198 and 389515, are currently within the Corsair Unit. The Corsair Unit is the subject of multiple administrative appeals, pending before the DNR Commissioner, challenging the Division Director's December 1, 2008 decision (Attachment 7) defaulting the Unit. The Unit's leases are the subject of superior court appeal filed by Pacific Energy Resources, Limited (PERL) challenging the DNR Commissioner's January 22, 2009 decision (Attachment 8) denying PERL's application for a stay from the default of those leases. *See* 3AN-09-05250 CI. The other four leases, ADLs 389507, 389513, 389514 and 389923, are the subject of both the aforementioned superior court appeal, and another superior court appeal filed by PERL challenging DNR's December 3, 2008 decision denying PERL's application to include these leases in the Corsair Unit. *See* 3AN-09-04145 CI. The relevant lease information for the Corsair Tract "B" area leases is provided on Table 2 of Attachment 5.

The KU itself is the subject of multiple administrative appeals, pending before the DNR Commissioner, challenging the Division Director's December 1, 2008, decision (Attachment 9) denying further amendment of the KU's Amended Plan of Exploration.

On December 18, 2008, in an effort to settle these multiple administrative and superior court appeals, deliver a jack-up rig to the Cook Inlet, and begin oil and gas exploration and production from these properties, the Division submitted a proposal (Attachment 10) designed to encourage Escopeta, PERL, ConocoPhillips (operator of the North Cook Inlet Unit) and Renaissance to align their lease interests and form a new unit to include some or all of the non-performing properties—the Kitchen Unit, the Corsair Unit and expansion leases, and the proposed Northern Lights Unit leases. The Division's intent was to encourage these lessees to work together under a single operator, align timelines in all units and leases, avoid involuntary unit terminations, and deliver a jack-up drilling rig to the Cook Inlet to find and develop oil and gas in the area.

While the Division's intent was for all the lessees to voluntarily aggregate their individual interests, form a single unit overlying all identified potential hydrocarbon accumulations and designate one of the parties as the Unit Operator, the parties pursued a somewhat different path that resulted in the Amended Application.

On December 24, 2008, Renaissance, and Rutter and Wilbanks Corporation, agreed to sell 100 percent of their working interests to Escopeta in all six leases included in the Renaissance Application, and filed lease assignment applications with the Division on January 20, 2009. The assignments are pending with the Division. These are the Northern Tract "C" area leases identified in Attachment 1 and Table 3 of Attachment 5. In addition, in an April 14, 2009 letter Renaissance agreed to withdraw the Renaissance Application effective upon the Division's approval of the Amended Application.

PERL is the parent company of Pacific Energy Alaska Operating LLC (PEAO) which is the owner of 100 percent of the working interest in the four Corsair Unit leases and four Corsair expansion leases--the Corsair Tract "B" area leases. In a farmout letter agreement, dated February 11, 2009, PERL agreed to conditionally farmout 100 percent of the working interest of PEAO in the eight Corsair leases to Escopeta. Escopeta and PERL filed lease assignment applications with the Division on February 20, 2009. On March 8, 2009 PERL filed a

bankruptcy petition in U.S. Bankruptcy Court, District of Delaware. The State of Alaska has entered an appearance in that pending proceeding. As with the Renaissance assignments, the PERL assignments are pending with the Division. In letters dated March 6 and March 27, 2009, PERL committed to dismiss its two superior court appeals if the Division approves the Amended Application. On March 31, 2009 PERL also committed to withdraw its appeal, pending before the DNR Commissioner, challenging the Division Director's December 1, 2008 decision (Attachment 7) defaulting the Corsair Unit. All other appellants, except Michael J. Droege, who appealed the Division Director's December 1, 2008 default decision, have also committed in writing to withdraw their appeals.

In a letter agreement with the Division, *see* Attachment 6, Escopeta has also agreed to withdraw and arrange to have withdrawn, all administrative appeals pending with the Commissioner related to his December 1, 2008, decisions defaulting the Corsair Unit and denying further amendment to the Kitchen Unit Amended Plan of Exploration and to voluntarily terminate the Corsair Unit coincident with the Division's approval of the Amended Application. In addition, all other appellants, except, Michael Droege, who appealed the DNR Commissioner's December 1, 2008 decision denying further amendment to the Kitchen Unit Amended Plan of Exploration have also committed in writing to withdraw their appeals.

### **III. APPLICATION**

Escopeta applied to expand the KU and rename it the Kitchen Lights Unit on February 20, 2009, and paid the \$500.00 unit expansion application filing fee, in accordance with 11 AAC 83.306 and 11 AAC 05.010(a)(10)(E), respectively. The Application included: Exhibit A legally describing the proposed unit area, its leases, and ownership interests; Exhibit B, a map of the proposed unit; and Exhibit G, the proposed Initial POE. The Application also included geological and geophysical information in support of the Application that is held confidential under AS 38.05.035(a)(8)(C).

In a March 17, 2009 letter, Escopeta revised the Application with an Amended Initial POE. The Application's initial POE was submitted as a working draft. To comply with 11 AAC 83.341(a), Escopeta revised the Application with the new Exhibit G, the Amended Initial POE, which describes the proposed exploration activities for the expanded KU. The Amended Initial POE is discussed in Section IV.A.3.

The Division determined that the Amended Application was complete on April 2, 2009, and published a public notice in the "*Anchorage Daily News*" on Sunday, April 5, 2009, and in the "*Peninsula Clarion*" on Monday, April 6, 2009, under 11 AAC 83.311. Copies of the Application and the public notice were provided to interested parties under 11 AAC 83.311. DNR provided public notice to the Alaska Department of Environmental Conservation, the DNR Office of Habitat, Management and Permitting, the Kenai Peninsula Borough, the Native Village of Tyonek, the City of Kenai, the Tyonek Village Corporation, Cook Inlet Regional Corporation, the Tyonek Postmaster, the Soldotna Postmaster, and the radio station KSRM in Kenai. The notice was also published on the State of Alaska Public Notice website and the Division's website. The public notices invited interested parties and members of the public to submit comments by May 6, 2009. DNR received no comments regarding the Amended Application.

#### **IV. DISCUSSION OF DECISION CRITERIA**

The DNR Commissioner reviews unit expansion applications under 11 AAC 83.301 – 11 AAC 83.395. By memorandum dated September 30, 1999, the Commissioner approved a revision of Department Order 003 and delegated this authority to the Division Director. The Division's review of the Amended Application is based on the criteria set out in 11 AAC 83.303 (a) and (b). A discussion of the subsection (b) criteria, as they apply to the Amended Application, is set out directly below, followed by a discussion of the subsection (a) criteria.

##### **A. Decision Criteria considered under 11 AAC 83.303(b)**

###### **1. The Environmental Costs and Benefits of Unitized Exploration or Development**

The proposed KU expansion area lies completely offshore in the center of Upper Cook Inlet, southeast of the village of Tyonek. This area is habitat for a variety of marine mammals, waterfowl, and fish. Area residents may use this area for subsistence hunting and fishing. Oil and gas activity in the proposed unit area may affect some wildlife habitat and some subsistence activity. Mitigation measures, including seasonal restrictions on specific activities, reduce the impact on fish, wildlife, and human populations. Mitigation measures specifically address potential impacts to subsistence access and harvests.

DNR develops lease stipulations through the lease sale process to mitigate the potential environmental impacts from oil and gas activity. Alaska statutes require DNR to give public notice and issue a written finding before disposal of the State's oil and gas resources. AS 38.05.035(e); AS 38.05.945; 11 AAC 82.415. In the written best interest finding, the Commissioner may impose additional conditions or limitations beyond those imposed by law. AS 38.05.035(e).

DNR considered all comments submitted before holding the Cook Inlet Sales held in 1999, 2000, 2001 and 2003. DNR included mitigation measures in the leases. The proposed expansion leases contain stipulations designed to protect the environment and address concerns regarding impacts to the area's fish and wildlife species and to habitat and subsistence activities. They address issues such as the protection of primary waterfowl areas, site restoration, construction of pipelines, seasonal restrictions on operations, public access to, or use of, the leased lands, and avoidance of seismic hazards. Including these additional leases in the KU will neither change these protective measures, nor result in additional restrictions or limitations on public access to the lands or to public and navigable waters. Furthermore, lease operations both before and after unitization are subject to a coastal zone consistency determination, and must comply with the terms of both the State Coastal Management Program and Kenai Peninsula Borough Coastal Management Plan. Lease operations also require State approval of a Plan of Operations application.

Ongoing mitigation measures such as seasonal restrictions on specific activities in certain areas will reduce the impact on bird, fish, and mammal populations. Designating primary waterfowl areas and restricting activities within these areas is one method of protecting the bird habitat. DNR requires consolidation of facilities to minimize surface disturbances. Regulating waste

disposal is another way to limit environmental impacts. With these mitigation measures, the anticipated exploration and development related activity is not likely to significantly impact bird, fish, and mammal populations. The additional anticipated activity under the KU Agreement will impact wildlife, habitat and subsistence activity less than if the lessees developed the leases individually. Unitized exploration, development and production will minimize surface impact.

The approval of the KU expansion itself has no environmental impact because the Commissioner's approval of the expansion is an administrative action, which, by itself, does not convey any authority to conduct any operations within the unit. The unit expansion should result in fewer environmental impacts than might occur if permits to conduct lease-by-lease exploration or development were issued. Unitization does not waive or reduce the effectiveness of the mitigation measures that condition the lessee's right to conduct operations on these leases. DNR's approval of the amended initial POE is only one step in the process of obtaining permission to drill a well or wells or develop the potential and known reservoirs within the expanded unit area. The Unit Operator must still obtain approval of a Plan of Operations from the State and permits from various agencies on State leases before drilling a well or wells or initiating development activities to produce reservoirs within the unit area. 11 AAC 83.346.

A proposed Plan of Operations must describe the operating procedures designed to prevent or minimize adverse effects on natural resources. Plans of Operation are subject to extensive technical review by a number of local, state, and federal agencies. They are also subject to consistency with the Alaska Coastal Management Program and local coastal district plans, if the affected lands are within the coastal zone. The Unit Operator must guarantee full payment for any damage sustained to the surface estate before beginning operations, and the Plan of Operations must include plans for rehabilitation of the unit area. Furthermore, when the lessees propose to explore or develop the unit area and submit a Unit Plan of Operations, the DNR may require that it comply with the lease stipulations and lessee advisories developed for the most recent lease in the expanded KU or the region.

The Amended Initial POE requires the drilling of a number of exploratory wells within the expanded unit area. When Escopeta applies for permits and authorizations for the wells from the various federal, state, and local agencies, interested parties will have the opportunity to comment during the permit review process.

## **2. The Geological and Engineering Characteristics of the Reservoir and Prior Exploration Activities in the Kitchen Unit Area and the Proposed Kitchen Unit Expansion Area**

Oil and gas exploration in Cook Inlet began in 1853 when Russian explorers discovered oil seeps on the west side of the basin in the vicinity of the Iniskin Peninsula. Thirty years later, other Russians collected the first oil samples from the basin. Over the next 100 years, only a handful of wells were drilled without commercial success.

The modern era of exploration commenced in 1955 when Richfield Oil Corp. embarked on a drilling program centered around Swanson River on the Kenai Peninsula. In July 1957, the company discovered oil in the Swanson River Unit 1 well that was drilled to a depth of 11,000

feet. It tested oil at 900 bpd from the Tertiary Hemlock Conglomerate, with reserves estimated at 250 MMbbls. In October 1959, Unocal and Ohio Oil discovered the Kenai gas field on the Kenai Peninsula. It is the largest natural gas discovery in the basin, estimated at 2.4 trillion cubic feet (tcf). Production began the following year and continues today. In 1962, Pan American Petroleum Corp. discovered the Middle Ground Shoal oil field which was the first offshore discovery in the Cook Inlet basin. The first offshore production platform was installed on this field by Shell in 1964. In 1965, Unocal discovered the McArthur River field, the basin's largest oil field estimated at 1.5 billion barrels. Additional discoveries were made by Unocal at Trading Bay and Mobil Oil at Granite Point to the north. Extensive exploration continued over the next several years resulting in a peak oil production of 82 MMbbl in 1970. Peak gas production of 223 bcf occurred in 1996. In 2005, Cook Inlet oil production averaged 7 million barrels and gas production averaged 203 bcf. In 2008, oil production averaged 4.77 million barrels and gas production averaged 152.7 bcf.

As of September 2006, a total of 1,155 (526 onshore, 629 offshore) wells have been drilled in the basin. The majority of these wells were drilled between 1958 and 1970, with peak activity of 110 wells drilled in 1968. Swanson River was discovered in 1957. Following this discovery, 14 offshore discoveries were made including the Kenai gas field. All the major oil fields that exist today were drilled between 1957 and 1965; 14 of the 16 existing offshore production platforms were installed between 1966 and 1969.

In 1968, Atlantic Richfield (ARCO) and Humble discovered the Prudhoe Bay field on the Alaskan North Slope, the largest oil field in North America. In 1969, Sinclair discovered the neighboring Kuparuk River field estimated at more than 5 Bbbl. These two giant oil discoveries diverted attention away from Cook Inlet where the size of the average field is much smaller. As a result, drilling activity in the basin dropped significantly from its peak of 110 wells in 1968. Only 69 wells were drilled in 1969, followed by 29 in 1970, and 7 in 1971. From 1972, exploration activity in the basin has remained flat through today. Recently, there has been a slight resurgence of drilling in the basin driven by onshore gas exploration and development.

### **Regional Tectonic Setting**

The Cook Inlet basin is an elongate, northeast-southwest trending, fault-bounded forearc basin that extends from Matanuska Valley southward along the Alaska Peninsula. It formed in response to the northward migration of the Kula and Pacific tectonic plates and eventual subduction beneath the southern Alaska margin of the North American plate. Underthrusting of these oceanic plates resulted in the formation of the Alaska continental margin consisting of accretionary complex, magmatic arc and forearc basin. Underthrusting and offscraping of deep sea sediments at the inner wall of the oceanic trench resulted in an accretionary wedge bordering the southeast side of the forearc basin. Crustal melting associated with the subducting plates created a magmatic arc along the western and northern basin margin. This structural configuration was established by Late Cretaceous time. The basin is filled with Mesozoic and Tertiary sediments deposited in the arc-trench gap, flanked by a volcanic arc to the north-northwest and a subducted accretionary complex to the south-southeast. Major bounding faults mark the edges of the basin. The Bruin Bay and Castle Mountains faults mark the northern and northwestern boundaries and separate the volcanic arc complex from the Mesozoic and Tertiary

basin fill. The magmatic arc consists of calderas, plutons, volcanic fields that overlie and intrude older magmatic rocks of a pre-existing arc complex. Basaltic andesite, rhyolite, monzonite and granite are the dominant rock types. The Border Ranges fault marks the southern and southeastern boundaries and separates the accretionary prism from the continental crust that underlies the basin. The prism consists of metasedimentary and metaigneous rocks subducted at the Aleutian trench and accreted to the continental margin by offscraping of trench flysch and deep-sea sediments deposited on the oceanic crust. These rocks comprise the Chugach Terrane of south-central Alaska. Motion along these faults has resulted in extensive local deformation, particularly along the northwest margin of the basin where a series of anticlines and related structures form structural traps for hydrocarbon accumulations.

### **Depositional Systems and Stratigraphic Framework**

Two major non-marine depositional systems comprise the Tertiary basin fill, alluvial fans and axial fluvial systems. Alluvial fan systems occur along the margins of the basin and were sourced from adjacent highlands created by the basin-bounding faults. The fans are conical, lobate deposits of predominantly coarse-grained sediments emplaced by water and gravity-induced density flows. Migrating axial fluvial systems occupy the central portion of the basin and interfinger with the fans towards the basin margin. These fluvial systems result in the thick accumulation of sandstone, siltstone and coal in the basin center. The sedimentary accumulations of these two systems are regionally time transgressive and represent laterally equivalent facies deposited across the basin.

Tertiary rocks of Cook Inlet comprise the Kenai Group that range in age from Paleocene to Pliocene and contain both local and regional unconformities. The group is comprised of five formations (deepest to shallowest): West Foreland, Hemlock, Tyonek, Beluga and Sterling. The West Foreland is Early Eocene to Late Oligocene in age and consists of tuffaceous sandstones and conglomerates with poor to fair reservoir quality. The Hemlock is Late Eocene to Early Miocene in age and is comprised of sandstone and conglomerate with relatively good reservoir quality. It is a proven oil reservoir in many parts of the basin. The overlying Tyonek consists largely of siltstone, sandstone and coals of Late Eocene to Late Miocene age. It has been the target of considerable exploration and is a potential oil reservoir in the Kitchen Lights area. The source of the Hemlock and Tyonek oils is believed to be marine strata of Middle Jurassic age. The Beluga is of Miocene age and is comprised of siltstone and sandstones with abundant thin coals. The Sterling ranges in age from Middle Miocene to Late Pliocene and consists largely of stacked porous sandstones with a blocky log signature. Coals are less abundant than in the underlying Beluga. The Sterling and Beluga formation are the major gas reservoirs in the nearby North Cook Inlet field and are considered primary gas targets in the Kitchen Lights area. The gas is believed to be of biogenic origin derived from Tertiary coals and organic siltstones.

The present day thickness of the Tertiary strata varies along the axis of the basin. The deepest part of the basin is located in the northwest corner of the Kenai Peninsula where 25,000 feet of Tertiary non-marine sediments overlie a thick sequence of marine Mesozoic sediments. The section thins dramatically to the south towards the Seldovia Arch where only 1,500 feet of Tertiary strata are present.

## **Structural Geology**

The Cook Inlet basin is situated between two tectonic highlands: a magmatic arc to the northwest and an emergent accretionary complex to the southeast. The northwest margin is bounded by right lateral strike-slip faults with considerable dip slip. The southeast margin is bounded by high angle normal faults. Within this setting three distinct fold regimes have developed: compression folds, transpression folds and complex folds. Compression folds develop over high-angle reverse faults with very little, if any, strike-slip movement. They are common in the center and southeast sides of the basin and are major producers of hydrocarbon in Cook Inlet. Transpression folds develop over high-angle reverse faults with considerable strike-slip component. They are well developed along the northwest basin margin where they result from strain transfer between the Castle Mountain and Bruin Bay faults. These folds typically have a right-stepping *en echelon* pattern of their axial traces which is consistent with dextral oblique slip along the Bruin Bay and Castle Mountains faults. The resultant folds are some of the largest producing structures in the basin. Complex folds are folds that have been modified by later strike-slip movement along high-angle reverse faults at depth. The Middle Ground Shoal anticline is the best documented complex fold in the basin.

### **The Expanded Kitchen Unit--the Kitchen Lights Unit**

The expanded KU--the Kitchen Lights Unit--is a composite of several prospects: Kitchen and East Kitchen--the Kitchen Tract "A" area identified in Attachment 1 and Table 1 of Attachment 4; the Corsair Tract "B" area identified in Attachment 1 and Table 2 of Attachment 5; and the Northern Lights Tract "C" area identified in Attachment 1 and Table 3 of Attachment 5.

The Kitchen prospect lies in the middle of Cook Inlet to the west of East Forelands and due east of the productive Middle Ground Shoal field. Escopeta contends that the prospect is formed by the up dip displacement of the Tertiary strata against a major north-south trending high-angle fault. This fault, termed the Kitchen Fault, parallels the Middle Ground Shoal fault system to the west and forms the western edge of the prospect. East of the fault, the Tertiary strata dip uniformly to the east in a homocline that is truncated by the deep-seated thrust fault forming the western margin of the Corsair structure. The Division staff's independent analysis does not support Escopeta's contention about the existence of the Kitchen Fault. If the Division's analysis is correct, hydrocarbon migrating through the Kitchen prospect would be trapped by the Middle Ground Shoals anticline to the west. Because of the problematic existence of the Kitchen Fault, the Kitchen prospect is considered highly speculative.

The East Kitchen prospect consists of the southwestern nose of the NNE-SSW trending doubly plunging, asymmetric anticline that comprises the Corsair prospect. It is located in the middle of Upper Cook Inlet approximately 16 miles southwest of the ConocoPhillips Tyonek platform and six miles northeast of Port Nikiski. The structure lies on trend with the North Cook Inlet gas field to the north and the Cannery Loop and Kenai gas fields to the south. Water depths average 70 feet over the structure. The anticline is asymmetric with steep dips on the western limb and shallow dips of generally less than 15 degrees on the east. It is bounded on the west by a deep-seated thrust fault that extends slightly into the lower Tertiary strata.

Escopeta mapped the East Kitchen prospect with four-way closure caused by structural roll over in the northern portion of the unit. In addition, Escopeta has mapped an east-west trending normal fault that forms the northern boundary of the unit and separates it from the neighboring Corsair prospect to the northeast. This fault could provide a trapping mechanism in addition to the structural roll over. The Division staff's independent analysis does not support Escopeta's interpretation of the existence of the northern boundary fault or the structural roll over. If the Division's analysis is correct, hydrocarbons migrating through the East Kitchen prospect would be trapped by the Corsair anticline to the north. Because of the problematic existence of the northern boundary fault or the structural roll over, the East Kitchen prospect is considered highly speculative.

The Corsair prospect is a large NNE-SSW trending doubly plunging, asymmetric anticline with four-way dip closure. It is located in the middle of Cook Inlet approximately 12 miles southwest of the ConocoPhillips Tyonek platform. The structure is approximately two and one-half miles wide and nine miles long. It lies on trend with the North Cook Inlet gas field to the north and the Cannery Loop and Kenai gas fields to the south. Water depths vary from 80 to 120 feet over the structure. The anticline is asymmetric with steep dips on the western limb and shallow dips of generally less than 15 degrees on the east. Other folds in the general area exhibit a similar asymmetry. The steep western flank is bounded on the west by a deep-seated thrust fault that extends slightly into the lower Tertiary strata. The anticline is cut by several normal faults oriented perpendicular to the fold axis which compartmentalizes the reservoir into separate fault blocks. The shallow target is gas in the Sterling, Beluga and Tyonek formations. The Sterling and Beluga Formations are proven gas reservoirs in the North Cook Inlet Unit. The Tyonek Deep sands are also present here and contain oil as they do in the North Cook Inlet Unit.

Five exploration wells have been drilled in the Corsair prospect: Shell SRS State #1 and #2, Phillips Tern A-1, and ARCO SCI State #2 and #3. The Tern A-1 well was drilled as a test gas prospect in the Sterling and Beluga formations, while the other four were drilled as oil prospects in the Tyonek and Hemlock formations. In 1962, the first area well--the Shell SRS #1--was drilled to a total depth of 16,375 feet md (measured depth). The well was drilled on the crest of the Corsair anticline and is the structurally highest well in the area. Gas shows were recorded in the Sterling and Beluga intervals and four drill stem tests (DSTs) were conducted in the Tyonek, Hemlock and West Foreland formations. The best test produced small quantities of oil of varying gravity from the Tyonek Formation. Shell drilled the SRS #2 well in 1965 to a total depth of 15,403 feet MD on the southwestern nose of the Corsair structure. Minor gas shows were noted in the Sterling and Beluga and minor oil shows were encountered in the deeper section, but no tests were conducted. In 1982, Phillips Petroleum drilled the Tern A-1 well on the northeastern nose of the Corsair anticline to explore for gas in the Sterling and Beluga formations. Seven DST's were run in the well with one tested interval producing gas at uneconomic rates. More than a decade later, ARCO embarked on a multi-well exploration program to evaluate the oil potential of the Tyonek and Hemlock formations in both the Corsair anticline and the more northern North Cook Inlet structure which are separated by a structural saddle. The SCI #3 was drilled in 1993 to a total depth of 16,000 feet MD on the southwestern nose of the Corsair anticline. Gas and oil shows were poor and the one DST tested only traces of oil. The SCI #2 well was drilled later that year on the northeastern nose of the structure to a total

depth of 15,189 feet MD. Significant gas shows were noted at several horizons while drilling. Six DST's were run with only minor production of oil.

The Northern Lights prospect lies to the south of the North Cook Inlet Unit along the anticlinal trend that connects it with the Corsair structure. The primary target is the downdip extension of the Tyonek Deep oil reservoirs encountered in most of the deep North Cook Inlet wells. The play depends on the Tyonek Deep sands extending some distance south of the North Cook Inlet Unit and still remaining in the oil column.

### **3. Plan of Exploration for the Expanded Kitchen Unit-the Kitchen Lights Unit**

As described above, Escopeta provided technical data intended to define the oil and gas prospects under consideration, committed its lease interests to the KLU and has submitted an Amended Initial POE (See Attachment 3 to this Findings and Decision). The Amended Initial POE describes work commitments that Escopeta has proposed and agreed to perform. The terms of the Amended Initial POE require Escopeta to timely conduct exploration and evaluation activities that will result in production of oil and/or gas, if found, sooner than if the unit were not expanded at this time, sooner than would occur under any individual lease exploration effort, and sooner than the current administrative appeals pending before the DNR Commissioner and superior court appeals could be resolved. Escopeta's adherence to these terms will satisfy the performance standards and diligence requirements that the Division and Escopeta agreed to as a condition for the KU expansion approval. Escopeta's failure to meet the work commitments set out in the Amended Initial POE will result in the automatic termination of the KLU and the termination of the leases.

The Amended Initial POE is set out in Attachment 3. A summary of the terms and conditions of the Amended Initial POE that were proposed by Escopeta, and accepted by the Division, is set out below.

In years 2009 through 2010: (1) Escopeta shall, by June 30, 2010, obtain all necessary regulatory permits and authorizations necessary for the spudding and drilling of an exploration well to a certain depth at identified locations (upon written notice to DNR, Escopeta may select an alternate location); (2) Escopeta shall, by June 30, 2010, have a drilling rig capable of drilling an exploration well loaded on a heavy-lift vessel and the vessel must be on its way to the Cook Inlet; (3) If Escopeta fails to timely fulfill either of the obligations described in items (1) and (2) above, the KLU will automatically terminate (Escopeta has waived the lease extension provisions set out in 11 AAC 83.140 and Article 15.2 of the KU Agreement, and the notice, hearing and judicial proceeding provisions set out in 11 AAC 83.374, applicable to default and termination of the KLU); (4) Escopeta shall, by December 31, 2010, spud and continue drilling the exploration well identified in (1) above; and (5) if Escopeta fails to timely spud and continue drilling the exploration well, the KLU will automatically terminate (Escopeta has waived the lease extension provisions set out in 11 AAC 83.140 and Article 15.2 of the KU Agreement, and the notice, hearing and judicial proceeding provisions set out in 11 AAC 83.374, applicable to default and termination of the KLU).

In year 2011: (1) Escopeta shall, by December 31, 2011, spud an exploration well in the Corsair Tract "B" area of the KLU and continue drilling to a certain depth at identified locations (upon written notice to DNR, Escopeta may select an alternate location); and (2) if Escopeta fails to timely spud and continue drilling the exploration well described in (1) above, the KLU will automatically terminate.

In year 2012: (1) Escopeta shall, by December 31, 2012, spud an exploration well in the Northern Tract "C" area of the KLU and continue drilling to a certain depth at identified locations (upon written notice to DNR, Escopeta may select an alternate location); and (2) if Escopeta fails to timely spud and continue drilling the exploration well described in (1) above, the KLU will automatically terminate.

In year 2013: (1) Escopeta shall, by December 31, 2013, spud an exploration well to a certain depth at identified locations; and (2) if Escopeta fails to timely spud and continue drilling the exploration well described in (1) above, the KLU will automatically terminate.

In sum, Escopeta has agreed to the following process. If it fails to meet any obligation under the Amended Initial POE the KLU will terminate. The Division will neither issue a default notice nor propose a cure. If the KLU terminates, any lease beyond its primary term will expire and return immediately to the State. Any lease within its primary term at the time of unit termination, will continue as provided under the terms of its extension provisions.

In addition to the rig delivery and drilling obligations outlined above, under the Amended Initial POE, Escopeta shall notify the Division of its receipt of the following permits and authorizations: the AOGCC permits to drill; (2) the ADEC Oil Discharge Prevention and Contingency Plan (C-Plan); the Division's Unit Plan of Operations permit; the U.S. Corp of Engineers Section 10 Authorization for the temporary placement of jack-up or drill ship; and Jones Act Waiver, as necessary.

#### **4. The Economic Costs and Benefits to the State and Other Relevant Factors**

Approval of the KU expansion will provide near-term economic benefits to the State by creating jobs associated with the assessment of the hydrocarbon potential of the leases within the expansion areas. Escopeta provided sufficient technical data to define the prospects under consideration, committed its lease interests to the KU, and agreed to a plan of exploration that ensures a timely sequence of rig delivery, drilling, and development activities to evaluate and develop the expanded KU. The plan of exploration with the agreed-to terms and conditions advances exploration and evaluation of the prospects in the expansion areas sooner than would occur under any individual lease exploration effort, and sooner than it would take to resolve the pending administrative and superior court appeals.

During the discussions between the Division and Escopeta regarding the Division's December 18, 2008 proposal, the parties agreed to a number of terms and conditions to settle the numerous Corsair and Kitchen appeals discussed in Section II, above. The terms and conditions agreed to by the Division and Escopeta, the Kitchen Lights Unit Term Sheet, are set out in Attachment 6.

Escopeta, as discussed above, PERL, Renaissance, and other parties have agreed to take certain actions upon the Division's approval of the Amended Application: (1) PERL has agreed to dismiss its administrative and superior court appeals related to the Corsair Unit and leases and the Corsair Unit expansion leases; (2) other parties, identified in the DNR Commissioner's January 22, 2009 letter (Attachment 11) and March 27, 2009 letter (Attachment 12), who appealed, requested a stay, and/or requested reconsideration of certain Division and DNR Commissioner decisions, have agreed to withdraw their appeals, stay requests, and/or reconsideration requests; and (3) Renaissance has agreed to withdraw its application to form the Northern Lights Unit. These agreements will benefit the State in terms of lowering its administrative costs and legal costs to process, decide, and defend these administrative and superior court appeals.

As noted in Section II, on January 20, 2009 Renaissance and Rutter and Wilbanks Corporation filed applications with the Division to assign 100 percent of their working interests to Escopeta in all six leases included in the Renaissance Application. The Division hereby approves the Renaissance and Rutter and Wilbanks Corporation lease assignments to Escopeta, subject to Escopeta or Renaissance withdrawing the Northern Lights Unit application as they have committed to do.

On February 20, 2009, PERL filed applications with the Division to assign 100 percent of its working interests to Escopeta in all eight Corsair leases. The Division approves: 1) the PERL lease assignments to Escopeta for ADLs 389196, 389197, 389198 and 389515, subject to the payment of back rentals for ADL 389515 within 30 days of the issuance of this Findings and Decision; and 2) the PERL lease assignments to Escopeta for ADLs 389507, 389513, 389514 and 389923, subject to the payment of back rentals for all four leases within 30 days of the issuance of this Findings and Decision.

On March 26, 2008 PERL filed an application to expand the Corsair Unit with ADLs 389507, 389513, 389514, and 389923. The Division Director denied the application on April 30, 2008, and the DNR Commissioner affirmed the Director's decision on December 3, 2008. As noted in Section II, PERL's appeal of that decision is pending in superior court. *See* 3AN-09-04145 CI. On January 22, 2009, the DNR Commissioner denied PERL's request to 'reinstate and/or stay' the expiration of these four leases. PERL's appeal of that decision is also pending in superior court. *See* 3AN-09-05250 CI. The primary terms of ADLs 389507, 389513, 389514 expired on April 30, 2008 and the primary term ADL 389923 expired on December 31, 2008. As noted in Section II, above, PERL has agreed to dismiss these superior court appeals. As part of the settlement of these appeals, I hereby re-instate these four leases as part of the KU expansion, subject to the payment of the back rentals as set out above. In addition, the Corsair Unit is terminated as of the effective date of this Findings and Decision.

The leases in the KU and expansion areas are written on various lease forms. *See* Table 1 of Attachment 4 and Tables 2 and 3 of Attachment 5. In the course of the original KU Agreement and Corsair Unit Agreement negotiations in 2006-2007, the parties bargained for amendments to the terms and conditions of the various leases. The WIOs agreed to a number of lease amendments requested by the Division as a condition of including certain leases into the KU and Corsair units.

As a condition of approving the original KU Agreement to include ADLs 389189, 389190, 389191, 389192 and 389193, paragraph 36(b) of lease form DOG 200604 replaced paragraph 36(b) of lease form DOG 9609(rev.9/99). Also, as a condition of approving the Corsair Unit Agreement to include ADLs 389196, 389197, 389198 and 389515, paragraph 36(b) of lease form DOG 200604 replaced paragraph 36 (b) of lease form DOG 9609(rev.9/99), and paragraph 36(b) of lease form DOG 200004.

In correspondence dated May 21, 2009, Escopeta agreed to similar lease amendments requested by the Division as a condition of the KU expansion. Effective the date of this Findings and Decision, paragraph 36(b) of all form DOG 9609(Rev. 9/99) leases and paragraph 36(b) of all form DOG 200004 leases in the KLU are replaced with paragraph 36(b) of lease form DOG 200604.

Consistent lease provisions allow the WIOs and the State to reduce the administrative burdens of operating and regulating a unit. Conforming the terms of the older leases to the newer form lease allows the State to avoid costly and time-consuming re-litigation of the arguably problematic lease provisions in the older forms.

Expanding the KU and including all thirty leases under one unit and unit operating agreement in combination with the Amended Initial POE will result in both short term and long-term economic benefits to the State. The assessment of the leases' hydrocarbon potential will create jobs in the short term. If Escopeta makes a commercial discovery and begins development/production from the new KLU, the State will earn royalty and tax revenues over the long-term life of the field.

## **B. Decision Criteria considered under 11 AAC 83.303(a)**

### **1. Promote The Conservation of All Natural Resources**

DNR recognizes unitization of the leases overlying a reservoir or reservoirs as a prudent conservation mechanism. Without unitization, the unregulated development of reservoirs can become a race for possession by competing operators. This race can result in: 1) unnecessarily dense drilling, especially along property lines; 2) rapid dissipation of reservoir pressure; and 3) irregular advance of displaced fluids, all of which contribute to the loss of ultimate recovery or economic waste. The proliferation of surface activity, duplication of production, gathering, and processing facilities, and haste to get oil to the surface also increase the potential for environmental damage. Lessee compliance with conservation orders and field pool rules issued by the AOGCC would mitigate some of these impacts without an agreement to unitize operations. Still, unitization is the most efficient method for maximizing oil and gas recovery, while minimizing negative impacts on other resources. Including the expansion acreage within the KU will provide the State with a comprehensive plan for exploring and developing the expansion areas. Expansion of the KU and implementation of the Amended Initial POE will ensure that Escopeta prudently and diligently explores the acreage included in the unit.

The KU expansion will promote the conservation of both surface and subsurface resources through unitized (rather than lease-by-lease) development. Without the KU Agreement, the lessees would be compelled to seek permits to drill wells on each individual lease in order to extend the leases beyond their primary terms. Unitization reduces both the number of facilities required to develop reserves that may be discovered and the aerial extent of land required to accommodate those facilities. Review and approval of exploration and development permits under a unit agreement will also ensure that rational surface-use decisions are made without consideration of individual lease ownership or expense. After unitization, facilities can be designed and located to maximize recovery and to minimize environmental impact, without regard to lease ownership. Although Escopeta has not determined the final extent of any oil and gas contained in the prospective reservoirs, the KU Agreement will ensure that the acreage is explored and recovery from the leases is maximized if a commercial hydrocarbon accumulation is discovered.

## **2. The Prevention of Economic and Physical Waste**

Unitization prevents economic and physical waste by eliminating redundant expenditures for a given level of production, and avoiding loss of ultimate recovery by adopting a unified reservoir management strategy.

Unitized operations improve development of reservoirs beneath leases that may have variable or unknown productivity. Marginally economic reserves, which otherwise would not be produced on a lease-by-lease basis, can be produced through unitized operations in combination with more productive leases. Facility consolidation lowers capital costs and promotes optimal reservoir management. Pressure maintenance and secondary recovery procedures are easier to design and achieve through joint, unitized efforts than would otherwise be possible. In combination, these factors allow less profitable areas of a reservoir to be developed and produced in the interest of all parties, including the State.

The total cost of exploring and developing the expansion leases would be higher on a lease-by-lease basis than it would be under unitization terms. Drilling and facilities investment costs will be minimized as a consequence of eliminating a need for numerous sites within the unit area. Locations of individual wells and surface facilities will be selected to optimize ultimate oil and gas recovery, while minimizing or completely avoiding adverse impacts to the environment.

Reducing costs and environmental impacts through unitized operations will expedite development of any reserves discovered and will promote greater ultimate recovery of any oil and gas from the unit area. This will increase and extend the State's income stream from production taxes and royalties. The revenues to the lessees and unit operator may be reinvested in new exploration and development in the State. Unitization means reduced costs and increased benefits to all interested parties. It benefits the local and State economy, and provides revenues to the State's general, school, constitutional budget reserve, and permanent funds.

## **3. The Protection of All Parties of Interest, Including the State**

Inclusion of the expansion leases in the KU Agreement, in combination with the Amended Initial POE with the agreed-to terms and conditions set out in Section IV.A.3., above, promotes the

State's economic interests because exploration and development of the prospects within the expansion areas will likely occur earlier than without unitization. Diligent exploration and development under a single approved unit plan is in the state's best interest. It advances evaluation of the state's petroleum resources, while minimizing impacts to the region's cultural and environmental resources. A commercial discovery will stimulate the state's economy with production-based revenue, oil and gas related jobs, and service industry activity.

Approving the Amended Application under the terms and conditions set out in Sections IV.A.3. and 4., above, resolves the numerous pending administrative and superior court unit and lease appeals that, without settlement, would only delay for many more years the exploration and development of the hydrocarbon resources that exist in the Offshore Upper Cook Inlet. Escopeta has committed to delivering a jack-up rig to the Cook Inlet by next summer and drilling a well by the end of next year. If Escopeta does not meet its commitments, the KLU will automatically terminate and expired leases will return to the State. These commitments and remedies benefit the State expediting exploration, eliminating administrative and legal costs associated with the appeals, and returning the leases to the State if Escopeta does not meet its commitments.

The KU Agreement provides for accurate reporting and record keeping, state approval of plans of exploration and development and operating procedures, royalty settlement, in-kind taking, and emergency storage of oil and gas, all of which will further the state's interest. The KU Agreement will further Escopeta's interest by providing clear provisions for the operation of the KLU. The modifications to the varying provisions of the leases will economically benefit the State, and reduce the administrative burdens of operating and regulating this unit.

## **V. FINDINGS AND DECISION**

### **A. The Conservation of All Natural Resources**

1. Including the fourteen expansion leases in the KU will conserve all natural resources.
2. The unitized development and operation of the leases will reduce the amount of land and fish and wildlife habitat that would otherwise be disrupted by individual lease development. This reduction in environmental impacts and preservation of subsistence access is in the public interest.
3. Before undertaking any specific operations, the Unit Operator must submit a unit Plan of Operations to the Division and other appropriate state and local agencies for review and approval. Escopeta may not undertake drilling or development operations in the KLU until all agencies have granted the permits required to operate. DNR may condition its approval of a unit Plan of Operations and other permits on performance of mitigation measures in addition to those in the modified leases and the Agreement, if necessary or appropriate. If the exploration activities in the Amended Initial POE result in the discovery of a commercially producible reservoir, then there may be environmental impacts associated with the reservoir

development. However, Escopeta's compliance with lease mitigation measures will minimize, reduce or completely avoid adverse environmental impacts. All unit development must proceed according to an approved plan of development.

**B. The Prevention of Economic and Physical Waste**

1. Escopeta submitted geological, geophysical and engineering data to the Division in support of the Amended Application. Division technical staff determined that the expansion area encompasses all or part of one or more potential hydrocarbon accumulations. The available geological, geophysical and engineering data justify including the proposed expansion lands, described in Exhibit A to the Amended Application and Attachment 5, into the KU.
2. The Amended Initial POE, subject to the terms and conditions discussed in Section IV.A.3., above, provides for the reasonable exploration of potential hydrocarbon accumulations in the expanded unit area and meets the requirements of 11 AAC 83.303 and 11 AAC 83.341. If Escopeta discovers oil or gas in commercial quantities, the KU Agreement should prevent the waste of oil and gas, and increase the probability of recovering hydrocarbons.
3. The KU expansion will ensure a quicker economic return to the State from hydrocarbon production from the expanded unit area.
4. The expansion of the KU will expedite exploration and development of the unit area. The unit expansion provides greater economic benefits to the State than the economic costs to the State of continuing the current numerous administrative and superior court appeals.

**C. The Protection of All Parties in Interest, Including the State**

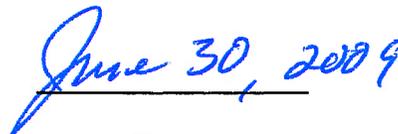
1. The KU expansion, subject to the conditions of Sections IV.A.3. and 4., above, adequately protects the public interest, and is in the State's best interest.
2. The KU expansion, subject to the conditions of Sections IV.A.3. and 4., above, meets the requirements of AS 38.05.180(p) and 11 AAC 83.303.
3. DNR complied with the public notice requirements of 11 AAC 83.311.
4. The KU expansion will not diminish access to public and navigable waters beyond those limitations imposed by law or already contained in the leases covered by the KU Agreement.
5. The KU Agreement provides for expansions and contractions of the unit area in the future, as warranted by exploration data. The Agreement thereby protects the public interest, the rights of the parties, and the correlative rights of adjacent landowners.

6. Escopeta, the sole WIO in the KU, holds sufficient interest in the unit area to exercise control of unit operations. 11 AAC 83.316(c).
7. The Amended Initial POE, subject to the terms and conditions discussed in Section IV.A.3., above, meets the requirements of 11 AAC 83.303 and 11 AAC 83.341. The Amended Initial POE, Exhibit G to the Agreement, is approved. The Unit Operator shall conduct the proposed exploration activities in accordance with the timelines specified in the plan. The Amended Initial POE describes the performance standards and diligence requirements agreed to by the State and Escopeta. Escopeta shall submit a new exploration or development plan to the Division at least 60 days before the Amended Initial POE expires.
8. Escopeta shall submit an annual status report on the Amended Initial POE to the Division. The annual status report must describe the status of projects undertaken and the work completed, as well as any proposed changes to the plan. The annual status report on the Amended Initial POE will be due at least 60 days before the anniversary date of the Amended Initial POE, or by May 1 of each year between 2010 and 2013.

*For the reasons discussed in this Findings and Decision, I hereby approve the KU expansion and renaming it the Kitchen Lights Unit, subject to the conditions set out in this Findings and Decision, which takes effect only upon: 1) Escopeta's payment of back rentals on the Corsair Unit lease and Corsair expansion leases; 2) the withdrawal of the Northern Lights Unit application; and 3) the dismissal or withdrawal of PERL's two superior court appeals and all the administrative appeals and requests, which are currently pending before the Commissioner, related to the Corsair Unit and its proposed expansion leases and the Kitchen Unit POE.*

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 Thomas E. Irwin, 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.

  
\_\_\_\_\_  
Kevin R. Banks,  
Director, Division of Oil and Gas

  
\_\_\_\_\_  
Date

## **ATTACHMENTS**

1. Exhibit A, Kitchen Lights Unit Tracts/leases
2. Exhibit B, Map of the Kitchen lights Unit Boundary
3. Exhibit G, Kitchen Lights Unit Plan of Exploration (Amended Initial POE)
4. Table 1, Kitchen Tract "A" Area Leases
5. Table 2 and 3, Corsair Tract "B" Area Leases and Northern Tract "C" Area Leases, respectively
6. Kitchen Lights unit Term Sheet
7. December 1, 2008 Division Director decision defaulting the Corsair Unit
8. January 22, 2009 DNR Commissioner decision re: Corsair Unit leases and proposed expansion leases
9. December 1, 2008 Division Director decision re: Kitchen Unit POE
10. December 18, 2008 Division proposal to from new unit
11. January 22, 2009 DNR Commissioner decision re: Corsair Unit default and expansion and Kitchen Unit POE
12. March 27, 2009 DNR Commissioner letter to appellants



| TRACT NO.<br>EXPIRATION DATE | LEASE NO.  | LEGAL DESCRIPTION   | ACRES | ROYALTY | LESSEES OF RECORD                                 | WORKING INTEREST | ORRI                |
|------------------------------|------------|---|-------|---------|---|------------------|---------------------|
| 4<br>Held by Unit            | ADL-389190 | <u>T. 09 N., R. 12 W., S.M.</u><br>Sec. 13, Protracted, All<br>Sec. 14, Protracted, All<br>Sec. 23, Protracted, All<br>Sec. 24, Protracted, All   | 2,560 | 12.50%  | Escopeta Oil Company, LLC<br>Taylor Minerals, LLC | 75.00%<br>25.00% | 17.50000<br>0.00000 |
| 5<br>Held by Unit            | ADL-389191 | <u>T. 09 N., R. 12 W., S.M.</u><br>Sec. 15, Protracted, All<br>Sec. 21, Protracted, All<br>Sec. 22, Protracted, All   | 1,920 | 12.50%  | Escopeta Oil Company, LLC<br>Taylor Minerals, LLC | 75.00%<br>25.00% | 17.50000<br>0.00000 |
| 6<br>Held by Unit            | ADL-390548 | <u>T. 09 N., R. 10 W., S.M.</u><br>Sec. 19, Protracted, All<br>Sec. 20, Protracted, All<br>Sec. 21, Protracted, All<br>Sec. 29, Protracted, All<br>Sec. 30, Protracted, All   | 3,193 | 12.50%  | Escopeta Oil Company, LLC<br>Taylor Minerals, LLC | 75.00%<br>25.00% | 17.50000<br>0.00000 |
| 7<br>Held by Unit            | ADL-389926 | <u>T. 09 N., R. 11 W., S.M.</u><br>Sec. 22, Protracted, All<br>Sec. 23, Protracted, All<br>Sec. 24, Protracted, All<br>Sec. 25, Protracted, All<br>Sec. 26, Protracted, All<br>Sec. 27, Protracted, All<br>Sec. 34, Protracted, All<br>Sec. 35, Protracted, All<br>Sec. 36, Protracted, All | 5,760 | 12.50%  | Escopeta Oil Company, LLC<br>Taylor Minerals, LLC | 75.00%<br>25.00% | 17.50000<br>0.00000 |
| 8<br>Held by Unit            | ADL-389925 | <u>T. 09 N., R. 11 W., S.M.</u><br>Sec. 19, Protracted, All<br>Sec. 20, Protracted, All<br>Sec. 21, Protracted, All<br>Sec. 28, Protracted, All<br>Sec. 30, Protracted, All<br>Sec. 33, Protracted, All   | 3,786 | 12.50%  | Escopeta Oil Company, LLC<br>Taylor Minerals, LLC | 75.00%<br>25.00% | 17.50000<br>0.00000 |
| 9<br>Held by Unit            | ADL-389192 | <u>T. 09 N., R. 12 W., S.M.</u><br>Sec. 25, Protracted, All<br>Sec. 26, Protracted, All<br>Sec. 35, Protracted, All<br>Sec. 36, Protracted, All   | 2,560 | 12.50%  | Escopeta Oil Company, LLC<br>Taylor Minerals, LLC | 75.00%<br>25.00% | 17.50000<br>0.00000 |

Kitchen Lights Unit. Exhibit A

| TRACT NO.                             | LEASE NO.    | LEGAL DESCRIPTION   | ACRES         | ROYALTY | LESSEES OF RECORD                                 | WORKING INTEREST | ORRI                |
|---------------------------------------|--------------|---|---------------|---------|---|------------------|---------------------|
|                                       |              | <b>EXPIRATION DATE</b>  |               |         |   |                  |                     |
| 10                                    | ADL-389193   | <u>T. 09 N., R. 12 W., S.M.</u><br>Sec. 27, Protracted, All<br>Sec. 28, Protracted, All<br>Sec. 33, Protracted, All<br>Sec. 34, Protracted, All   | 2,560         | 12.50%  | Escopeta Oil Company, LLC<br>Taylor Minerals, LLC | 75.00%<br>25.00% | 17.50000<br>0.00000 |
|                                       | Held by Unit |   |               |         |   |                  |                     |
| 11                                    | ADL-389914   | <u>T. 08 N., R. 11 W., S.M.</u><br>Sec. 03, Protracted, All   | 634           | 12.50%  | Escopeta Oil Company, LLC<br>Taylor Minerals, LLC | 75.00%<br>25.00% | 17.50000<br>0.00000 |
|                                       | Held by Unit |   |               |         |   |                  |                     |
| 12                                    | ADL-389915   | <u>T. 08 N., R. 11 W., S.M.</u><br>Sec. 04, Protracted, All   | 634           | 12.50%  | Escopeta Oil Company, LLC<br>Taylor Minerals, LLC | 75.00%<br>25.00% | 17.50000<br>0.00000 |
|                                       | Held by Unit |   |               |         |   |                  |                     |
| 13                                    | ADL-389917   | <u>T. 08 N., R. 12 W., S.M.</u><br>Sec. 02, Protracted, All<br>Sec. 03, Protracted, All<br>Sec. 10, Protracted, All   | 1,890         | 12.50%  | Escopeta Oil Company, LLC<br>Taylor Minerals, LLC | 75.00%<br>25.00% | 17.50000<br>0.00000 |
|                                       | Held by Unit |   |               |         |   |                  |                     |
| 14                                    | ADL-389918   | <u>T. 08 N., R. 12 W., S.M.</u><br>Sec. 04, Protracted, All<br>Sec. 05, Protracted, All<br>Sec. 08, Protracted, All<br>Sec. 09, Protracted, All<br>Sec. 16, Protracted, All<br>Sec. 17, Protracted, All | 3,840         | 12.50%  | Escopeta Oil Company, LLC<br>Taylor Minerals, LLC | 75.00%<br>25.00% | 17.50000<br>0.00000 |
|                                       | Held by Unit |   |               |         |   |                  |                     |
| 15                                    | ADL-389919   | <u>T. 08 N., R. 12 W., S.M.</u><br>Sec. 20, Protracted, All   | 640           | 12.50%  | Escopeta Oil Company, LLC<br>Taylor Minerals, LLC | 75.00%<br>25.00% | 17.50000<br>0.00000 |
|                                       | Held by Unit |   |               |         |   |                  |                     |
| 16                                    | ADL-391106   | <u>T. 09 N., R. 10 W., S.M.</u><br>Sec. 10, Protracted, All<br>Sec. 15, Protracted, All   | 1,280         | 12.50%  | Escopeta Oil Company, LLC                         | 100.00%          | 0.00000             |
|                                       | Held by Unit |   |               |         |   |                  |                     |
| <b>TOTAL KITCHEN TRACT "A" ACRES:</b> |              |   | <b>40,733</b> |         |   |                  |                     |

Kitchen Lights Unit, Exhibit A

| TRACT NO. | LEASE NO. | LEGAL DESCRIPTION | ACRES | ROYALTY | LESSEES OF RECORD | WORKING INTEREST | ORRI |
|-----------|-----------|-------------------|-------|---------|-------------------|------------------|------|
|-----------|-----------|-------------------|-------|---------|-------------------|------------------|------|

**KITCHEN LIGHTS UNIT, CORSAIR TRACT "B"**

**Original Corsair Unit Area, as approved on January 31, 2007**

|              |            |   |       |        |   |         |         |
|--------------|------------|---|-------|--------|---|---------|---------|
| 1            | ADL-389197 | <u>T. 10 N., R. 11 W., S.M.</u><br>Sec. 13, Protracted, All<br>Sec. 14, Protracted, All<br>Sec. 23, Protracted, All<br>Sec. 24, Protracted, All | 2,560 | 12.50% | Escopeta Oil Company, LLC<br>formerly:<br>Pacific Energy AK Op. LLC | 100.00% | 4.99999 |
| Held by Unit |            |   |       |        |   |         |         |
| 2            | ADL-389196 | <u>T. 10 N., R. 10 W., S.M.</u><br>Sec. 17, Protracted, All<br>Sec. 18, Protracted, All<br>Sec. 19, Protracted, All<br>Sec. 20, Protracted, All | 2,529 | 12.50% | Escopeta Oil Company, LLC<br>formerly:<br>Pacific Energy AK Op. LLC | 100.00% | 4.99998 |
| Held by Unit |            |   |       |        |   |         |         |
| 3            | ADL-389198 | <u>T. 10 N., R. 11 W., S.M.</u><br>Sec. 25, Protracted, All<br>Sec. 26, Protracted, All<br>Sec. 35, Protracted, All<br>Sec. 36, Protracted, All | 2,560 | 12.50% | Escopeta Oil Company, LLC<br>formerly:<br>Pacific Energy AK Op. LLC | 100.00% | 4.99999 |
| Held by Unit |            |   |       |        |   |         |         |
| 4            | ADL-389515 | <u>T. 10 N., R. 10 W., S.M.</u><br>Sec. 29, Protracted, All<br>Sec. 30, Protracted, All<br>Sec. 31, Protracted, All<br>Sec. 32, Protracted, All | 2,536 | 12.50% | Escopeta Oil Company, LLC<br>formerly:<br>Pacific Energy AK Op. LLC | 100.00% | 4.99999 |
| Held by Unit |            |   |       |        |   |         |         |

**Northern Expansion Area, as submitted on March 18, 2008, currently under Appeal**

|                |            |   |       |        |   |         |         |
|----------------|------------|---|-------|--------|---|---------|---------|
| 5              | ADL-389514 | <u>T. 10 N., R. 10 W., S.M.</u><br>Sec. 05, Protracted, All<br>Sec. 06, Protracted, All<br>Sec. 07, Protracted, All<br>Sec. 08, Protracted, All | 2,522 | 12.50% | Escopeta Oil Company, LLC<br>formerly:<br>Pacific Energy AK Op. LLC | 100.00% | 4.99999 |
| April 30, 2008 |            |   |       |        |   |         |         |
| 6              | ADL-389513 | <u>T. 10 N., R. 10 W., S.M.</u><br>Sec. 03, Protracted, All<br>Sec. 04, Protracted, All<br>Sec. 09, Protracted, All<br>Sec. 10, Protracted, All | 2,560 | 12.50% | Escopeta Oil Company, LLC<br>formerly:<br>Pacific Energy AK Op. LLC | 100.00% | 4.99999 |
| April 30, 2008 |            |   |       |        |   |         |         |

Kitchen Lights Unit, Exhibit A

| TRACT NO. | LEASE NO. | LEGAL DESCRIPTION | ACRES | ROYALTY | LESSEES OF RECORD | WORKING INTEREST | ORRI |
|-----------|-----------|-------------------|-------|---------|-------------------|------------------|------|
|-----------|-----------|-------------------|-------|---------|-------------------|------------------|------|

EXPIRATION DATE

**Southern Expansion Area, as submitted on March 18, 2008, currently under Appeal**

|   |                   |   |       |        |   |         |         |
|---|-------------------|---|-------|--------|---|---------|---------|
| 7 | ADL-389507        | <u>T. 09 N., R. 11 W., S.M.</u><br>Sec. 01, Protracted, All<br>Sec. 02, Protracted, All<br>Sec. 03, Protracted, All<br>Sec. 10, Protracted, All<br>Sec. 11, Protracted, All<br>Sec. 12, Protracted, All<br>Sec. 13, Protracted, All<br>Sec. 14, Protracted, All<br>Sec. 15, Protracted, All | 5.736 | 12.50% | Escopeta Oil Company, LLC<br>formerly:<br>Pacific Energy AK Op. LLC | 100.00% | 4.99999 |
|   | April 30, 2008    |   |       |        |   |         |         |
| 8 | ADL-389923        | <u>T. 09 N., R. 10 W., S.M.</u><br>Sec. 04, Protracted, All<br>Sec. 05, Protracted, All<br>Sec. 06, Protracted, All<br>Sec. 07, Protracted, All<br>Sec. 08, Protracted, All<br>Sec. 09, Protracted, All<br>Sec. 16, Protracted, All<br>Sec. 17, Protracted, All<br>Sec. 18, Protracted, All | 5.728 | 12.50% | Escopeta Oil Company, LLC<br>formerly:<br>Pacific Energy AK Op. LLC | 100.00% | 4.99999 |
|   | December 31, 2008 |   |       |        |   |         |         |

**TOTAL CORSAIR TRACT "B" ACRES: 26,731**

**KITCHEN LIGHTS UNIT, NORTHERN TRACT "C"**

**Original Northern Lights Unit Application, as Submitted on December 3, 2008**

|   |                   |   |       |        |   |         |          |
|---|-------------------|---|-------|--------|---|---------|----------|
| 1 | ADL-389927        | <u>T. 11 N., R. 10 W., S.M.</u><br>Sec. 23, Protracted, All<br>Sec. 24, Protracted, All | 1,280 | 12.50% | Escopeta Oil Company, LLC<br>formerly:<br>Renaissance Alaska, LLC | 100.00% | 12.50003 |
|   | December 31, 2008 |   |       |        |   |         |          |
| 2 | ADL-389928        | <u>T. 11 N., R. 10 W., S.M.</u><br>Sec. 21, Protracted, All<br>Sec. 22, Protracted, All | 1,280 | 12.50% | Escopeta Oil Company, LLC<br>formerly:<br>Renaissance Alaska, LLC | 100.00% | 12.50003 |
|   | December 31, 2008 |   |       |        |   |         |          |

Kitchen Lights Unit, Exhibit A

| TRACT NO. | LEASE NO.  | LEGAL DESCRIPTION   | ACRES | ROYALTY | LESSEES OF RECORD   | WORKING INTEREST | ORRI     |
|-----------|------------|---|-------|---------|---|------------------|----------|
|           |            | <b>EXPIRATION DATE</b>  |       |         |   |                  |          |
| 3         | ADL-389929 | <u>T. 11 N., R. 10 W., S.M.</u><br>Sec. 25, Protracted, All<br>Sec. 26, Protracted, All<br>Sec. 35, Protracted, All<br>Sec. 36, Protracted, All   | 2,560 | 12.50%  | Escopeta Oil Company, LLC<br>formerly:<br>Renaissance Alaska, LLC | 100.00%          | 12.50003 |
|           |            | December 31, 2008   |       |         |   |                  |          |
| 4         | ADL-389930 | <u>T. 11 N., R. 10 W., S.M.</u><br>Sec. 27, Protracted, All<br>Sec. 28, Protracted, All<br>Sec. 33, Protracted, All<br>Sec. 34, Protracted, All   | 2,560 | 12.50%  | Escopeta Oil Company, LLC<br>formerly:<br>Renaissance Alaska, LLC | 100.00%          | 12.50003 |
|           |            | December 31, 2008   |       |         |   |                  |          |
| 5         | ADL-390374 | <u>T. 10 N., R. 10 W., S.M.</u><br>Sec. 01, Protracted, All<br>Sec. 02, Protracted, All<br>Sec. 11, Protracted, All<br>Sec. 12, Protracted, All   | 2,560 | 12.50%  | Escopeta Oil Company, LLC<br>formerly:<br>Renaissance Alaska, LLC | 100.00%          | 12.50003 |
|           |            | September 30, 2010  |       |         |   |                  |          |
| 6         | ADL-390381 | <u>T. 11 N., R. 09 W., S.M.</u><br>Sec. 19, Protracted, All<br>Sec. 20, Protracted, All<br>Sec. 21, Protracted, All<br>Sec. 23, Protracted, All<br>Sec. 29, Protracted, All<br>Sec. 30, Protracted, All<br>Sec. 31, Protracted, All<br>Sec. 32, Protracted, All<br>Sec. 33, Protracted, All | 5,690 | 12.50%  | Escopeta Oil Company, LLC<br>formerly:<br>Renaissance Alaska, LLC | 100.00%          | 12.50003 |
|           |            | September 30, 2010  |       |         |   |                  |          |

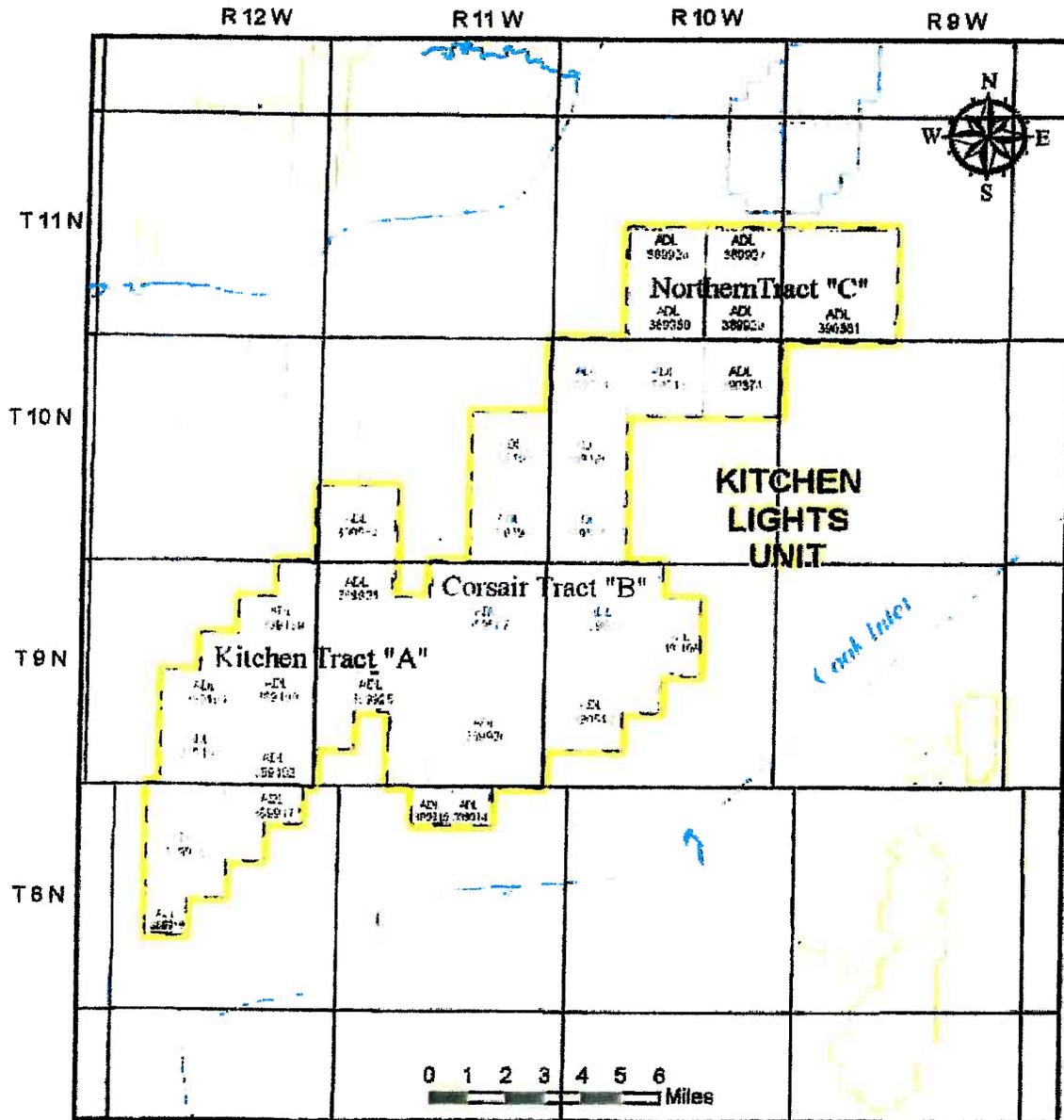
**TOTAL NORTHERN TRACT "C" ACRES: 15,930**

**TOTAL KITCHEN LIGHTS UNIT ACRES: 83,394**

Kitchen Lights Unit, Exhibit A

**KITCHEN UNIT AGREEMENT  
 FIRST EXPANSION OF THE KITCHEN UNIT AREA  
 TO BE KNOWN AS:  
 KITCHEN LIGHTS UNIT  
 STATE OF ALASKA**

**REVISED EXHIBIT "B"  
 (submitted February 18, 2009)**





March 17, 2009

Mr. Michael Kotowski  
State of Alaska  
Department of Natural Resources  
Division of Oil and Gas  
550 West 7th Avenue, Suite 800  
Anchorage, AK 99501-3560

(Email: [mike.kotowski@alaska.gov](mailto:mike.kotowski@alaska.gov))

Dear Mike:

Attached hereto is Escopeta's amended initial POE, that will replace the February 19<sup>th</sup>, 2009 POE, listed as Exhibit "G" in our February 19, 2009 Kitchen Unit expansion proposal. We are revising our application with this new Exhibit "G" proposal.

Escopeta is proposing the expansion of the existing Kitchen Unit, we do not wish to form a new unit, and the attached amended POE will become part of the unit expansion.

If you need any other information please let me know and we will get it done. Thank you once again for all the support from the DNR and all of you.

Sincerely,

A handwritten signature in blue ink, appearing to read "DSD", is written over a blue circular stamp.

Danny S. Davis

Attachment: Exhibit "G"

Attachment 3  
Page 1 of 4

**KITCHEN UNIT AGREEMENT  
FIRST EXPANSION OF THE KITCHEN UNIT AREA  
TO BE KNOWN AS:  
KITCHEN LIGHTS UNIT  
STATE OF ALASKA**

**EXHIBIT "G"  
INITIAL PLAN OF EXPLORATION**  
(submitted February 18, 2009, and amended on March 17<sup>th</sup>, 2009)

The Unit Operator, Escopeta Oil Company, LLC (EOC), shall complete an initial Five-Year Plan of Exploration for the Kitchen Lights Unit (KLU), effective January 1, 2009 to December 31, 2013.

**Years 2009-2010: Obtain all permits necessary for drilling an exploration well within the Kitchen Tract "A", loading and delivering a drilling rig, and drilling an exploration well.**

1. By June 30, 2010 EOC shall obtain all necessary regulatory permits and authorizations necessary for the spudding and drilling of an exploration well at either the East Kitchen #1, the Kitchen #1, or the Kitchen #2, including the rig-specific permits, to a bottom hole location in either ADL 389926, ADL 389924, or ADL 389917, as described in Table #1, below, to a minimum depth of 16,000 feet TVD, penetrating the Sterling, Beluga, Tyonek and Hemlock formations. Due to the need for natural gas, EOC may substitute an alternate location to develop the natural gas reserves within the Kitchen Lights Unit. EOC shall provide written notice to the Division of Oil and Gas (Division) of any alternate drilling location at least 30 days before it submits a drilling permit application to the Alaska Oil and Gas Conservation Commission (AOGCC).
2. By June 30, 2010 EOC shall have a drilling rig capable of drilling an exploration well loaded on a heavy-lift vessel and the vessel must be on its way to the Cook Inlet, Alaska.
3. If EOC fails to fulfill either of the obligations described in items # 1 and # 2, above, by June 30, 2010, the KLU will automatically terminate. EOC waives the lease extension provisions set out in 11 AAC 83.140 and the notice and hearing provisions set out in 11 AAC 83.374.
4. By December 31, 2010 EOC shall spud the exploration well at either the East Kitchen #1, the Kitchen #1, or the Kitchen #2 and continue drilling to a bottom hole location in either ADL 389926, ADL 389924, or ADL 389917, as described in Table #1, to a minimum depth of 16,000 feet TVD, penetrating the Sterling, Beluga, Tyonek and Hemlock formations. Due to the need for natural gas, EOC may substitute an alternate location to develop the natural gas reserves within the Kitchen Lights Unit. EOC shall provide written notice to the Division of any alternate drilling location at least 30 days before it submits a drilling permit application to the AOGCC.
5. If EOC fails to spud and continue drilling the exploration well described in item # 4, above, by December 31, 2010, the KLU will automatically terminate. EOC waives the lease extension provisions set out in 11 AAC 83.140 and the notice and hearing provisions set out in 11 AAC 83.374.

DSD

**Year 2011: Drill one exploration well in the Corsair Tract "B" area of the KLU.**

1. By December 31, 2011 EOC shall spud an exploration well in the Corsair Tract "B" area of the KLU and continue drilling to a minimum depth of 16,000 feet TVD, penetrating the Sterling, Beluga, Tyonek and Hemlock formations. Due to the need for natural gas, EOC may substitute an alternate location to develop the natural gas reserves within the Kitchen Lights Unit. EOC shall provide written notice to the Division of any alternate drilling location at least 30 days before it submits a drilling permit application to the AOGCC.
2. If EOC fails to spud and continue drilling the exploration well described in item # 1, above, by December 31, 2011, the KLU will automatically terminate. EOC waives the lease extension provisions set out in 11 AAC 83.140 and the notice and hearing provisions set out in 11 AAC 83.374.

**Year 2012: Drill one exploration well in the Northern Tract "C" area of the KLU.**

1. By December 31, 2012 EOC shall spud an exploration well in the Northern Tract "C" area of the KLU and continue drilling to a minimum depth of 16,000 feet TVD, penetrating the Sterling, Beluga, Tyonek and Hemlock formations. Due to the need for natural gas, EOC may substitute an alternate location to develop the natural gas reserves within the Kitchen Lights Unit. EOC shall provide written notice to the Division of any alternate drilling location at least 30 days before it submits a drilling permit application to the AOGCC.
2. If EOC fails to spud and continue drilling the exploration well as described in item # 1, above, by December 31, 2012, the KLU will automatically terminate. EOC waives the lease extension provisions set out in 11 AAC 83.140 and the notice and hearing provisions set out in 11 AAC 83.374.

**Year 2013: Drill another exploration well in the Kitchen Tract "A" area of the KLU.**

1. By December 31, 2013 EOC shall spud an exploration well at either the East Kitchen # 1, the Kitchen #1, or the Kitchen #2 and continue drilling to a bottom hole location in either ADL 389926, ADL 389924, or ADL 389917, as described in Table #1, to a minimum depth of 16,000 feet TVD, penetrating the Sterling, Beluga, Tyonek and Hemlock formations.
2. If EOC fails to spud and continue drilling the exploration well described in item # 1, above, by December 31, 2013, the KLU will automatically terminate. EOC waives the lease extension provisions set out in 11 AAC 83.140 and the notice and hearing provisions of 11 AAC 83.374.

**TABLE 1: PROPOSED WELL LOCATIONS IN KITCHEN TRACT "A"**

DSC

| <u>East Kitchen #1</u>                            | <u>Kitchen #1</u>                                 | <u>Kitchen #2</u>                                | <u>Alternate Location</u> |
|---|---|--|---------------------------|
| ADL 389926<br>T 9 N., R 11 W., S.M.<br>Section 22 | ADL 389924<br>T 9 N., R 11 W., S.M.<br>Section 18 | ADL 389917<br>T 8 N., R 12 W., S.M.<br>Section 3 | To Be Determined          |

**Additional Provisions**

1. EOC shall promptly notify the Division of EOC's receipt of the following permits or authorizations:
  - AOGCC Permit to Drill;
  - ADEC Oil Discharge Prevention and Contingency Plan (C-Plan);
  - ADNR, Division of Oil and Gas, Unit Plan of Operations Permit;
  - U.S. Corp of Engineers Section 10 Authorization for temporary placement of jack-up or drill ship; and
  - Jones Act Waiver, as necessary.
2. In accordance with Article 8.1.1 of the KLU Agreement and 11 AAC 83.341, an annual report is due that describes the status of projects undertaken and the work completed during each year of the initial POE for the KLU, as well as any proposed changes to the plan. The update to the POE must describe the applicant's proposed exploration activities, including the bottom-hole locations and depths of proposed wells, and the estimated date drilling will commence. All exploration operations must be conducted under an approved plan of exploration.
3. EOC shall submit a Second Plan of Exploration to the Division at least 60 days before the initial POE for the KLU expires. Alternatively, the Unit Operator shall request approval of the first Plan of Development, if appropriate, at least 90 days before the Initial POE expires. 11 AAC 83.341(b) and .343(c).
4. EOC shall incorporate the following terms into the next Plan of Exploration or Plan of Development: "EOC shall submit an application to form an Initial Participating Area within the KLU by December 31, 2013."

DSD

**Table 1**

***Kitchen Leases, Kitchen Tract "A" Area***

| ADL No.  | Acres         | Original<br>Royalty<br>(%) | Effective<br>Date | Term,<br>Years | Lease Num                   |                                 |
|--|---------------|----------------------------|-------------------|----------------|-----------------------------|---------------------------------|
| 390554   | 2,536         | 12.5                       | 6/1/2005          | 5              | DOG 200204<br>(Rev.10/2003) | OK                              |
| 389924   | 5,020         | 12.5                       | 1/1/2002          | 7              | DOG 200004                  |                                 |
| 389189   | 1,920         | 12.5                       | 2/1/2000          | 7              | DOG 9609 (Rev.9/99)         | P36(b)<br>Modified<br>1/31/2007 |
| 389190   | 2,560         | 12.5                       | 2/1/2000          | 7              | DOG 9609 (Rev.9/99)         | P36(b)<br>Modified<br>1/31/2007 |
| 389191   | 1,920         | 12.5                       | 2/1/2000          | 7              | DOG 9609 (Rev.9/99)         | P36(b)<br>Modified<br>1/31/2007 |
| 390548   | 3,193         | 12.5                       | 6/1/2005          | 5              | DOG 200204<br>(Rev.10/2003) | OK                              |
| 389926   | 5,760         | 12.5                       | 1/1/2002          | 7              | DOG 200004                  |                                 |
| 389925   | 3,786         | 12.5                       | 1/1/2002          | 7              | DOG 200004                  |                                 |
| 389192   | 2,560         | 12.5                       | 2/1/2000          | 7              | DOG 9609 (Rev.9/99)         | P36(b)<br>Modified<br>1/31/2007 |
| 389193   | 2,560         | 12.5                       | 2/1/2000          | 7              | DOG 9609 (Rev.9/99)         | P36(b)<br>Modified<br>1/31/2007 |
| 389914   | 634           | 12.5                       | 1/1/2002          | 7              | DOG 200004                  |                                 |
| 389915   | 634           | 12.5                       | 1/1/2002          | 7              | DOG 200004                  |                                 |
| 389917   | 1,890         | 12.5                       | 1/1/2002          | 7              | DOG 200004                  |                                 |
| 389918   | 3,840         | 12.5                       | 1/1/2002          | 7              | DOG 200004                  |                                 |
| 389919   | 640           | 12.5                       | 1/1/2002          | 7              | DOG 200004                  |                                 |
| 391106   | 1,280         | 12.5                       | 1/1/2007          | 5              | DOG 200604                  | OK                              |
| <b>Total<br/>Kitchen<br/>Tract "A"<br/>acres</b> | <b>40,733</b> |                            |                   |                |                             |                                 |

**Table 2**

***Corsair Leases, Corsair Tract "B" Area***

| ADL No.                              | Acres         | Original Royalty (%) | Effective Date | Primary Term, Years | Lease Form                                   |
|--------------------------------------|---------------|----------------------|----------------|---------------------|--|
| 389197                               | 2,560         | 12.5                 | 2/1/2000       | 7                   | DOG 9609(Rev.9/99) P36(b) Modified 1/31/2007 |
| 389196                               | 2,529         | 12.5                 | 2/1/2000       | 7                   | DOG 9609(Rev.9/99) P36(b) Modified 1/31/2007 |
| 389198                               | 2,560         | 12.5                 | 2/1/2000       | 7                   | DOG 9609(Rev.9/99) P36(b) Modified 1/31/2007 |
| 389515                               | 2,536         | 12.5                 | 5/1/2001       | 7                   | DOG 200004 P36(b) Modified 1/31/2007         |
| 389514                               | 2,522         | 12.5                 | 5/1/2001       | 7                   | DOG 200004                                   |
| 389513                               | 2,560         | 12.5                 | 5/1/2001       | 7                   | DOG 200004                                   |
| 389507                               | 5,736         | 12.5                 | 5/1/2001       | 7                   | DOG 200004                                   |
| 389923                               | 5,728         | 12.5                 | 1/1/2002       | 7                   | DOG 200004                                   |
| <b>Total Corsair Tract "B" acres</b> | <b>26,731</b> |                      |                |                     |  |

**Table 3**

***Northern Lights Leases, Northern Tract "C" Area***

| ADL No.                               | Acres         | Original Royalty (%) | Effective Date | Primary Term, Years | Lease Form    |
|---------------------------------------|---------------|----------------------|----------------|---------------------|---------------|
| 389927                                | 1,280         | 12.5                 | 1/1/2002       | 7                   | DOG 200004    |
| 389928                                | 1,280         | 12.5                 | 1/1/2002       | 7                   | DOG 200004    |
| 389929                                | 2,560         | 12.5                 | 1/1/2002       | 7                   | DOG 200004    |
| 389930                                | 2,560         | 12.5                 | 1/1/2002       | 7                   | DOG 200004    |
| 390374                                | 2,560         | 12.5                 | 10/1/2003      | 7                   | DOG 200204 OK |
| 390381                                | 5,690         | 12.5                 | 10/1/2003      | 7                   | DOG 200204 OK |
| <b>Total Northern Tract "C" acres</b> | <b>15,930</b> |                      |                |                     |               |

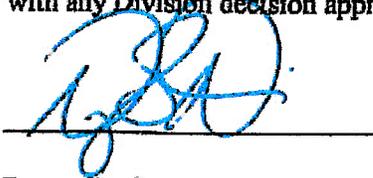
**In order for the Proposed Kitchen Lights Unit application to be complete, and as settlement of Corsair and Kitchen Unit appeals, Escopeta and the Division of Oil and Gas agree as follows:**

- 1) Escopeta and the Division will jointly agree on structure and prospect maps (reservoirs or potential hydrocarbon accumulations) by March 6, 2009.
- 2) Escopeta shall amend the unit application to align the proposed unit area to the structure and prospect maps.
- 3) The amended application must exclude any lease or portion of a lease (any Kitchen Unit lease, Corsair Unit lease, proposed Northern Lights Unit lease, or Corsair Unit expansion lease (ADLs 389513, 389514, 389507, and 389923)) not included within the structure and prospect maps. See 11 AAC 83.356(a). Where only a portion of a lease is committed to the proposed Kitchen Lights Unit, that commitment constitutes a severance of the lease as to the unitized and nonunitized portions of the lease. The nonunitized portion of the lease will be treated as a separate and distinct lease having the same effective date and term as the original lease and maintained only in accordance with the terms and conditions of the original lease, statutes and regulations. 11 AAC 83.373(a).
- 4) Escopeta agrees to waive the lease extension provisions set out in 11 AAC 83.140 for any Kitchen Unit lease and Corsair Unit lease eliminated from the application under #3, above, that is beyond its primary term. Escopeta shall immediately surrender those leases to the State when the units are voluntarily terminated. Similarly, Escopeta shall immediately surrender to the State any proposed Northern Lights Unit lease or Corsair Unit expansion lease eliminated from the application under #3, above, and that is beyond its primary term.
- 5) Escopeta shall propose timely, specific work commitments and performance standards, including, but not limited to, a drilling rig delivery date, the number of wells and spud dates, as part of a revised, initial POE, which are consistent with the consensus structure and prospect maps and conformed unit area.
- 6) Escopeta agrees that its failure to perform any obligation assumed under the Unit Agreement or revised, initial POE will result in automatic unit termination or immediate unit area contraction, whichever is the specified remedy. Escopeta agrees to waive the lease extension provisions set out in 11 AAC 83.140 and has proposed waiving the notice and hearing provisions of 11 AAC 83.374. In other words, if Escopeta fails to meet an obligation under the Unit Agreement or approved POE, the specified remedy will automatically take effect.
- 7) Escopeta shall submit a new Unit Agreement and Unit Operating Agreement or amended Kitchen Unit Agreement and Unit Operating Agreement, consistent with the terms set out above, on or before March 20, 2009.

8) Escopeta shall: 1) withdraw the Northern Lights Unit application; 2) move to dismiss all superior court appeals related to the Corsair Unit and the Corsair Unit expansion leases including PERL's February 23, 2009, superior court appeal (no case number yet) of the Commissioner's January 22, 2009, decision denying PERL's request to stay expiration of the Corsair Unit leases and the Corsair Unit expansion leases, and 3AN-09-4145 CI (PERL's appeal of the Commissioner's December 3, 2008, decision denying expansion of the Corsair Unit); and 3) withdraw, and arrange to have withdrawn, all administrative appeals pending with the Commissioner related to the Commissioner's December 1, 2008, decisions defaulting the Corsair Unit and denying further amendment to the Kitchen Unit Amended Plan of Exploration.

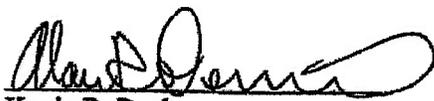
9) The Division shall consider and process the pending lease assignments regarding the leases proposed for the Kitchen Lights Unit.

10) Escopeta shall voluntarily terminate the Corsair Unit and Kitchen Unit coincident with any Division decision approving the Kitchen Lights Unit.



Danny Davis  
Escopeta Oil Company, LLC

Date: 3/2/09



Kevin R. Banks  
Director

Date: 2/27/09

# STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL & GAS

SARAH PALIN, GOVERNOR

550 WEST 7<sup>TH</sup> AVENUE, SUITE 800  
ANCHORAGE, ALASKA 99501-3550

PHONE: (907) 269-8800

FAX: (907) 269-8938

**CERTIFIED MAIL  
RETURN RECEIPT REQUESTED**

December 1, 2008

Vladimir Katic  
Executive Chairman & Chief Operating Officer  
Pacific Energy Resources Ltd.  
111 West Ocean Blvd.  
Suite 1240  
Long Beach, CA  
90802

Subject: Heavy lift vessel contract  
Corsair Unit default notice and cure

Dear Mr. Katic:

On April, 1, 2008, the State of Alaska, Department of Natural Resources (DNR), Division of Oil and Gas (Division), conditionally accepted a Corsair Unit default cure provided by Pacific Energy Resources, Ltd. (PERL), Operator of the Corsair Unit. The Division established two work commitments in that letter, one due by April 30, 2008, which PERL has satisfied, and the other due by July 31, 2008.

[B]y July 31, 2008, the Unit Operator shall provide the Division with a copy of the signed contract for the heavy lift vessel capable of transporting the Blake 151 rig to Cook Inlet Alaska and will provide evidence of payment of the 50 percent deposit required to commence that contract. That contract must specify a departure date for the heavy lift vessel with the Blake 151 rig to Cook Inlet Alaska that will allow the Unit Operator to fulfill the June 30, 2009, drilling commitment date. Upon departure, the Unit Operator shall provide the Division with an affidavit confirming the departure date.

On July 8, 2008 PERL requested that the Division approve a 60-day extension--until September 29, 2008--to the July 31, 2008 heavy lift vessel contract submittal date. PERL also requested that the

**Attachment 7  
Page 1 of 4**

*"Develop, Conserve, and Enhance Natural Resources for Present and Future Alaskans."*

Division revise the requirement that PERL "provide evidence of payment of the 50 percent deposit required to commence the contract" to "provide evidence of the payment for contract commencement in accordance with the terms of the vessel contract."

The Division orally requested that PERL clarify whether it requested an extension to the heavy lift vessel contract submittal date based upon the existing Corsair Unit, comprised of four leases, or the previously proposed expanded Corsair Unit, comprised of eight leases.

The Commissioner is currently reviewing PERL's appeal of the Division's April 30, 2008 decision denying PERL's March 18, 2008 application to expand the Corsair Unit. As part of the appeal, PERL had maintained that without unit expansion, it would not be economic to bring the jack-up rig. In a July 22, 2008 follow-up to its July 8<sup>th</sup> letter, PERL represented that its request for an extension to the deadline for submittal of the heavy lift vessel contract applied to the "existing Corsair Unit." The July 22<sup>nd</sup> follow-up letter confirmed that PERL intended to fulfill the drilling commitment agreed to in the amended Corsair Unit Plan of Exploration (Corsair Unit POE), based upon the existing Corsair Unit.

On July 30, 2008, the Division approved PERL's request to delay the heavy lift vessel contract deadline by sixty days. The Division approved the request because the delay would not impact the June 30, 2009, drilling date deadline set out in the amended Corsair Unit POE. The Division also opined that it "interprets PERL's vessel contract extension request as a repudiation of its appeal argument that delivering a rig is uneconomic with the expansion leases." The Division observed that PERL provided no evidence for its assertion that the rig delivery would be uneconomic without the expansion leases.

On September 24, 2008, the Division received yet another request to extend the contract submittal date--until October 31, 2008. In a September 29, 2008 letter, the Division approved a 32-day extension of the contract deadline, until October 31, 2008. All other provisions of the Corsair Unit POE, as amended on January 29, April 1, and July 30 2008, remained unchanged.

On October 31, 2008, PERL submitted a contract and cover letter requesting various lease "extensions and/or reinstatements" (lease requests), both of which PERL requested be held confidential. On November 6, 2008, PERL clarified the request for confidentiality, citing AS 38.05.035(a)(9)(A)-(F). For the purposes of this decision, I am assuming that PERL meant to cite the relevant portions of AS 38.05.035(a)(8)(A)-(F), which provide confidential status for "cost data and financial information." See AS 38.05.035(a)(8)(D).

The Division does not accept the contract as a fulfillment of the work commitment set out in the amended Corsair Unit POE for the following reasons.

First, the contract's condition precedent is unacceptable to the Division. It provides that if DNR does not grant PERL's October 31, 2008 lease requests by December 31, 2008, the contract is "null and void." See contract Clause 29. Similarly, the contract's lead-in language provides that it "shall become effective on the occurrence of the Leases Extension Date defined in Clause 29 hereof

provided the OWNER has a suitable vessel available for transportation of the Cargo as per Clause 29 ("*Effective Date*"). If the Effective Date does not occur, this Contract shall be null and void . . . .” In other words, the contract seems to state that it does not take effect if DNR does not approve the lease requests by December 31, 2008, or the owner does not have a suitable vessel when the requests are granted.

The amended Corsair Unit POE provides, and PERL's July 22, 2008 letter confirmed, that the contract relates to the existing Corsair Unit, not to an expanded unit or to any other state leases or lands in which PERL has or had an interest.

As stated above, the Commissioner is reviewing PERL's appeal of the Division's April 30, 2008, decision denying PERL's March 18, 2008, application to expand the Corsair Unit. The other lease requests pertain to lands or leases in which PERL either has no interests (the Kitchen Unit leases and the expired exploration license) or has existing interests either with fixed, non-extendable terms (the existing exploration license) or that are subject to extension only under certain circumstances (the four individual leases). Because these other lease requests include lands and leases in which PERL either has no interests or that DNR has no current authority to extend, DNR cannot approve the requests by December 31, 2008. Thus, the contract's condition precedent prevents the contract from ever taking effect.

Second, the Contract does not “specify a departure date for the heavy lift vessel with the Blake 151 rig to Cook Inlet Alaska that will allow the Unit Operator to fulfill the June 30, 2009, drilling commitment date.” See April 1, 2008 Division decision quoted above. Contract Clause 7.1 provides for a “Loading Window” “between March 1, 2009 and May 15, 2009.” Given the transit times set out in the transport quotes that PERL submitted on July 8, 2008 (between 46 and 169 days, weather permitting), this “window” may not allow sufficient transit time to allow PERL to fulfill the June 30, 2009 drilling commitment, as set out in the amended Corsair Unit POE. See January 29, 2008 Division decision. If the lift vessel arrives safely, probably in Seward, and unloads the Blake 151, which is welded to the lift vessel, the rig must be prepared for drilling, moved to the drilling location in Cook Inlet, and the well drilled. The June 30, 2009 drilling commitment requires PERL to “[d]rill a well to the lower Sterling and upper Beluga gas sands . . . .” See January 29, 2008 Division decision. These operations, after arrival of the rig, could take six weeks or more to complete.

And third, while the Division approved amending the 50 percent vessel deposit requirement on July 30, 2009, it anticipated some level of deposit based on PERL's July 8, 2008, letter and attached transport quotes, which set out deposit amounts at signing of between 10 and 15 percent. Contract Clause 5, however, provides for no deposit, and in fact, there is no payment due if DNR does not grant PERL's lease requests by December 31, 2008, or if there is not a suitable vessel at that time. Paying a significant deposit at the signing of a contract establishes the credibility of the depositor to maintain their side of the deal in exchange for receiving like value from the other party. Without significant deposits it is unlikely that PERL will secure a firm departure date on the heavy lift vessel schedule. The lack of deposit erodes the likelihood that the contract will commence.

Under 11 AAC 83.374(a), “[f]ailure to comply with any of the terms of an approved unit agreement, including any plans of exploration, . . . is a default under the unit agreement.” Effective December 1, 2008, the Corsair Unit is in default because PERL has not complied with the terms of the Corsair Unit POE by failing to submit an acceptable contract, as described above. The default cure period is 90 days from the date of this notice; or March 1, 2009. On or before March 1, 2009 PERL shall submit an acceptable contract, without any conditions precedent, which would enable PERL to drill a well within the Corsair Unit no later than June 30, 2009.

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 Tom Irwin, Commissioner, DNR, 550 W. 7<sup>th</sup> 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 Temple Davidson with the Division at 907-269-8784.

Sincerely,



Kevin R. Banks  
Director

Cc: Julie Houle, DNR  
Nan Thompson, DNR  
Jeff Landry, DOL

# STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

SARAH PALIN, GOVERNOR

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January 22, 2009

Mr. Vladimir Katic  
Executive Chairman & Chief Operating Officer  
Pacific Energy Resources Ltd.  
111 West Ocean Blvd., Suite 1240  
Long Beach, CA 90802

Re: Application for stay from the default of ADL Nos. 389196, 389197, 389198, and 389515,  
and expiration of ADL Nos. 389513, 389514, 389507, and 389923

Dear Mr. Katic:

I am responding to the December 23, 2008, Pacific Energy Resources, Ltd. (PERL) application, captioned as set out above.

First, PERL requests that I stay the default of ADLs 389196, 389197, 389198, and 389515, which are currently in the Corsair Unit. The Division of Oil and Gas (Division) Director defaulted the Corsair Unit on December 1, 2008, and specified a period of 90 days, until March 1, 2009, for PERL to cure the default by submitting an acceptable heavy lift vessel contract that would enable it to meet its June 30, 2009 drilling obligation. PERL filed an administrative appeal from that decision with me on December 19, 2009.

In my January 21, 2009, response to your Corsair Unit default appeal, I stated that I will take no action concerning the Corsair Unit default until after March 1, 2009. The Corsair Unit leases are not currently in default; the Unit is in default. I will take no further action concerning the Corsair Unit or its leases until after March 1, 2009, the date by which PERL, and others, must respond to the Division Director's December 18, 2008, unitization proposal. This March 1, 2009 date coincides with the date by which PERL must cure the default by submitting an acceptable vessel contract. PERL will retain these leases so long as the Corsair Unit remains in effect or they are included in a new approved "Unit X."

Second, PERL requests that I "reinstate and/or stay" the expiration of four other leases--ADLs 389513, 389514, 389507, and 389923. On March 26, 2008, PERL submitted an application to expand the Corsair Unit to include these four leases. The Division Director denied the expansion on April 30, 2008. PERL appealed the Division Director's Decision to me, which I affirmed on December 3, 2008. PERL appealed my decision to superior court on January 5, 2009. Three of the leases expired on April 30, 2008, the date that the Division Director issued his expansion denial decision. The fourth expired on December 31, 2008.

Attachment 8

Page 1 of 2

*"Develop, Conserve, and Enhance Natural Resources for Present and Future Alaskans"*

Response to Application for Stay  
Corsair Unit  
January 22, 2009

This application is the first time PERL has requested that DNR stay the expiration of these four leases. It did not request a stay in its March 26, 2008, application to expand the unit, or in its May 16, 2008, administrative appeal to me of the Division Director's decision denying the expansion. Nearly eight months after three of the leases expired and on the eve of the expiration of the fourth lease, PERL, for the first time requests, that I "reinstate and/or stay the expiration" of the leases.

DNR's final administrative decision on the unit expansion is now pending before the superior court. I will not exercise my authority to grant a stay under these circumstances. I will not, however, release these expired leases during the pendency of the appeal. If PERL, Escopeta Oil Company, LLC (EOC), and Renaissance Alaska, LLC (Renaissance) propose, on or before March 1, 2009, and the Division Director agrees, to include these expansion leases into a new "Unit X," the expired leases will be re-instated as part of that new unit. *I join the Division Director in urging PERL, along with EOC and Renaissance, to file a unit application under 11 AAC 83.306 on or before March 1, 2009.*

Sincerely,



Thomas E. Irwin  
Commissioner

cc: Jeff Landry, Department of Law  
Kevin Banks, DNR Division of Oil and Gas  
Nan Thompson, DNR Division of Oil and Gas  
Andrew E. Hoge, Hartig Rhodes Hoge & Lekisch  
Mark Landt, Renaissance Alaska, LLC  
Danny Davis, Escopeta Oil Company, LLC

SARAH PALIN, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES  
DIVISION OF OIL AND GAS

550 WEST 7<sup>TH</sup> AVENUE, SUITE 500  
ANCHORAGE, ALASKA 99501-3560  
PHONE: (907) 269-8800  
FAX: (907) 269-8938

CERTIFIED MAIL  
RETURN RECEIPT REQUESTED

December 1, 2008

Danny S. Davis  
Escopeta Energy Company, Inc.  
5005 Riverway, Suite 440  
Houston, TX 77056

RE: Kitchen Unit Plan of Exploration  
Request for Amendment of the Drilling Commitment Dates

Dear Mr. Davis,

In a December 31, 2007, letter the State of Alaska, Department of Natural Resources (DNR), Division of Oil and Gas (Division) notified Escopeta Oil Company, LLC (EOC), Operator of the Kitchen Unit, (KHU) that the unit was in default because EOC had failed to drill a well at the KHU no later than December 31, 2007, as required under the KHU Plan of Exploration (POE). The Division granted EOC a one year period to cure the default, until December 31, 2008, to

1. "...drill one exploration well, within the KHU:
  - a. to one of the three bottomhole (BHL) locations within the KHU, as set out in Table 1, below, and;
  - b. To 16000 to 20000TVD to test the sterling, Beluga, Tyonek, and Hemlock formations;

TABLE 1: PROPOSED WELL LOCATION INFORMATION

| East Kitchen #1                   | Kitchen #1                        | Kitchen#2                        |
|-----------------------------------|-----------------------------------|----------------------------------|
| ADL 389926                        | ADL 389924                        | ADL 389917                       |
| T 9 N., R 11 W., S.M.<br>Sect. 22 | T 9 N., R 11 W., S.M.<br>Sect. 18 | T 8 N., R 12 W., S.M.<br>Sect. 3 |

The cure of default period, in effect, deferred the drilling deadline by one year as requested by EOC.

**Attachment 9**  
**Page 1 of 4**

*"Develop, Conserve, and Enhance Natural Resources for Present and Future Alaskans."*

On November 20, 2008, the Division received a request from EOC to amend the KHU POE. EOC submitted a draft Amended KHU POE which proposes the following summarized extensions to the December 31, 2008 drilling commitment.

1. EOC obtain all necessary regulatory permits and authorizations for the drilling of an exploration well by December 31, 2009. If EOC fails to fulfill that commitment, the KHU will automatically terminate and EOC will pay an unspecified "potential unrealized bonus payment".
2. EOC will drill a first exploration well by December 31, 2010. If EOC fails to fulfill that commitment, the KHU will automatically terminate and EOC will pay an unspecified "potential unrealized bonus payment".
3. EOC will drill a second exploration well by December 31, 2011. If EOC fails to fulfill that commitment, the KHU will automatically terminate and EOC will pay an unspecified "potential unrealized bonus payment".
4. EOC will request approval of an Initial Participating Area within the KHU by December 31, 2010.

EOC also submitted a heavy lift vessel contract signed by EOC, Pacific Energy Resources, Ltd. (PERL), and the vessel owner, a jack up rig contract signed by PERL and Blake Offshore, LLC, owner of the Blake 151 rig, and a rig sharing agreement signed by EOC and PERL. EOC requests the Division hold these documents confidential under 11 AAC 82.810.

"The unit operator may, with the approval of the commissioner, amend an approved plan of exploration" 11 AAC 83.341 (e) Plan of Exploration. EOC's request letter incorrectly cites 11 AAC 83.343(e), Plan of Development. The Division does not approve the draft Amended KHU POE because it does not meet the criteria necessary for approval in accordance with 11 AAC 83.303(1)-(3).

Approval of the Amended KHU POE will not promote conservation of an oil or gas pool, field, or like area. 11 AAC 83.395 (1) "conservation of the natural resources of all or part of an oil or gas pool, field, or like area" means maximizing the efficient recovery of oil and gas and minimizing the adverse impacts on the surface and other resources." Escopeta has not yet drilled an exploration well which would identify a reservoir as defined by 11 AAC 83.395(6), "an oil or gas accumulation which has been discovered by drilling and evaluated by testing and which is separate from any other accumulation of oil and gas." No well has ever been drilled within the boundary of the Kitchen Unit. KHU has no production of oil or gas.

Approval of the Amended KHU POE will not promote the prevention of economic and physical waste and does not provide for protection of all parties including the state. EOC describes having "expended a very significant amount of financial and physical resources" and requests approval to "protect the vested interests of both EOC and PERL". EOC successfully bid upon leases, which when issued bound EOC to certain terms and conditions including a specific primary term which gave EOC the sole right to retain that acreage for seven years, to conduct oil and gas exploration work. Term 4(b) of the Kitchen Unit leases describes the conditions under which the lease may be

extended beyond primary term by unitization. The Division approved the formation of the Kitchen Unit, despite the absence of drilling in the leases' primary term, because it relied on the future benefit provided by fulfillment of work commitments agreed upon in the KHU POE; to bring a jack-up to Cook Inlet and drill an exploration well. In exchange for the approval of the KHU and extension of the leases' primary terms, EOC agreed to bring a jack-up to Cook Inlet and drill a well. The goal of unitization and work commitments is not to protect vested interests, but to protect the interest of all parties.

EOC submitted the confidential vessel, rig, and rig sharing contracts to demonstrate progress made in fulfillment of the work commitment, to cure the default. The Division does not accept the contract submittals as demonstrating progress.

The heavy lift vessel contract is the same confidential contract submitted by PERL to fulfill the amended Corsair Unit POE October 31, 2008 work commitment. The Division did not accept that contract as a fulfillment of the work commitment set out in the amended Corsair Unit POE, and the Division does not accept that contract here for the same reasons, see attached letter from the Division to PERL, dated December 1, 2008. The Division does not accept the rig sharing contract signed by EOC and PERL for similar reasons: the rig sharing contract does not provide an effective date, (the contract does not "commence"), does not require any deposit from EOC to PERL, and does not represent a firm commitment between the parties, as stated in the agreement itself.

The draft amended KHU POE proposes that EOC will obtain all the necessary permits to drill a well by December 31, 2009. That EOC has still not yet obtained permits for the promised well, despite the extension of the drilling date by one year, does not demonstrate EOC's progress in fulfillment of the work commitment.

The extension request from EOC also discusses the potential waste of the physical resources of the state. EOC believes that if the KHU terminates, the time and effort of the state to review, adjudicate, approve and oversee the unit to date would be wasted. EOC also observes that if the unit terminates, the KHU leases would not be available for competitive bid until the May 2010 lease sale at earliest due to

"the time necessary to approve the 2009 Cook Inlet Areawide Best Interest finding ("BIF"), the potential appeals and litigation associated with the BIF, the subsequent appeal of the KHU POE modification denial (this request), and the necessary title research and time restraints necessary to include the KHU leases in a any upcoming lease sale, ..."

Contemplating future appeals does not form a rational basis for approving extensions to work commitments.

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

December 1, 2008

Page 4

AAC 02.040 (c) and (d), and may be mailed or delivered to Tom Irwin, Commissioner, DNR, 550 W. 7<sup>th</sup> 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 Temple Davidson with the Division at 907-269-8784.

Sincerely,



Kevin R. Banks

Director

cc: Jeff Landry, DOL  
Julie Houle, DOL

**Division of Oil and Gas  
proposal to  
Escopeta, PERL, ConocoPhillips, and  
Renaissance**

**December 18, 2008**

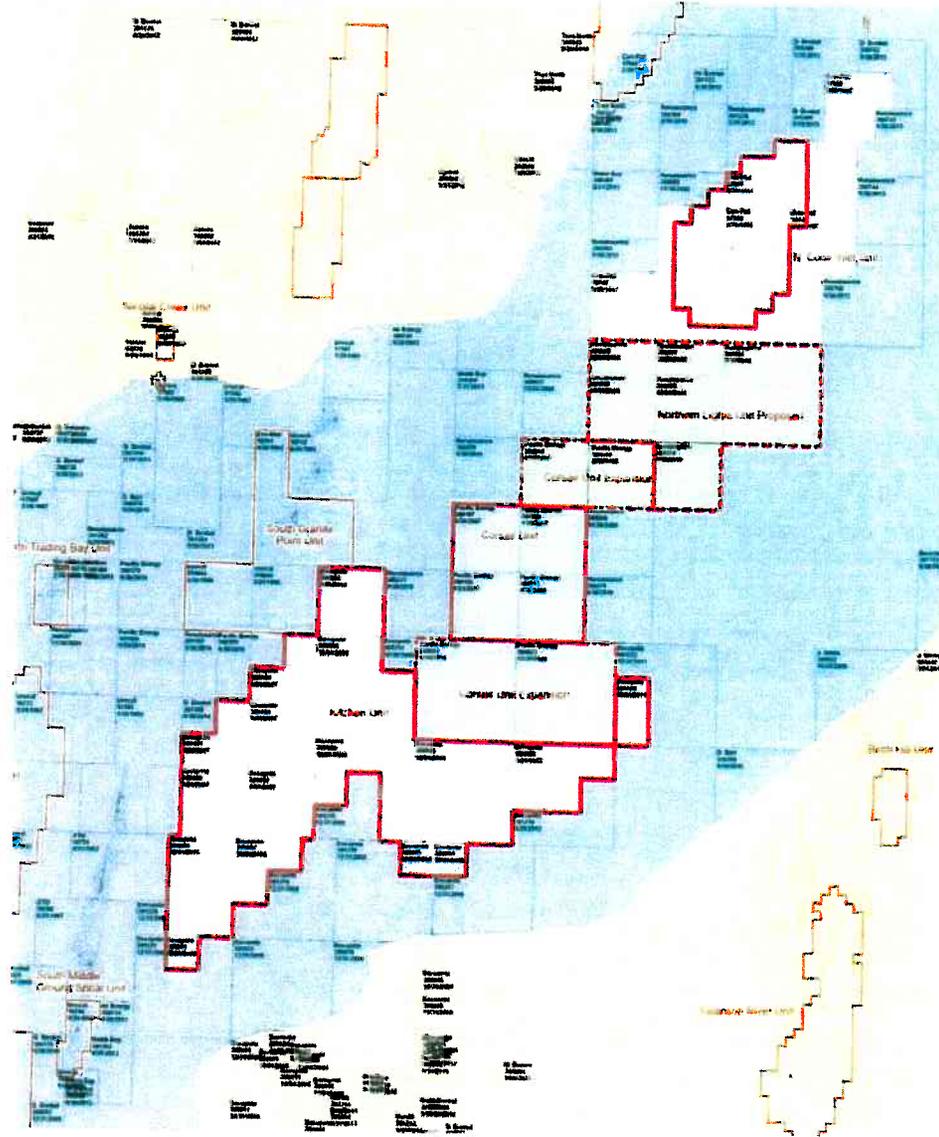


# Cook Inlet Unitization

## Meeting Agenda

- **Welcome**
- **Introductions**
  - Pacific Energy
  - Escopeta
  - Renaissance
  - ConocoPhillips
  - DNR
  
- **Current Status**
- **Proposal**
  
- **Discussion**

# Cook Inlet Offshore



# 12/18/2008

## Current Status

- Corsair Unit in default, appeals pending
- Kitchen Unit in default, must drill by 12/31/2008
- Proposed Northern Lights Unit application pending
  
- All have issues
  - Deadlines imminent
  - In default
  - Appeals
  - Leases due to expire
  - Unmet commitments - rig and drilling commitments
  - Overlapping timing - rig and drilling commitments
  
- Drilling rig needed
- Same general trend

# Path Forward

- **New Unit formation: X Unit**
  - DNR to grant limited relief to each party
  
- **Voluntary Termination of existing Units, withdrawal of appeals and proposals**
  - Kitchen Unit voluntary termination, effective 3/1/2009
  - Corsair Unit voluntary termination, effective 3/1/2009
  - Renaissance withdraws the Northern Lights Unit application
  
- **On or before 3/1/2009**
  - Form New Unit
  - Unit Agreement
  - Initial Plan of Exploration
  - Supporting commercial agreements between the parties
  - Joint Interest Operating Agreement
  - Twice monthly written status reports

# Intent of Proposal

- Get parties working together with a single unit operator
- Consensus structure maps and prospect maps for unit area
- Align timelines in all units and leases
- Avoid involuntary unit terminations
- Bring jack-up to Cook Inlet
- Find and develop oil and gas in Cook Inlet

# Terms and Conditions

- JOA and Initial POE minimum requirements:
  - Consensus structure and prospect maps
  - Timely specific work commitments
  - Jack-up rig and heavy lift vessel contracts acceptable to the DNR
  - Jack-up drill rig capable of drilling wells specified in POE, en route to Cook Inlet no later than 3/15/2009
  - Spud first well on or before 6/30/2009
  - Spud second well on or before 5/1/2010
  
- Signed UA and JOA suitable to DNR due by 3/1/2009
  
- If DNR approves the UA and JOA, but the parties fail to perform any obligation assumed under the UA or Initial Unit POE, the joint unit will automatically terminate and the Parties agree to waive the extension provisions of 11 AAC 83.140 and the notice and hearing provisions of 11 AAC 83.374 regarding the lands eliminated from the unit.

# STATE OF ALASKA

## DEPARTMENT OF NATURAL RESOURCES OFFICE OF THE COMMISSIONER

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January 22, 2009

Ms. Christina Beaty  
7420 Solarset Circle  
Anchorage, AK 99507

Mr. Robert Stanton  
3840 Gunwale Circle  
Anchorage, AK 99516

Mr. Danny S. Davis  
Escopeta Oil Company, LLC  
5005 Riverway, Suite 440  
Houston, TX 77056

Mr. Brian L. Webb, FF2, MICP, CCEMT-P  
SMSgt, USAF, retired  
7430 Solarset Circle  
Anchorage AK 99507-2883

Mr. Michael J. Droege  
1605 Sanya Circle #3  
Anchorage AK 99508-3522

Mr. Bruce Webb  
P.O. Box 113141  
Anchorage, AK 99511

Mr. Thane Humphrey  
Business Relationship Director  
The Proteros Group LLC  
P.O. Box 872335  
Wasilla, AK 99687

Mr. Edward Wrede, Sr.  
5050 Randi Court  
Eagle River, AK 99577

Mr. Vladimir Katic  
Executive Chairman & Chief Operating Officer  
Pacific Energy Resources Ltd.  
111 West Ocean Blvd.  
Suite 1240  
Long Beach, CA 90802

Re: Corsair Unit Default Notice and Cure Appeals and Stay Request  
Kitchen Unit Amended Plan of Exploration Appeals  
Corsair Unit Expansion Denial Requests for Reconsideration

Dear Ms. Beaty and Mssrs. Davis, Droege, Humphrey, Katic, Stanton, B.L. Webb, B. Webb, and Wrede :

On December 1, 2008, the State of Alaska, Department of Natural Resources (DNR), Division of Oil and Gas (Division) Director, issued decisions defaulting the Corsair Unit (Corsair Unit default),

and denying further amendment to the Kitchen Unit Amended Plan of Exploration (Kitchen Unit amendment denial). On December 3, 2008, I issued my Findings and Decision, affirming the Division Director's decision denying the first expansion of the Corsair Unit.

The DNR Commissioner's Office has received the following appeals and requests for reconsideration concerning these decisions.

1. On December 15, 2008, from Robert Stanton
  - a. Request for Reconsideration of the Commissioner's Decision affirming the Division Director's Decision denying the First Expansion of the Corsair Unit
  - b. Appeal of the DNR Division Director's Decision defaulting the Corsair Unit
  - c. Appeal of the Division Director's Decision denying further amendment of the Kitchen Unit Amended Plan of Exploration
2. On December 16, 2008, from Christina Beaty, Michael J. Droege, Thane Humphrey and Edward Wrede, Sr.
  - a. Request for Reconsideration of the Commissioner's Decision affirming the Division Director's Decision denying the First Expansion of the Corsair Unit
  - b. Appeal of the DNR Division Director's Decision defaulting the Corsair Unit
  - c. Appeal of the Division Director's Decision denying further amendment of the Kitchen Unit Amended Plan of Exploration
3. On December 18, 2008, from Brian L. Webb, FF2, MICP, CCEMT-P
  - a. Request for Reconsideration of the Commissioner's Decision affirming the Division Director's Decision denying the First Expansion of the Corsair Unit
  - b. Appeal of the DNR Division Director's Decision defaulting the Corsair Unit
  - c. Appeal of the Division Director's Decision denying further amendment of the Kitchen Unit Amended Plan of Exploration
4. On December 19, 2008, from Pacific Energy Resources, Ltd. (PERL)
  - a. Appeal of the DNR Division Director's Decision defaulting the Corsair Unit
  - b. Request to Stay the Division Directors Default Decision
5. On December 19, 2008, from Escopeta Oil Company, LLC (EOC)
  - a. Request for Reconsideration of the Commissioner's Decision affirming the Division Director's Decision denying the First Expansion of the Corsair Unit
  - b. Appeal of the DNR Division Director's Decision defaulting the Corsair Unit
  - c. Appeal of the Division Director's Decision denying further amendment of the Kitchen Unit Amended Plan of Exploration
6. On December 22, 2008, from Bruce D. Webb for Webb Exploration and Production, LLC, Webb Petroleum Services, Alaskan Crude Corporation, The Ridge Development Company and Executive realty
  - a. Request for Reconsideration of the Commissioner's Decision affirming the Division Director's Decision denying the First Expansion of the Corsair Unit

Response to Appeals and Requests for Stay  
Corsair, Kitchen and proposed Northern Lights Units  
January 22, 2009

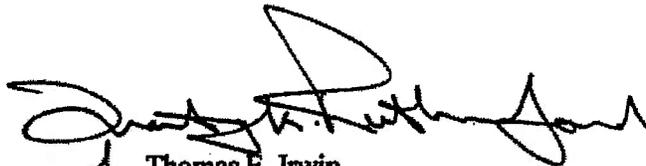
- b. Appeal of the DNR Division Director's Decision defaulting the Corsair Unit
- c. Appeal of the Division Director's Decision denying further amendment of the Kitchen Unit Amended Plan of Exploration

You have timely filed your appeals from the Director's Decisions on the Corsair Unit default and the Kitchen Unit amendment denial under 11 AAC 02.040. I will take no action with respect to those two appeals until after March 1, 2009, the date by which PERL must cure the Corsair default and the date by which the Division Director requested that PERL, EOC, and Renaissance Alaska, LLC (Renaissance), which has applied to form the Northern Lights Unit, respond to his proposal that these three companies apply to unify all these properties. *See Attachment.* In any event, I will take no action to terminate the Corsair Unit or the Kitchen Unit without first providing notice and a reasonable opportunity to be heard to PERL and EOC under 11 AAC 83.374(c). *I join the Division Director in urging the companies to file a unit application under 11 AAC 83.306 on or before March 1, 2009.*

My December 3, 2008, Findings and Decision affirming the Division Director's Decision denying the First Expansion of the Corsair Unit is DNR's final administrative decision on that application. On January 5, 2009, PERL appealed my decision to the superior court. *See 11 AAC 02.020(b).* A person may not both appeal and request reconsideration of a decision. *See 11 AAC 02.010(g).* Thus, I will not reconsider my expansion denial decision. I will not, however, attempt to re-lease these expired leases during the pendency of PERL's appeal. If PERL, EOC, and Renaissance propose, on or before March 1, 2009, and the Division Director agrees, to include these expansion leases into a new "Unit X," the expired leases will be re-instated as part of that new unit.

Finally, your Corsair Unit default and Kitchen Unit expansion denial appeals do not relieve any of the lessees from the obligation to pay existing Corsair Unit and Kitchen Unit lease rentals as set out in the leases.

Sincerely,



Thomas E. Irwin  
Commissioner

cc: Jeff Landry, Department of Law  
Kevin Banks, DNR Division of Oil and Gas  
Nan Thompson, DNR Division of Oil and Gas  
Andrew E. Hoge Hartig Rhodes Hoge & Lekisch, P.C.  
Mark Landt, Renaissance Alaska, LLC

Attachments:

1. Division of Oil and Gas Meeting Handout, December 18, 2008

# STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES  
OFFICE OF THE COMMISSIONER

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March 27, 2009

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Mr. Robert Stanton  
3840 Gunwale Circle  
Anchorage, AK 99516

Mr. Danny S. Davis  
Escopeta Oil Company, LLC  
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Houston, TX 77056

Mr. Brian L. Webb, FF2, MICP, CCEMT-P  
SMSgt, USAF, retired  
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P.O. Box 113141  
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Business Relationship Director  
The Proteros Group LLC  
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5050 Randi Court  
Eagle River, AK 99577

Mr. Vladimir Katic  
Executive Chairman & Chief Operating Officer  
Pacific Energy Resources Ltd.  
111 West Ocean Blvd.  
Suite 1240  
Long Beach, CA 90802

Re: Corsair Unit Default Notice and Cure Appeals and Stay Request  
Kitchen Unit Amended Plan of Exploration Appeals  
Corsair Unit Expansion Denial Requests for Reconsideration

Dear Ms. Beaty, Mr. Davis, Mr. Droege, Mr. Humphrey, Mr. Katic, Mr. Stanton, Mr. B.L. Webb,  
Mr. B. Webb and Mr. Wrede:

On January 22, 2009, I responded to your various above-captioned appeals and requests. I told you  
then that I would take no action on your Corsair Unit default appeals and Kitchen Unit Plan of

*"Develop, Conserve, and Enhance Natural Resources for Present and Future Alaskans"*

Attachment 12  
Page 1 of 2

March 26, 2009  
Page 2 of 2

Exploration amendment denial appeals until March 1, 2009, and would not reconsider my decision to deny expansion of the Corsair Unit.

As you may know, on February 19, 2009, Escopeta Oil filed an application with the Division of Oil and Gas to expand the Kitchen Unit to include the Corsair Unit leases, the Corsair Unit expansion leases, and the proposed Northern Lights Unit leases. The expanded unit is named the Kitchen Lights Unit. The Division is currently processing that application and will notice it for public comment in the near future. If the Division approves the application to include all the proposed leases in the expanded unit, then all the leases that are the subject of your appeals and requests would be included in the Kitchen Lights Unit. This approval would make your appeals and requests moot.

As part of any decision to approve this unit expansion, I want to ensure that the above-captioned appeals and requests will be withdrawn. To that end, please sign and date the following statement and return it to me within 10 business days of the date of this letter.

I have appealed, requested a stay, and/or requested reconsideration of certain Division of Oil and Gas and DNR Commissioner decision(s), as set out more fully in the attached January 22, 2009, DNR Commissioner letter to me. If the Division of Oil and Gas approves Escopeta Oil's application to include the leases that are the subject of my appeal(s), stay request, and/or reconsideration request within the proposed Kitchen Lights Unit, I will withdraw my appeal(s), stay request, and/or reconsideration request within 10 business days of the date of the Division's decision approving the application.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
Print name

If you have any questions regarding this letter and request, please contact Division unit manager Mr. Mike Kotowski at 269-8800.

Sincerely,

  
Thomas E. Irwin  
Commissioner

Attachment: January 22, 2009 DNR Commissioner's letter to appellants

Cc: Kevin Banks, Division Director  
Mike Kotowski, Division unit manager  
Jeff Landry, Dept. of Law

Attachment 12  
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