STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL & GAS

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February 3, 2006

J. Patrick Foley
Manager – Land, Commercial, and Regulatory Affairs
Pioneer Natural Resources Alaska, Inc.
700 G Street, Suite 600
Anchorage, Alaska 99501

Re: Ooguruk Development Royalty Modification Application Final Finding and Determination, North Slope, Alaska.

Dear Mr. Foley:
Attached you will find a copy of the Ooguruk Development Royalty Modification Application Final Finding and Determination, North Slope, Alaska. Please carefully review this document and respond to the Department of Natural Resources with a letter acknowledging that Pioneer Natural Resources Alaska Inc. and ENI Petroleum Exploration Co. Inc. agree to the terms and conditions of the final finding and determination. The Department of Natural Resources will notify the working interest owners if any additional action is necessary to finalize the modification of the leases affected by this decision.

We look forward to seeing Pioneer and ENI move forward with Ooguruk development and working with both companies on this project as it moves forward.

Sincerely,

Tim Ryherd
Commercial Analyst
Alaska Dept. of Natural Resources

CC: Michael Menge, Commissioner, Alaska Dept. of Natural Resources
William Van Dyke, Director, DO&G
Kevin Banks, Commercial Section Chief, DO&G
Julie Houle, Resource Evaluation Section Chief, DO&G
Christopher Ruff, Unit Manager, DO&G
Terry Peterson, Natural Resource Specialist, DO&G
Jeff Landry, Assistant Attorney General, Alaska Dept. of Law

Oooguruk Development Royalty Modification Application

Final Findings and Determination of the Commissioner of the Department of Natural Resources

APPROVAL OF MODIFICATION OF ROYALTY FOR LEASES: ADLs 355036, 355037, 355038, 355039, 389950, 389952, 389954, 389958, and 389959

February 1, 2006

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9. Charter for Development of the Alaskan North Slope
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    The following attachments are included as attachments to the Confidential Economic Analysis and Internal Decision Process

    Econon One, Presentation to Legislature, August, 2005
    "Presentation On Alaska Gas Pipeline Project, Investment Decision-Making by Oil and Gas Companies"
    Pioneer Project Description, December 2004, and Commercial Models, February and March 2005.
    Initial Application for Royalty Modification, Pioneer, May 20, 2005
    Pioneer revised Proposal to Develop, August, 2005, and Economic Analyses, September and October, 2005
    Amended Application for Royalty Modification, Pioneer, November 1, 2005
    DNR Agenda April, 2005
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    DNR Flow chart of decision process metrics, summary and overview of mechanism.
    DNR Model printouts to support confidential analysis
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I. BACKGROUND

On May 20, 2005, Pioneer Natural Resources Alaska Inc. (Pioneer) as operator of the Oooguruk Unit and on behalf of itself and Armstrong Alaska, Inc. (Armstrong) submitted an application to the Commissioner of the State of Alaska Department of Natural Resources (DNR) for modification of royalty under AS 38.05.180(j)(1)(A) (Attachment 1). Pioneer submitted an amended application on behalf of itself and ENI Petroleum Exploration Co. Inc. (ENI) on November 1, 2005. This Final Findings and Determination responds to the amended application and grants royalty modification to the nine leases -- ADLs 355036, 355037, 355038, 355039, 389950, 389952, 389954, 389958, and 389959 under AS 38.05.180(j).

Pioneer had applied for royalty modification on these nine leases which overlie the Nuiqsut and Kuparuk C reservoirs. It requested that the fixed royalty rates of 12.5 percent on the four Net Profit Share (NPS) leases ADLs 355036, 355037, 355038, 355039, 16.6667 percent on the other five leases, ADLs 389950, 389952, 389954, 389958, and 389959), be reduced to the minimum rate allowed, five percent, with the NPS to remain at 30 percent on the four NPS leases.

The Commissioner published the Preliminary Findings and Determination and gave public notice of a 30-day public comment period that began on December 20, 2005, and closed at 5pm January 18, 2006, with legal advertisements in the Anchorage Daily News, The Fairbanks News-Miner, The Juneau Empire, and The Arctic Sounder (Attachment 2). The Commissioner appeared before the Legislative Budget and Audit Committee on January 12, 2006, to provide a review of the Findings and Determination, the Confidential Economic Analysis, and the administrative process. The submitted data will be held confidential under AS 38.05.035(a)(9) at the request of the lessee and the Confidential Economic Analysis and Internal Decision Process will be held confidential under the Deliberative Process Privilege. This Final Findings and Determination is final and not appealable to the court.

II. SUMMARY OF PIONEER'S APPLICATION FOR ROYALTY MODIFICATION

On May 20, 2005, Pioneer, on behalf of itself and Armstrong, submitted an application to the DNR Commissioner for modification of royalty on four leases--ADLs 355036, 355037, 355038, and 355039--under AS 38.05.180(j)(1)(A). In accordance with 11 AAC 88.105, 11 AAC 83.185, and 11 AAC 05.010(a)(10)(H) Pioneer submitted a complete application with the required $250.00 filing fee. Effective September 1, 2005, Armstrong assigned its interests in the leases to ENI and on November 1, 2005, Pioneer, on behalf of itself and ENI, submitted an amended application. The amended application requests royalty modification under AS 38.05.180(j)(1)(A) for a total of nine leases-- ADLs 355036, 355037, 355038, 355039, 389950, 389952, 389954, 389958, and 389959.

A. Lease Summary

The Division of Oil and Gas (Division) issued ADLs 355036, 355037, 355038, and 355039, effective August 1, 1983, on Competitive Oil and Gas Lease Form No. DMEM-4-83 (NET PROFIT SHARE)(REVISED May 5, 1983) DNR 10-1113, with ten-year primary terms 12.5 percent fixed royalty rate and 30 percent NPS for the State. These four leases were committed to the Kuukpik Unit, which terminated effective June 1, 2001. Prior to lease term expiration, a well was drilled on each lease, (Attachment 3), and the wells were certified capable of producing in paying quantities, which extended the leases' primary terms indefinitely.

The Division issued ADLs 389950, 389952, 389954, 389958, and 389959, effective August 1, 2002, on Competitive Oil and Gas Lease Form No. (DOG 200004) with a 16.66667 percent fixed royalty and seven-year primary terms. Effective July 11, 2003, the leases were committed in their entirety to the newly formed Oooguruk Unit (Attachment 4), which extended the primary terms.

As a result of several assignments of working and royalty interest shares, 70 percent of the working interest of each of the subject leases is held by Pioneer and 30 percent is held by ENI. Each lease has overriding royalty interest owners. Pioneer and Armstrong negotiated a farm-in agreement with ConocoPhillips Alaska, Inc. (CPAI) early in 2004. ADLs 355036, 355037, 355038, and 355039 are vertically segmented: Pioneer and ENI own 70 percent and 30 percent, respectively, of the working interest in the upper horizon of these leases. Pioneer and ENI own 47.06 percent and 20.17 percent, respectively, of the working interest in the lower horizon of ADL 355036, and Pioneer and ENI own 39.38 percent and 16.87 percent, respectively, of the working interest in the lower horizon of ADLs 355037, 355038, and 355039.

B. Project Development History

On July 16, 2002, Armstrong submitted a Plan of Operations to drill three wells on its leases, ADLs 355036, 355037, 355038, 355039, 389950, 389952, 389954, 389958, and 389959, which the Division approved on November 19, 2002. On November 20, 2002, Pioneer and Armstrong met with the Division to discuss the technical aspects of their prospect and the process to form a new unit.

Effective December 1, 2002, Armstrong assigned Pioneer 70 percent working interest in its nine leases and named Pioneer operator of the proposed unit. Subsequently, Pioneer announced plans to drill up to three wells during the 2002-2003 winter drilling season. Pioneer's primary target was the Kuparuk C sands, which had been encountered in the nearby Kuparuk River Unit to the southeast, although prospective intervals to be tested by this exploration program included, but were not limited to, the Cretaceous Middle Brookian, Cretaceous Torok, Kuparuk A, Kuparuk C, and the Jurassic Nuiqsut/Nechelik.

Pioneer submitted an application to form the Oooguruk Unit on January 31, 2003. The Division approved the formation of the Oooguruk Unit effective July 11, 2003.

On February 24, 2003, Pioneer spud its first exploration well in Alaska, the Ivik 1 well. The three exploratory wells (Oooguruk 1, Ivik 1, and Natchiq 1) drilled by Pioneer within the initial Oooguuk Unit Area satisfied the Unit Plan of Exploration. In January 2004, Pioneer and Armstrong obtained access to additional geologic and well data through the farm-in agreement with CPAI. Pioneer completed a thorough review of the new data and on May 20, 2005, submitted a formal application for royalty modification on ADLs 355036, 355037, 355038, and 355039. Pioneer planned to file a unit expansion application with the Division on June 15, 2005.

On August 17, 2005, Pioneer submitted a copy of a written Proposal to Develop to the Division. Under the Oooguruk Unit Operating Agreement, the Operator is required to submit a formal written Proposal to Develop to the Working Interest Owners (WIO) of the Unit. Pioneer continued refining its geologic interpretation and economic model for the development and submitted an amended application for royalty modification on November 1, 2005. Pioneer is currently working with the Division to develop a complete unit expansion application. Pioneer intends to apply to establish two participating areas within the unit (Figures 2A and 2B, Attachment 5).

C. Royalty Modification Request

The amended application requests that the royalty rate for ADLs 355036, 355037, 355038, and 355039 be modified from a fixed royalty rate of 12.5 percent with a 30 percent net profit share to the State to a five percent royalty rate and a 30 percent NPS to the State and that the royalty rate for ADLs 389950, 389952, 389954, 389958, and 389959 be modified from a fixed royalty rate of 16.6667 percent to a fixed royalty rate of five percent. The application also requests that "the account balance for payback determination of the NPSL be set at $80,000,000, which is the sum of all monies that have been spent to date within the proposed Oooguruk Unit." Pioneer also requests "Oooguruk [be] treated as separate and distinct from KPA (Kuparuk Participating Area) for ELF factor calculation, resulting in a severance tax that is effectively zero."

III. SUMMARY OF ROYALTY MODIFICATION AUTHORITY AS 38.05.180(J) (1) (A), (2), (3), (4) (A), (5)

A. Royalty Modification Requirements

AS 38.05.180(j)(1)(A) authorizes the DNR Commissioner to provide for royalty modification on individual leases, leases unitized as described in (p) of this section (AS 38.05.180), leases subject to an agreement described in (s) or (t) of this section (AS 38.05.180), or interests unitized under AS 31.05 to allow for production from an oil or gas field or pool if

1. the oil or gas field or pool has been sufficiently delineated to the satisfaction of the Commissioner;
2. the field or pool has not previously produced oil or gas for sale; and
3. oil or gas production from the field or pool would not otherwise be economically feasible.
4. Under AS 38.05.180 (j)(2), the Commissioner may not grant a royalty modification unless the lessee or lessees requesting the royalty modification make a clear and convincing showing that a royalty modification meets the three requirements set out above and is in the best interests of the State.

B. Royalty Modification Terms

1. Under AS 38.05.180(j)(3) the royalty modification terms must provide for an increase or decrease or other modification of the State's royalty share by a sliding scale royalty or other mechanism that shall be based on a change in the price of oil or gas and may also be based on other relevant factors such as a change in production rate, projected ultimate recovery, development costs, and operating costs.
2. Under AS 38.05.180 (j)(4)(A) a royalty modification may not be granted for the field or pool if the royalty modification would result in a royalty rate of less than five percent in amount or value of the production removed or sold from a lease or leases covering the field or pool.
3. Under AS 38.05 180(j)(5) a royalty reduction must include an explicit condition that the royalty reduction is not assignable without the prior written approval. The Commissioner shall, in the preliminary and final findings and determinations, set out the conditions under which the royalty reduction may be assigned and may not grant a royalty reduction without an explicit condition that the royalty reduction is not transferable.

IV. FINAL ROYALTY MODIFICATION REQUIREMENTS AND TERMS

A. Royalty Modification Requirements

1. Pioneer's application for royalty modification on ADLs 355036, 355037, 355038, 355039, 389950, 389952, 389954, 389958, and 389959 meets the requirements set out in AS 38.05.180(j)(1)(A). Pioneer paid the filing fee and submitted a complete application for the royalty modification including financial and technical data that meet the requirements of 11 AAC 88.105, 11 AAC 83.185, 11 AAC 05.010(a)(10)(H), and AS 38.05.180(j)(6).

2. The Cretaceous Kuparuk C and Jurassic Nuiqsut pools in the Oooguruk field have been sufficiently delineated to the satisfaction of the Commissioner for the purpose of granting royalty modification; the pools have not previously produced oil or gas for sale; and oil or gas production from the pools would not otherwise be economically feasible.

3. Pioneer has made a clear and convincing showing that a royalty modification meets the requirements of AS 38.05.180(j)(1)(A), and is in the best interests of the State.

B. Royalty Modification Terms

1. The Oooguruk Development royalty relief mechanism will be implemented as follows:

a. A five percent royalty rate will be in effect for production from the delineated pools until NPS payments first become due to the State from ADL 355036 as calculated under 11 AAC 83.201 – 11 AAC 83.295. The first month following the month when NPS payments first become due to the State is the month when a four-year royalty modification phase-out commences for all nine leases subject to the royalty modification.

b. At the beginning of each of the four 12-month periods following the month when NPS payments first become due to the State from ADL 355036 the royalty rate for each of the nine leases will be increased by 1.875 percent, resulting in a cumulative increase of 7.5 percent, (four years X 1.875 percent/year). At the beginning of the fourth 12-month period after NPS payments first become due to the State from ADL 355036, the fixed royalty rate for ADLs 355036, 355037, 355038, and 355039 will be restored to 12.5 percent and the NPS rate will remain at 30 percent. At the beginning of the fourth 12-month period after NPS payments first become due to the State from ADL 355036, the royalty rate for ADLs 389950, 389952, 389954, 389958, and 389959 will be immediately restored to a full 16.6667 percent.

c. No additional recapture mechanism beyond the net profit share is included in the royalty modification mechanism.

2. The Oooguruk project as set out in the amended application must be sanctioned, (in-house approval and funding), by Pioneer by December 31, 2007. If Pioneer does not provide project sanction documents and AFEs to DNR by December 31, 2007, this royalty relief is rescinded.

3. If Oooguruk project "facilities capex" (including, but not limited to island construction, surface equipment, and flowline bundle.), costs less than 75 percent of the amount set out in the amended application, $246 million, this royalty relief is rescinded.

4. The NPS lease regulations set out in 11 AAC 83.201 – 11 AAC 83.295 remain in full force and effect. However, Pioneer's request that the current unaudited NPS

lease balance of $80,000,000.00 as of January 1, 2005, be deemed true and correct and not be subject to future adjustment resulting from audit, is approved.

5. The $80,000,000.00 NPS lease balance will be allocated to the NPS leases (ADLs 355036, 355037, 355038, and 355039) pursuant to the final participating area redetermination**.**

6. Pioneer requested that "Oooguruk [be] treated as separate and distinct from KPA (Kuparuk Participating Area) for ELF factor calculation, resulting in a severance tax that is effectively zero." Severance tax issues are within the jurisdiction of the Department of Revenue and not affected by this Findings and Determination.

7. This royalty modification is not assignable without prior written approval of the Commissioner. This modification is based on the financial and technical data supplied to the Commissioner in the amended application and on Pioneer's unique showing that production would not be economical from these Oooguruk pools with the modification approved here. The Commissioner will not approve a transfer of the royalty modification unless the assignee also makes a clear and convincing showing that the modification meets the requirements of AS 38.05.180(j)(1) and is in the best interests of the State.

V. DISCUSSION OF ROYALTY MODIFICATION CRITERIA

A. Leases are eligible for consideration.

The leases meet the criteria for consideration, four of the leases proposed for royalty modification are committed to the Oooguruk Unit and five are individual leases. AS 38.05.180(j)(1) allows modification of royalty for individual leases and unitized leases.

B. The pools are sufficiently delineated.

1. Introduction

The Commissioner may grant royalty modification to allow for production from an oil or gas field or pool if the oil or gas field or pool has been sufficiently delineated to the satisfaction of the Commissioner AS 38.05.180(j)(1)(A)(i). Here, the potentially commercially recoverable reserves reside in the Cretaceous (Hauterivian) Kuparuk C sandstone and the Jurassic Nuiqsut sandstone. My review of the exploration and drilling history of the area shows that these Kuparuk and Nuiqsut reservoirs have been sufficiently delineated. Explorers have drilled and found evidence of oil deposits near the Oooguruk Unit in early exploration wells.

Subsequent explorers have drilled eight wells in the Unit. The State has certified these wells as being capable of producing oil in commercial quantities. Seismic work has further defined the pools, though much uncertainty remains. Finally, Pioneer's

evaluation of its recent drilling work supports a possibility that the Nuiqsut and Kuparuk reservoirs could yield 18 to 20 thousand barrels of oil per day (BOPD).

2. Exploration History of the Area

Two exploration wells lie within a mile of the Oooguruk Unit. The Unocal East Harrison Bay State 1 well lies due east in the northwest corner of the Kuparuk River Unit (KRU). The well was drilled in February 1977 as a straight hole to a measured depth (md) of 9,809 feet, bottoming in argillite basement. The well logs indicate the presence of about 15 feet of oil-bearing Kuparuk C sandstone around 6,171’ md (around -6,138’ true vertical depth subsea (tvdss)) that appears siderite cemented in the upper half of the section, based on the density log. The Jurassic section is present around 6,400’ to 7,958’ md (-6,367’ to -7,925’ tvdss) and appears to contain predominantly interbedded shale, siltstone and minor thin silty sandstone sequences on logs.

The second well drilled within a mile of the Oooguruk Unit, the ARCO KRU 3W-07 well, was drilled in March 1993 just south of the Oooguruk Unit. Well logs indicate the presence of 15 feet of oil-filled Kuparuk C sandstone at a depth around 10,127’ md (-5,974’ tvdss) that also appears to contain some siderite cement near the top of the interval, based on the density logs. The well was plugged and abandoned on April 12, 1993.

Another non-certified well was drilled within the Oooguruk Unit. The ARCO Kalubik 3 well, drilled in February 1998, lies in the northwest corner of the Oooguruk Unit. The well bottomed in Jurassic age rocks at a measured depth of 7,000 feet. The well encountered a 25-foot thick Kuparuk C sandstone around 6,330’ md (-6,247’ tvdss) that appears to be oil-bearing, but siderite cemented-in the upper 10 feet of the interval. Based on well logs, the top of the Jurassic section appears present just below the Lower Cretaceous Unconformity (LCU) around 6,355’ md (-6,272’ tvdss). Overall the Jurassic interval appears dominated by thin interbedded shale and siltstone sequences. An eight foot silty sand (interpreted to be the Nechelik Sandstone) is present at around 6,565’ md (-6,483’ tvdss). The well was plugged and abandoned on March 6, 1998.

3. Certified Wells in the Vicinity

Six of the eight certified wells drilled in the vicinity lie within the proposed Oooguruk Unit expansion acreage. Five of the certified wells lie on NPS leases ADL 355036, 355037, 355038, and 355039 for which Pioneer requested royalty modification. The eight wells that have been certified by the state as capable of production in paying quantities are: Exxon Thetis Island 1, in the northeast part of the Unit; ARCO Kalubik 1; and four Colville Delta wells (Texaco Colville 1, 1A, 2, and 3) that lie on the four NPS tracts. The other two certified wells, outside and to the west of the Oooguruk Unit, are the Kuukpik 3 (approximately two and one-half miles) and the Amerada Hess Corporation (AHC) Colville 25-13-6 (approximately a quarter of a mile).

The Exxon Thetis Island 1 well was spud on March 6, 1993, and plugged and abandoned on April 28, 1993. A combined co-mingled drill stem test was conducted in two intervals: an eight foot Kuparuk C sandstone present around 6,356' to 6,364' md (-6,302' to -6,310' tvdss) and a Jurassic sandstone, interpreted as Nuiqsut, from 6,404' to 6,460' md (-6,370' to -6,426' tvdss). Following acid treatment, the combined intervals flowed oil at an average rate of 154 BOPD of 24.8º API oil. Exxon also tested a sandstone within the Seabee formation at 5,576' to 5,633' md (-5,542' to -5,999' tvdss) that produced mud filtrate with a trace of oil. Exxon applied for Thetis Island Unit Well 1 certification for lease ADL 379301 on May 18, 1994. The Thetis Island well was certified as capable of production in paying quantities on February 24, 1995.

The ARCO Kalubik 1 well was spud on March 5, 1992, and plugged and abandoned on May 1, 1992. A drill stem test was conducted in the Kuparuk C sandstone from 6,085' to 6,120' md (-6,048' to -6,083' tvdss) and produced oil at a rate of 1,200 BOPD with a 450 GOR and zero percent water cut. Two other intervals were tested in the well. An upper Cretaceous sandstone (5,050' to 5,250' md) (-5,013' to -5,213' tvdss) produced oil at an average calculated rate of 10 BOPD. The Jurassic Nuiqsut sandstone was also tested from 6,385' to 6,445' md (-6,348' to -6,408' tvdss) and produced oil at a calculated rate of 336 BOPD of 23º API oil and a GOR of 232 scf/stb. ARCO applied for well certification for the Kalubik 1 well on September 8, 1997, and the well was certified by the state for the Kuparuk C sandstone effective January 21, 1998.

Southwest of the Kalubik 1 well, the Texaco Colville Delta 1, 2, and 3 wells, and the AHC Colville 25-13-6 well were certified by the state as capable of production in paying quantities on October 14, 1991, for the Jurassic Nuiqsut sandstone. In the Colville Delta 3 well, Texaco tested a Torok sandstone (5,120' to 5,183' md) (-5,087' to -5,150' tvdss) that recovered 841 barrels of 24 º API gravity oil and diesel, 2 barrels of water, and 508 thousand cubic feet of gas in 95.75 hours. A Torok test in the Texaco Colville Delta 2 well was wet. The state certified the ARCO Kuukpik 3 well as capable of production in paying quantities for the Kuparuk C and Jurassic Nuiqsut sandstones on January 12, 1998.

4. Seismic Information

The primary seismic data coverage the Division used to evaluate the Oooguruk Unit is been the WBA97 3D. This 3D survey was acquired by Western Geophysical for ARCO Alaska in 1997 (MLUP 96-009-01) and was licensed to Pioneer.

Although this 3D dataset is adequate for assessing both the distribution and potential thickness of the Kuparuk Formation for the area, the Jurassic Nuiqsut sands are, so far, poorly expressed on any available seismic dataset. This is principally because the acoustic impedance contrasts between sand-silt-shale intervals for the Jurassic section are very small, resulting in a zone of weak reflectivity for the entire interval. Some effort could be made to map the top of the Nuiqsut sands. However, the available seismic data make it impossible to reliably predict either the thickness or potential quality of the reservoir with much accuracy. An additional complication for this area is the Oooguruk

Unit's location in the onshore-offshore transition zone. Because of the rapid lateral changes in the shallow permafrost section that occur in the transition zone, depth maps for the deeper section created from seismic data can contain significant errors where well control is relatively sparse. In light of these concerns about the inadequacy of the seismic data related to the Nuiqsut accumulation and the absence of long-term production tests, we question whether the Nuiqsut reservoir is sufficiently delineated to allow determination of single point estimates of in-place or recoverable hydrocarbons. The limited ability of the seismic to describe the Nuiqsut accumulation highlights the risks associated with Pioneer's proposed development.

5. Results of Pioneer's 2003 Winter Drilling Program

Pioneer drilled three exploration wells during the winter of 2003 from ice islands in the shallow waters of the Beaufort Sea, northwest of the KRU. The three wells have Inupiat names: Ivik (walrus), Oooguruk (bearded seal) and Natchiq (seal). The Oooguruk well, a vertical hole, was completed March 29, 2003, to a depth of 6,900 feet. The Natchiq well was completed March 31, 2003, to a depth of 7,500' md (6,740' tvdss). The Ivik well was completed April 9, 2003, to a depth of 6,943' md (6,942' tvdss). (PNA, May 18, 2003).

Although Pioneer's main objective was originally the Kuparuk C sands, the company did not find commercial quantities of oil in the Kuparuk C sandstone in the three wells. Pioneer reported that: "Although all three of the wells found the sands filled with oil, they were too thin to be considered commercial . ." (PNA, March 31, 2003). However, Pioneer reported that it had encountered two "thick, oil-bearing, Jurassic-aged sands, a secondary target . ." (PNA, April 13, 2003) "very similar in geologic age, permeability, and porosity to those in the prolific, onshore Alpine field to the southwest" of the Oooguruk Unit (PNA, May 4, 2003). Because of the similarity of all three northwest Kuparuk wells drilled, Pioneer tested only the Ivik 1 well. Pioneer fractured the wellbore and the well flowed at an initial rate of approximately 1,300 BOPD. Pioneer spokeswoman Susan Spratlen summed up their concerns about the commerciality of the Oooguruk Unit: "The issue is determining the permeability, how much oil there is and what the recovery factor will be." (PNA April 6, 2003). Based on Pioneer's evaluation of the 2003 drilling results and well test in the Jurassic sands, coupled with the addition of the four Colville Delta leases acquired from CPAI that have viable Kuparuk C oil potential, Pioneer determined that the project could be commercially viable with royalty relief. Pioneer has publicly estimated that peak production for the Oooguruk project is in the range of 18,000 to 20,000 BOPD from both the Kuparuk and Nuiqsut formations combined.

6. Conclusion

The Oooguruk development area for the Kuparuk Formation has been sufficiently delineated by a combination of well, seismic, and structural control. The Kuparuk accumulation is limited to the area of sandstone deposition on the down thrown side of the Kalubik fault that is defined by seismic data and confirmed with well control. The

thickness of the Kuparuk C sandstone in the area is below definitive seismic resolution. Seismic total amplitude analysis does identify areas where the Kuparuk formation is likely to be present even when the Kuparuk interval total thickness is less than 70 feet. Reservoir parameters and productivity of the Kuparuk Formation is well known from North Slope fields where the Kuparuk sandstone is economically produced including the Kuparuk River Unit, Milne Point, Pt. McIntyre, Niakuk, Prudhoe Bay (Midnight Sun, Aurora and Borealis participating areas), and most recently in the Nanuq and Fiord pool satellites of the Colville River Unit. The size and extent of the Kuparuk accumulation in the Oooguruk Unit has been sufficiently delineated.

The extent to which the Jurassic Nuiqsut formation has been delineated remains problematic due to the lack of singular point estimates. ADL 355036 contains the Kalubik 1 well and the bulk of the Kuparuk C sandstone pool reserves also contains the best delineated Nuiqsut sandstone. Of the five certified wells that lie on the four NPS leases (ADLs 355036, 355037, 350398, and 350399) the proposed Nuiqsut pool development area contains two of the certified wells: Kalubik 1 (test rate 379 bpd, 20° API) and Colville Delta 2 (final test rate 485 bpd average for 94 hours, 24° API). Colville Delta 2 was tested the longest of all the Colville Delta wells and the operator noted that the well experienced a "rapid decline." The western edge of the proposed Nuiqsut development area is defined by seismic attribute analysis and well control. Five certified wells are distributed outside of the western edge of the proposed development area. The five certified wells include: Colville Delta 1A (test rate 273 bpd average for 39 hours, 25° API); Colville Delta 3 (test rate 290 bpd average for 100 hours, 27° API); Amerada Hess Colville Delta 25-1 (final test rate 104 bpd average for 35 hours, 26° API); and ARCO Kuukpik 3 (test rate 77 bpd average in 25 hours, 25° API). Well data from the ARCO Kalubik 3 well limits the Jurassic delineation to the north. Based on well logs, the well encountered oil bearing Kuparuk C sandstone in the upper 5 feet of the 25 foot interval. The Nuiqsut interval appears thin (approximately 35 to 40 feet of silty sandstone and the top of the formation appears to have been truncated by the LCU. The Natchiq 1 well appears to consist predominantly of clay and silt on well logs, thus defining the extent of the Nuiqsut accumulation to the east. The log character and test results from the five certified wells to the west and southwest of the Nuiqsut development area and the log character of the Kalubik 3 well to the north and the Natchiq 1 well to the east indicate that the Nuiqsut is thick but contains a high percentage of clay and siltstone. Test results provide lingering questions surrounding permeability. All successful tests in the Nuiqsut Formation all required stimulation, usually a fracture treatment and several required acid to clean up mud damage.

To the northeast of the proposed Nuiqsut development lies the Ivik 1 exploration well that tested the Nuiqsut at a rate of 600 to 1,300 BOPD of 20º API oil (total test time 95 hours). Depositional trends within the Nuiqsut interval suggest the possibility that the Nuiqsut is cleaner (with better developed sands) near the Ivik 1 and Oooguruk 1 wells (Oooguruk 1 was not tested). The Exxon Thetis Island 1 well northeast of Oooguruk Unit did test the Kuparuk C and Nuiqsut formations in a combined test that flowed at a rate of 154 BOPD of 24.7 API oil after an acid stimulation. The lack of any long term unstimulated test in the Nuiqsut formation in the Oooguruk Unit area or elsewhere on the

North Slope provides uncertainty of future Nuiqsut formation productivity. Given the thickness and distribution of the Nuiqsut sandstone, there is considerable up-side, as modeled by DNR, if the Nuiqsut becomes more sand-prone, the permeability increases, and the API gravity increases.

In conclusion, the Kuparuk Formation is adequately delineated in the Oooguruk area and is of limited areal extent. The accumulation is limited to the area along the downthrown side of the Kalubik fault. The Nuiqsut formation has been adequately delineated by well control in the four NPS leases and surrounding acreage and to a lesser extent to the northeast in the area around the Ivik 1 and Oooguruk 1 wells. The characteristic low porosity, permeability, and relatively low gravity 20-25° API combine to make it difficult to predict Nuiqsut oil productivity from the wells drilled to date and establish an adequate delineation of the Nuiqsut reservoir northeast of the Ivik 1 and Oooguruk 1 wells. Total amplitude seismic attribute analysis in the Jurassic window does not demonstrate possible sand-prone areas as well as in the Kuparuk window. More well control and long term production testing is required to further delineate the Nuiqsut formation.

C. The pools underlying the leases have not previously produced oil or gas for sale.

No production of oil or gas for sale has occurred from these pools.

D. Oil or gas production would not otherwise be economically feasible.

Pioneer has submitted financial and technical data and analyses and requested that they be held confidential in accordance with AS 38.05.035(a)(9). Thus this section does not discuss any confidential information concerning Pioneer's geologic, engineering and cost data. These documents are included and discussed in detail in the Confidential Economic Analysis and Internal Decision Process, (Attachment 10).

To obtain royalty relief the applicant must show by clear and convincing evidence that without royalty modification the project is not economically feasible. Pioneer has represented to the State that it would not do the project without royalty relief. Other companies that have owned leases in the area and explored there have not developed this prospect. Finally, and most convincingly, Pioneer has shared data with the State showing a project that without royalty modification fails to meet minimal economic targets.

Pioneer represented to the State that the Oooguruk development project was "extremely marginal, and has considerable risk of low investor returns" without royalty relief. It made the representation after modeling and studying the reservoir and estimated costs. Pioneer developed an economic model for the project that considered the field as an aggregate of production from both the Nuiqsut sand and the Kuparuk C interval. Although Pioneer identified a suitable quantity of original oil in place (OOIP) within the Nuiqsut sand, the recovery rate is predicted to be low. Furthermore, the Nuiqsut reservoir may present significant challenges to achieve even a modest recovery rate. A full assessment of Nuiqsut reservoir performance will not be possible until after

substantially all of the field infrastructure is in place, (gravel island, sub-sea pipelines, and facilities). The Kuparuk C interval contains a far lesser OOIP, but is characterized by a good recovery rate.

As its understanding of the reservoir characteristics and rock and fluid properties increased, Pioneer examined the application of enhanced oil recovery (EOR) technology, which would cost more than the waterflood project initially planned. With detailed analysis of the higher costs to apply EOR, Pioneer found that the production levels (and thus revenue) gained by EOR would still not result in economically feasible production. Pioneer's representatives said that they could not receive in-house approval and funding, ("sanctioning"), to pursue the production of the Oooguruk development area, unless the project economics improved. Pioneer proposed that royalty modification would improve revenues sufficiently to result in an economically feasible project.

The Oooguruk prospect remains undeveloped despite other companies' interest. ARCO and Texaco previously identified the Nuiqsut reservoir and determined it to be uneconomic to develop. These companies drilled wells and found producible hydrocarbons sufficient to meet the standards for certification as capable of producing in paying quantities using the paying quantities definition in 11 AAC 83.105. However, due to insufficient project economics the wells were shut-in and abandoned.

Pioneer shared its economic model of the proposed Oooguruk development with DNR. Independently, DNR also developed its own economic model of the Oooguruk development based on the confidential reservoir and cost information provided by Pioneer. Using both models, the State has examined the project's financial metrics including Net Present Value (NPV), rates of return, Expected Mean Value (EMV)[1], and years to payout under a wide variety of oil price assumptions. The methodology used by DNR is explained in Section E.

This examination reveals a stressed project at all but high prices. Without royalty modification the ANS price must average more than $40.00 per barrel before the EMV, discounted at 10 percent, turns positive. This indicator should be considered in light of the United States Department of the Interior Minerals Management Service (MMS) royalty relief regulations that require that the project fail to make between a 10 percent and 15 percent rate of return using projected prices before being considered for royalty relief[2].

In addition to demonstrating that the project is not economically feasible without royalty modification, the project should be economically feasible with royalty modification. Pioneer has stated that they will do the project if it obtains full royalty modification (a royalty rate of five percent for the life of the project). The table below shows how rates

[1] Expected Mean Value is the probability weighted average of all possible NPVs calculated in each Monte Carlo model outcome.

[2] See MMS's Appendix I to NTL No. 2002-N02, Guidelines for the Application, Review, Approval, and Administration of the Deep Water Royalty Relief Program for Pre-Act leases and post-2000 leases, February 2002, ("Guidelines") at pg. 14.

of return and NPVs are affected by royalty modification: royalty modification increases the rate of return for the project by over two percent. The modeled impact of royalty modification supports Pioneer's assertion that royalty relief makes a difference.

As discussed further in Section E of this Findings and Determination, limiting royalty relief to the period before NPSL payout followed by a four-year period when the five percent royalty rate will "ramp-up" to the original lease royalty rate, will lower Oooguruk project returns only marginally. The impact of the State's decision is shown in Table 1.

E. Economic Analysis

DNR studied the information submitted by Pioneer and designed and built its own in-house economic model for Oooguruk development (DNR Model) to independently assess the economic effects of a royalty modification for both Pioneer and the State of Alaska. Pioneer shared with the State portions of its proprietary economic model but, in the end, the State chose to use its own model that incorporated many input assumptions provided by Pioneer.

Table 1: Increase to Pioneer's Net Present Values (NPV) and Internal Rate of Return Caused by Royalty Relief

ANS Price	Pioneer Proposal		DNR's Decision	
	NPV(10) Δ($MM)	IRR Δ(%)	NPV (10) Δ($MM)	IRR Δ(%)
$20.00	17	2.0%	17	2.0%
$30.00	29	1.9%	27	1.7%
$40.00	28	1.7%	20	1.3%
$50.00	36	2.0%	19	1.3%
$60.00	44	2.2%	23	1.5%

DNR closely examined the assumptions and methods currently in use by the MMS for the Deep Water Royalty Relief Program (DWRR). The MMS has developed an in-house proprietary probabilistic economic model for Royalty Suspension Viability Program (RSVP). The applicant submits inputs for the model that define the project economics. MMS then independently analyzes the inputs and determines whether royalty relief is warranted. The royalty modification terms used by MMS provide for a sliding scale based on oil price and termination of royalty modification based on a significant change in project costs or production. Under the MMS system, decreased revenues due to royalty modification are in part recaptured through Federal Income Tax.

Where possible DNR adopted an approach similar to that of the MMS by developing an independent model and implementing a decision path using metrics from the model. DNR used the Net Profit Share lease accounting provisions, as set out in 11 AAC 83.210

– 11 AAC 83.295, which incorporate project costs, price, and production to determine the payout date. The NPS payout date will trigger the end of full royalty modification. Like MMS, DNR implemented a provision to rescind royalty modification if the project as built differs significantly in scope from the project description provided by the applicant. Unlike the MMS, the State does not have an opportunity to recapture decreased revenues due to royalty modification through increased tax revenues.[3] Additionally, the State implemented a four-year ramp-up period to transition from modified royalty to the full royalty rate.

An economic model reflects a particular view of a project's economics. The DNR Model describes the expected investment, production, price, revenue, and cost for Oooguruk development over at least a 25-year time horizon. The DNR Model incorporates the State and Federal tax and royalty fiscal system, as well as other important commercial relationships. The model provides a platform for systematic evaluation of a change in the royalty rate in terms of various financial metrics for the project including annual and cumulative discounted and undiscounted cash flow, years to payout, profit to investment ratio, NPV, EMV, rate of return on investment and profitability ratio, as well as State revenues. Also, DNR used its model to carry out sensitivity analysis of key driver assumptions and to characterize certain price, production, and cost variables in terms of probability distributions to evaluate how uncertainty among these drivers affects key project metrics and State revenues.

DNR incorporated the applicant's input data and probabilities into its model to derive independent results for the economic feasibility of the project. The DNR Model examines a range of possible inputs to derive a P50, or median, outcome from a Monte Carlo simulation. The P50 result is the value where 50 percent of the outcomes lay below this point and 50 percent of the outcomes lay above the P50 outcome. The DNR Model uses @Risk proprietary software to run the simulations and generate charts, graphs and reports used in analysis.

For example, consider the determination of the amount of original oil in place (OOIP). The applicant submitted three scenarios (X, X1, X2) that characterize the range and likelihood of possible outcomes for the key determinants of OOIP: recovery rate, water saturation, permeability, porosity, net pay and areal extent. Each OOIP determinant is assigned a probabilistic value of perhaps P90, P50 and P10. The applicant's simulations indicate that 90 percent of the results are at least equal to X, in other words, the low case. A P50 indicates that 50 percent of the results are at least equal to X1, the median case. The P10 case is the high side case. Here the results fall in the X2 range only 10 percent of the time. DNR's estimate of OOIP is calculated as a distribution of possible OOIP outcomes that takes into account the ranges and likelihoods for each of the OOIP determinants. The P50 OOIP calculated by the DNR Model directly incorporates uncertainty; it is risk weighted.

[3] In fact any benefit generated by the State by granting royalty reduction to the Oooguruk lessees is shared with the Federal government in potentially increased federal income taxes payable by the lessees.

Calculating risk weighted outcomes is critical to a full analysis of a project. Once an OOIP distribution has been determined, an estimated ultimate recovery distribution and rate profile are determined based on the applicant's reservoir simulation results. The rate profile, when combined with netback price, which is also based on a probability model, determines the revenue stream. The risk weighted cost profiles are then matched to the revenue stream. This yields an NPV distribution. The mean of the NPV distribution is the EMV for the entire project that incorporates uncertainty and can be compared "apples-to-apples" with other versions of the project.

Various what-if sensitivity analyses may be run by varying fiscal terms such as inflation, interest rate, royalty rate and discount rate. For example, using the Excel goal seek function on discount rate, the DNR Model will calculate the discount rate at which the project reaches payout in 25 years. The DNR Model can assess outcomes for any level of probability, P1, P10, P99, for example, the State's share of divisible income under the P10 case, (high side).

DNR and Pioneer models did not produce identical results. The numerous work sessions and presentations (Attachment 6) served to resolve differences in modeling between DNR and Pioneer; and the resulting DNR model reflects a substantial agreement between DNR and Pioneer on the modeling assumptions, methodologies, and results. They differ primarily in that the DNR Model includes price forecasts that accommodate the potential price volatility observed in the recent past.

DNR has received three sets of increasingly detailed input data from Pioneer. With each submission, Pioneer has narrowed the range of possible outcomes for resource, production, and cost. This reflects the increased level of knowledge that Pioneer has gained through study of the project and a more focused view of the project scope on the leases where the resources have been best delineated. DNR has used its model to analyze the series of submissions and has independently determined that the Oooguruk development, under the existing royalty rates as specified by the individual leases, is not economically feasible using the ANS price forecast from DOR Alaska Department of Revenue (DOR) as reported in the 2005 Revenue Source Book, (Attachment 7).

Once DNR has determined that, when evaluated on a stand-alone basis without any royalty modification, the project is not economic, DNR will determine whether the project is economically feasible with royalty modification. DNR cannot grant royalty modification for projects that meet the economic test on their own without royalty modification. Similarly, DNR will not grant royalty modification for projects that, even with maximum royalty modification, are still not economically feasible. DNR has concluded that this project qualifies as an economically challenged development of marginal pools, which merits royalty modification. And, DNR has concluded that the project is feasible with royalty modification.

Under AS 38.05.180(j)(3) the State must tailor its royalty relief to be sensitive to certain relevant factors including oil prices, costs, and production levels. The simplest and most reasonable way to do this is to use the NPS lease accounting provisions. In Oooguruk,

four of the nine subject leases are NPS leases. As modeled, 80 percent of potential production is on these leases. This creates a unique situation in that the NPS lease terms create a framework by which the State can share in the success of the project once the project reaches payout. Since the development area is comprised of a high proportion of NPS leases, the State has the opportunity to receive a higher proportion of total revenue than would be the case if all the leases in the development stipulated a fixed royalty rate.

The NPS leases yield 12.5 percent royalty, the State receives 12.5 percent of production in value or in kind. Once the leases reach payout, the State also receives a 30 percent share of net profits (as defined in the lease and governing regulations). NPS leases have a complex accounting methodology to determine payout. As set out in 11 AAC 83.201 – 11 AAC 83.295, three accounts are established: the Production Revenue Account, the Development Account and the Net Profit Payment Account. Any month where the balance in the Production Revenue Account exceeds the balance in the Development Account results in a credit to the Net Profit Payment Account. When the lease moves into "payout" the State receives the net profit share rate. However, the project will not reach payout until a point at which the production volumes have declined from peak rate.

The DNR modeling shows the NPS payout under DNR's proposed royalty modification will occur anywhere from eight to 28 years after production start-up, earlier at high oil prices and later at low prices. NPS payout was estimated to occur four to 10 years sooner with royalty modification than without royalty modification.

This tie-in to NPS leases enhances the State's ability to monitor the financial progress of the project, in effect verifying the modeling results and the basis for this determination. NPS auditing provides the State an existing process by which to monitor the costs and revenues of the project and thus to implement the terms of royalty modification, including the royalty ramp-up. There is no increased administrative burden to the State or the lessees to monitor the accounts as the NPS lease terms already establish the audit requirements. Also, as shown above, the NPS payout timeline that triggers the royalty rate ramp-up have a modest impact on project returns.

Under AS 38.05.180(j)(7)(A)&(B), DNR has the option of contracting with an independent consultant to provide additional analysis of a royalty modification application. The value of the contract is limited to $150,000.00, to be paid by the applicant. DNR did not contract with an outside consultant for the analysis of this application.

VI. THE ROYALTY MODIFICATION IS IN THE BEST INTERESTS OF THE STATE.

A. Impact to State Revenue

Revenue to the State from oil and gas production derives from Severance Tax, (limited by ELF), Property Tax (Ad Valorem), Corporate Income Tax (maximum rate of 9.4 percent), Production Tax Surcharge for Hazardous Spills, NPS, and Royalty Revenue.

When production occurs, the State receives a share of the production. DNR's analysis of the economics of Pioneer's project indicates that without modification of the royalty rate, the project economics would not provide sufficient return for Pioneer to pursue the development. With royalty modification, the project economics improve, which should enable Pioneer to develop the project and the State to receive revenues from Severance Tax, Property Tax, Corporate Income Tax, Hazard Surcharge, NPS and Royalty.

The Table 2 summarizes the impact on State revenue with and without royalty modification for the Oooguruk development. This table shows that the NPV of royalty revenues are $90,000,000.00 lower under the terms of this royalty modification decision, assuming the price as indicated. However, over the life of the project the State should see increases in State income tax and NPS payments under lower royalty rates so that in total the State's total revenue stream is estimated to be $68,000,000.00 lower under this decision.

Table 2: State Revenue Streams

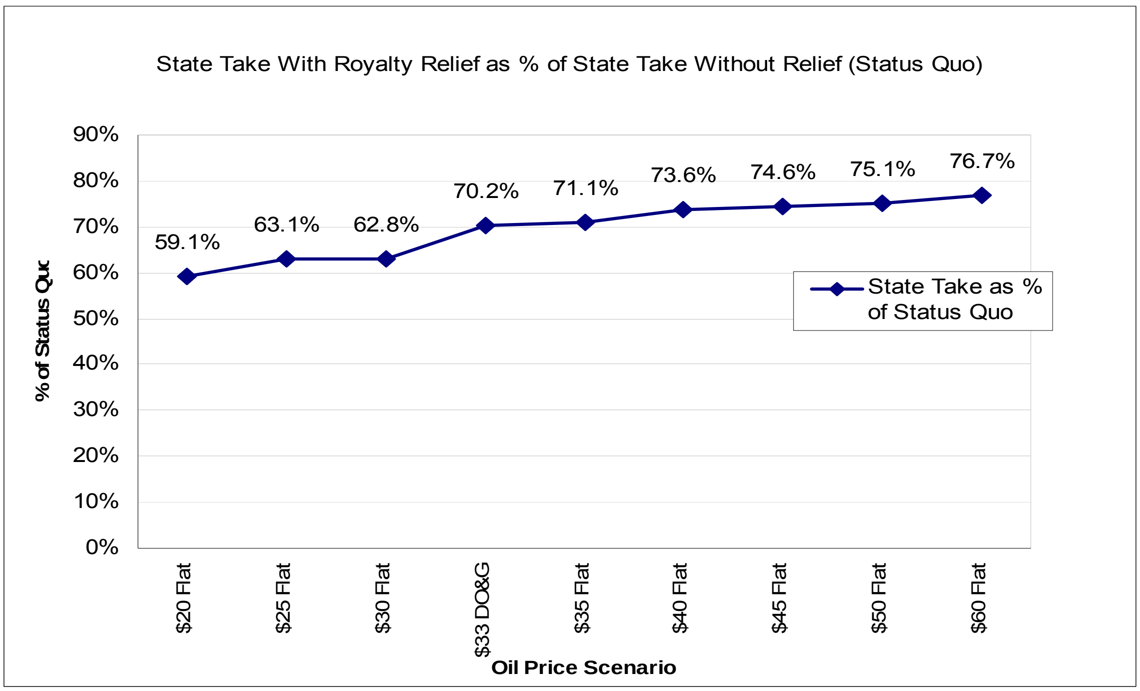
At $33 ANS WC, NPV(5)	***Without* Royalty Modification** ($ MM)	***With* Royalty Modification** ($ MM)
Royalties	144	54
Property Tax	52	52
Severance Tax	0	0
Hazard Conservation Tax	1	1
State Income Tax	22	28
Net-Profit-Share Payments	10	26
Total	228	160

Four of the leases (ADLs 3550036, 355037, 355038, and 355039) are held beyond their primary terms by wells certified capable of producing in paying quantities. If Pioneer does not develop and produce the leases, the leases may not immediately terminate and would not necessarily be available soon for a future sale. Therefore, DNR did not assume it would forego future bonus bids in the event that royalty modification was not granted.

A comparison of the Oooguruk development project using the State's model without royalty relief and with royalty relief as set out in this decision demonstrates that the royalty relief provision makes the State revenue stream less regressive. (see graph below). At low oil prices ($20.00/bbl.) the relief provisions proposed would lower the State revenue stream, including royalties, NPS payments, and taxes, by about 40 percent. Under high oil prices ($60.00/bbl.) the same relief provisions as proposed would lower the State revenue stream by about 23 percent. Thus at very high oil prices we expect to get a revenue stream that is closer to the status quo than under low oil price scenarios.

Granting of royalty modification could result in both short-term and long-term economic benefits to the State because it will enable Pioneer to pursue an otherwise uneconomic project. The additional capital funds invested in the State's economy will generate increased economic activity. The additional assessment of the hydrocarbon potential of the leases will create jobs and in-state economic activity in the short-term and, if the development activity is successful, the State will enjoy royalty and tax revenues as well as employment opportunities over the long-term.

The State's analysis of royalty relief for the Oooguruk development shows that using the ramp-up provision will result in the Working Interest Owners gaining an additional net present value of $5,000,000.00 over the life of the project, discounted at 10 percent, (see Table 3 below). This gain is $21,000,000.00 in undiscounted dollars. By implementing the ramp-up provision the State of Alaska gives up a net present value of $9,000,000.00 over the life of the project, discounted at 5 percent.



Graph of the "State Take":
"State Take" with royalty relief (as proposed) as a percent of the "State Take" without royalty relief (status quo) under a range of oil price scenarios.

Table 3	WIO NPV (10)	WIO Undisc. CF	State Rev. NPV (5)
Difference (w/ramp-up minus without)	$5MM	$21MM	($9MM)

Table 3:
Table 3 showing change in cash flows between royalty relief *with* a four-year ramp-up to royalty relief *without* a four-year ramp-up. Data are for the WIO discounted at 10 percent and the State of Alaska discounted at 5 percent.

B. Use of Infrastructure: Facility Sharing

This is the first occasion in the history of North Slope development that processing facilities will be shared by an independent producer. Pioneer intends to ship its production by pipeline to the KRU processing centers and pay fees to the owners, (BP, ConocoPhillips, and others), for the use of the facilities. The complex fee structure is outlined in detail in the North Slope of Alaska Facility Sharing Study, (Attachment 8). DNR modeled the facility sharing fees for Oooguruk production based on Pioneer's assessment of costs in the amended application. Actual fees will be compared over time through the NPS accounting provisions. The oil will be processed at the facilities in order to meet specifications required for shipment to market by TAPS.

Granting royalty modification and enabling Pioneer to develop the Oooguruk development area provides an opportunity for the owners of the KRU to achieve the goals set out in the Charter for Development of the Alaskan North Slope. On December 2, 1999, the State of Alaska, BP and ARCO signed the Charter for Development of the Alaskan North Slope (Attachment 9) in response to the proposed merger of BP and ARCO. The State recognized that the merger presented risk to the State because it would lose a certain amount of competition, diversity and balance in the exploration, development and production of North Slope resources, and the varied contributions of a leading corporate citizen. Item F of the Charter describes the goals of the State in promoting and achieving facility sharing.

C. Environmental, Social and Cultural Impacts

DNR develops lease stipulations through the lease sale process to mitigate the potential environmental, social and cultural impacts from oil and gas activity. The leases that are proposed to be granted royalty modification contain many stipulations designed to protect the environment and address any outstanding concerns regarding impacts to the area's fish and wildlife species and to habitat and subsistence activities. They address 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. The royalty modification will not result in additional restrictions or limitations on access to surface lands or to public and navigable waters. All lease

operations are subject to a coastal zone consistency determination, and must comply with the terms of both the State and North Slope Borough coastal zone management plans.

The approval of the royalty modification has no environmental impact itself. The Commissioner's approval of the royalty modification is an administrative action, which by itself does not convey any authority to conduct operations on the leases, within the development area, unit or participating area. Pioneer must still obtain approval of a Unit Plan of Operations and various permits from state agencies before initiating activities. Pioneer plans to develop the area though ice roads, which will leave no trace after they melt. The island facilities will also be constructed during the winter. The planned installation of modular facilities will further minimize impact to the environment by minimizing the required surface area of the island.

D. Summary of Public Comments

During the 30-day public comment period, December 20, 2005, through 5pm January 18, 2006, DNR received twelve comments from the public. Eleven of these voiced support for the granting of royalty modification to Pioneer's Oooguruk development. One comment asked for further clarification of the "royalty ramp-up" terms. In response to that request, DNR has clarified the ramp-up terms in this Final Findings and Determination. The comments are summarized by issue below. The original comments are included as Attachment 11. In accordance with AS 38.05.80 (j)(11)(C) & (E), DNR will transmit a copy of the Final Findings and Determination to the lessees and make copies of it available to each person who submitted comment and filed a request for the copies. As of the signing of this Final Findings and Determination, DNR has not received any requests for copies.

Issue	**Comment and DNR Response**
Royalty Modification terms Paragraph 1.b "Ramp-up" terms.	Request for Clarification. Letter requests that DNR further clarify that the fixed royalty rate for ADLs 389950, 389952, 389954, 389958, 389959 will return to the original rate of 16.6667 percent at the end of ramp-up. **Response to Comment** DNR has clarified the terms in paragraph 1a and 1b.
Royalty Modification terms protect State's Interest	**Response to Comment** Implementation of AS 38.05.180(j) provides the State the authority and guidance to promote economically marginal projects while protecting the State's interest through a modification mechanism which helps the State share in the "upside" of a project.

Increase Crude Production

Response to Comment

Successful development of the Oooguruk resources will result in increased crude production in the State of Alaska.

Strengthen economy:
Provide more job and business opportunities for Alaskans

Response to Comment

The total capital, ($460,000,000.00 which includes well costs, equipment, eligible capitalized expenses, etc. in addition to infrastructure), Pioneer will spend to develop Oooguruk will increase the economic base and therefore provide more opportunities for individuals and businesses.

Support economically marginal project

Response to Comment

Implementation of AS 38.05.180(j) provides the State the authority and guidance to promote economically marginal projects while protecting the State's interest.

Strong message to Independents that Alaska is Open for Business

Response to Comment

Implementation of AS 38.05.180(j) allows for promotion of marginal field production of Alaska's North Slope which is of particular value given that many existing fields are in decline.

VII. FINDINGS AND DETERMINATION

1. Pioneer's application for royalty modification on ADLs 355036, 355037, 355038, 355039, 389950, 389952, 389954, 389958, and 389959 meets the requirements for consideration as set out in AS 38.05.180(j)(1)(A). Pioneer has paid the filing fee and submitted a complete application for the royalty modification including financial and technical data that meet the requirements of 11 AAC 88.105, 11 AAC 83.185, 11 AAC 05.010(a)(10)(H), and AS 38.05.180(j)(6).

2. The Cretaceous Kuparuk C and Jurassic Nuiqsut pools in the Oooguruk field have been sufficiently delineated to the satisfaction of the Commissioner for the purpose of granting royalty modification; the pools have not previously produced oil or gas for sale; and oil or gas production from the pools would not otherwise be economically feasible.

3. Pioneer has made a clear and convincing showing that a royalty modification meets the requirements of AS 38.05.180(j)(1)(A), and is in the best interests of the State.

4. The Oooguruk Development royalty relief mechanism will be implemented as follows:
   a. A five percent royalty rate will be in effect for production from the delineated pools until NPS payments first become due to the State from ADL 355036 as calculated under 11 AAC 83.201 – 11 AAC 83.295. The first month following the month when NPS payments first become due to the State is the month when a four-year royalty modification phase-out commences for all nine leases subject to the royalty modification.
   b. At the beginning of each of the four 12-month periods following the month when NPS payments first become due to the State from ADL 355036 the royalty rate for each of the nine leases will be increased by 1.875 percent, resulting in a cumulative increase of 7.5 percent, (four years X 1.875 percent/year). At the beginning of the fourth 12-month period after NPS payments first become due to the State from ADL 355036, the fixed royalty rate for ADLs 355036, 355037, 355038, and 355039 will be restored to 12.5 percent and the NPS rate will remain at 30 percent. At the beginning of the fourth 12-month period after NPS payments first become due to the State from ADL 355036, the royalty rate for ADLs 389950, 389952, 389954, 389958, and 389959 will be immediately restored to a full 16.6667 percent.
   c. No additional recapture mechanism beyond the net profit share is included in the royalty modification mechanism.

5. The Oooguruk project as set out in the amended application must be sanctioned, (in-house approval and funding), by Pioneer by December 31, 2007. If Pioneer

does not provide project sanction documents and AFEs to DNR by December 31, 2007, this royalty relief is rescinded.

6. If Oooguruk project "facilities capex" (including, but not limited to island construction, surface equipment, and flowline bundle.), costs less than 75 percent of the amount set out in the amended application, $246 million, this royalty relief is rescinded.

7. The NPS lease regulations set out in 11 AAC 83.201 – 11 AAC 83.295 remain in full force and effect. However, Pioneer's request that the current unaudited NPS lease balance of $80,000,000.00 as of January 1, 2005, be deemed true and correct and not be subject to future adjustment resulting from audit, is approved.

8. The $80,000,000.00 NPS lease balance will be allocated to the NPS leases (ADLs 355036, 355037, 355038, and 355039) pursuant to the final participating area redetermination.

9. Pioneer requested that "Oooguruk [be] treated as separate and distinct from KPA (Kuparuk Participating Area) for ELF factor calculation, resulting in a severance tax that is effectively zero." Severance tax issues are within the jurisdiction of the Department of Revenue and not affected by this Findings and Determination.

10. This royalty modification is not assignable without prior written approval of the Commissioner. This modification is based on the financial and technical data supplied to the Commissioner in the amended application and on Pioneer's unique showing that production would not be economical from these Oooguruk pools with the modification approved here. The Commissioner will not approve a transfer of the royalty modification unless the assignee also makes a clear and convincing showing that the modification meets the requirements of AS 38.05.180(j)(1) and is in the best interests of the State.

Michael L. Menge — Date
Commissioner

cc: William Van Dyke, Director, Division of Oil and Gas
Kevin Banks, Senior Commercial Analyst, Division of Oil and Gas
Jeff Landry, Department of Law

does not provide project sanction documents and AFEs to DNR by December 31, 2007, this royalty relief is rescinded.

6. If Ooogunik project "facilities capex" (including, but not limited to island construction, surface equipment, and flowline bundle.), costs less than 75 percent of the amount set out in the amended application, $246 million, this royalty relief is rescinded.

7. The NPS lease regulations set out in 11 AAC 83.201 – 11 AAC 83.295 remain in full force and effect. However, Pioneer's request that the current unaudited NPS lease balance of $80,000,000.00 as of January 1, 2005, be deemed true and correct and not be subject to future adjustment resulting from audit, is approved.

8. The $80,000,000.00 NPS lease balance will be allocated to the NPS leases (ADLs 355036, 355037, 355038, and 355039) pursuant to the final participating area redetermination.

9. Pioneer requested that "Ooogunik [be] treated as separate and distinct from KPA (Kuparuk Participating Area) for ELF factor calculation, resulting in a severance tax that is effectively zero." Severance tax issues are within the jurisdiction of the Department of Revenue and not affected by this Findings and Determination.

10. This royalty modification is not assignable without prior written approval of the Commissioner. This modification is based on the financial and technical data supplied to the Commissioner in the amended application and on Pioneer's unique showing that production would not be economical from these Ooogunik pools with the modification approved here. The Commissioner will not approve a transfer of the royalty modification unless the assignee also makes a clear and convincing showing that the modification meets the requirements of AS 38.05.180(j)(1) and is in the best interests of the State.

Feb 2, 2006

Michael L. Menge Date
Commissioner

cc: William Van Dyke, Director, Division of Oil and Gas
Kevin Banks, Senior Commercial Analyst, Division of Oil and Gas
Jeff Landry, Department of Law

VIII. ATTACHMENTS

1. AS 38.05.180(j)
2. Copy of Public Notice Issuance
3. List of Certified Wells on subject leases
4. Ooguruk Unit Agreement, Exhibit B
5. Figures 2A and 2B Preliminary Participating Area & Unit Expansion Maps
6. Summary of applicant work sessions
7. ANS price forecast, Alaska State Department of Revenue
8. North Slope of Alaska Facility Sharing Study
9. Charter for Development of the Alaskan North Slope
10. Economic Analysis and Internal Decision Process, Cover page, (CONFIDENTIAL under AS 38.05.180(j) and "Deliberative Process Privilege")

    The following attachments are included as attachments to the Confidential Economic Analysis and Internal Decision Process

    Initial Application for Royalty Modification, Pioneer, May 20, 2005
    Amended Application for Royalty Modification, Pioneer, November 1, 2005
    Econ One, Presentation to Legislature, August, 2005
    "Presentation On Alaska Gas Pipeline Project, Investment Decision-Making by Oil and Gas Companies"
    DNR Flow chart of decision process metrics
    DNR Model printouts to support confidential analysis
11. Public Comments

ATTACHMENT 1
AS 38.05.180(j)

AS 38.05(j) The Commissioner

(1) may provide for modification of royalty on individual leases, leases unitized as described in (p) of this section, leases subject to an agreement described in (s) or (t) of this section, or interests unitized under AS 31.05

(A) to allow for production from an oil or gas field or pool if

(i) the oil or gas field or pool has been sufficiently delineated to the satisfaction of the Commissioner;

(ii) the field or pool has not previously produced oil or gas for sale; and

(iii) oil or gas production from the field or pool would not otherwise be economically feasible;

(B) to prolong the economic life of an oil or gas field or pool as per barrel or barrel equivalent costs increase or as the price of oil or gas decreases, and the increase or decrease is sufficient to make future production no longer economically feasible; or

(C) to reestablish production of shut-in oil or gas that would not otherwise be economically feasible;

(2) may not grant a royalty modification unless the lessee or lessees requesting the change make a clear and convincing showing that a modification of royalty meets the requirements of this subsection and is in the best interests of the state;

(3) shall provide for an increase or decrease or other modification of the state's royalty share by a sliding scale royalty or other mechanism that shall be based on a change in the price of oil or gas and may also be based on other relevant factors such as a change in production rate, projected ultimate recovery, development costs, and operating costs;

(4) may not grant a royalty reduction for a field or pool

(A) under (1)(A) of this subsection if the royalty modification for the field or pool would establish a royalty rate of less than five percent in amount or value of the production removed or sold from a lease or leases covering the field or pool;

(B) under (1)(B) or (1)(C) of this subsection if the royalty modification for the field or pool would establish a royalty rate of less than three percent in amount or value of the production removed or sold from a lease or leases covering the field or pool;

(5) may not grant a royalty reduction under this subsection without including an explicit condition that the royalty reduction is not assignable without the prior written approval, which may not be unreasonably withheld, by the Commissioner; the Commissioner shall, in the preliminary and final findings and determinations, set out the conditions under which the royalty reduction may be assigned;

(6) shall require the lessee or lessees to submit, with the application for the royalty reduction, financial and technical data that demonstrate that the requirements of this subsection are met; the Commissioner

(A) may require disclosure of only the financial and technical data related to development, production, and transportation of oil and gas or gas only from the field or pool that are reasonably available to the applicant; and

(B) shall keep the data confidential under AS 38.05.035 (a)(9) at the request of the lessee or lessees making application for the royalty reduction; the confidential data may be disclosed by the Commissioner to legislators and to the legislative auditor and as directed by the chair or vice-chair of the Legislative Budget and Audit Committee to the director of the division of legislative finance, the permanent employees of their respective divisions who are responsible for evaluating a royalty reduction, and to agents or contractors of the legislative auditor or the legislative finance director who are engaged under contract to evaluate the royalty reduction, if they sign an appropriate confidentiality agreement;

(7) may

(A) require the lessee or lessees making application for the royalty reduction under (1)(A) of this subsection to pay for the services of an independent contractor, selected by the lessee or lessees from a list of qualified consultants compiled by the Commissioner, to evaluate hydrocarbon development, production, transportation, and economics and to assist the Commissioner in evaluating the application and financial and technical data; if, under this subparagraph, the Commissioner requires payment for the services of an independent contractor, the total cost of the services to be paid for by the lessee or lessees may not exceed $150,000 for each application, and the Commissioner shall determine the relevant scope of the work to be performed by the contractor; selection of an independent contractor under this subparagraph is not subject to AS 36.30;

(B) with the mutual consent of the lessee or lessees making application for the royalty reduction under (1)(B) or (1)(C) of this subsection, request payment for the services of an independent contractor, selected from a list of qualified consultants to evaluate hydrocarbon development, production, transportation, and economics by the Commissioner to assist the Commissioner in evaluating the application and financial and technical data; if, under this subparagraph, the Commissioner requires payment for the services of an independent contractor, the total cost of the services that may be paid for by the lessee or lessees may not exceed $150,000 for each application, and the Commissioner shall determine the relevant scope of the work to be performed by the

contractor; selection of an independent contractor under this subparagraph is not subject to AS 36.30;

(8) shall make and publish a preliminary findings and determination on the royalty reduction application, give reasonable public notice of the preliminary findings and determination, and invite public comment on the preliminary findings and determination during a 30-day period for receipt of public comment;

(9) shall offer to appear before the Legislative Budget and Audit Committee, on a day that is not earlier than 10 days and not later than 20 days after giving public notice under (8) of this subsection, to provide the committee a review of the Commissioner's preliminary findings and determination on the royalty reduction application and administrative process; if the Legislative Budget and Audit Committee accepts the Commissioner's offer, the committee shall give notice of the committee's meeting to all members of the legislature;

(10) shall make copies of the preliminary findings and determination available to

(A) the presiding officer of each house of the legislature;

(B) the chairs of the legislature's standing committees on resources; and

(C) the chairs of the legislature's special committees on oil and gas, if any;

(11) shall, within 30 days after the close of the public comment period under (8) of this subsection,

(A) prepare a summary of the public response to the Commissioner's preliminary findings and determination;

(B) make a final findings and determination; the Commissioner's final findings and determination prepared under this subparagraph regarding a royalty reduction is final and not appealable to the court;

(C) transmit a copy of the final findings and determination to the lessee;

(D) with the applicant's consent, amend the applicant's lease or unitization agreement consistent with the Commissioner's final decision; and

(E) make copies of the final findings and determination available to each person who submitted comment under (8) of this subsection and who has filed a request for the copies;

(12) is not limited by the provisions of AS 38.05.134 (3) or (f) of this section in the Commissioner's determination under this subsection.

ATTACHMENT 2

DEPT1155
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AFFIDAVIT OF PUBLICATION

RECEIVED
JAN 11 2006
DIVISION OF OIL AND GAS

STATE OF ALASKA
THIRD JUDICIAL DISTRICT

Christine Clark

being first duly sworn on oath deposes and says that he/she is an representative of the Anchorage Daily News, a daily newspaper. That said newspaper has been approved by the Third Judicial Court, Anchorage, Alaska, and it now and has been published in the English language continually as a daily newspaper in Anchorage, Alaska, and it is now and during all said time was printed in an office maintained at the aforesaid place of publication of said newspaper. That the annexed is a copy of an advertisement as it was published in regular issues (and not in supplemental form) of said newspaper on

December 20, 21 & 22, 2005

and that such newspaper was regularly distributed to its subscribers during all of said period. That the full amount of the fee charged for the foregoing publication is not in excess of the rate charged private individuals.

Signed [signature]

Subscribed and sworn to before

Me this 6th day of January

20 06

[signature]

Notary Public in and for
The State of Alaska.
Third Division
Anchorage, Alaska
MY COMMISSION EXPIRES
8/6/09

ROSALIE S. DREW
NOTARY PUBLIC
STATE OF ALASKA
My Commission Expires: August 6, 2009

AMENDED NOTICE
OF THE ISSUANCE OF THE PRELIMINARY FINDINGS AND DETERMINATION
FOR A PROPOSED ROYALTY MODIFICATION TO OOOGURUK DEVELOPMENT LEASES
ADL'S 355036, 355037, 355038, 355039, and 389959
AND
ADL'S 389950, 389952, 389954, and 389958
(COMMITTED TO THE OOOGURUK UNIT)

The Department of Natural Resources (DNR), Division of Oil and Gas (DOG), gives notice under AS 38.05.180(i)(8) that it has issued the preliminary findings and determination under AS 38.05.180(i)(1)(A) for royalty modification on the nine leases: ADL's 355036, 355037, 355038, 355039, 389950, 389952, 389954, 389958, and 389959. DNR received a correctly filed initial application on May 20, 2005, from Pioneer Natural Resources Alaska Inc. (Pioneer) as operator of the Oooguruk Unit on behalf of itself and Armstrong Alaska, Inc. (Armstrong). Pioneer submitted an amended application on behalf of itself and ENI Petroleum Exploration Co. Inc. (ENI) on November 1, 2005.
To determine whether this royalty modification should be granted, the Commissioner of DNR is required to issue a final written finding and determination that the royalty modification applies to individual leases, leases unitized as described in AS 38.05.180(p), (s) or (t), or interests unitized under AS 31.05 to allow for production from an oil or gas field or pool if

1) the oil or gas field or pool has been sufficiently delineated to the satisfaction of the Commissioner;
2) the field or pool has not previously produced oil or gas for sale; and
3) oil or gas production from the field or pool would not otherwise be economically feasible;

DNR has received and analyzed the applicant information regarding the development of these nine leases. The analysis was then used to prepare this written preliminary finding and determination, which addresses the amended November, 2005, application. In this preliminary findings and determination the Commissioner establishes the scope of the administrative review for the proposed royalty modification and considers and discusses certain important facts and issues determined to be material as required by AS 38.05.180(i)(1)(A) upon which the Commissioner will base his final determination. This preliminary findings and determination also sets out the proposed terms of the modification.
The Commissioner shall publish this Preliminary Findings and Decision and give public notice of a 30-day public comment period as well as offer to appear before the Legislative Budget and Audit Committee and provide a review of the Findings and Determination and the administrative process. The Commissioner shall keep the submitted data confidential under AS 38.05.035 (a)(9) at the request of the lessee or lessees making application for the royalty reduction. Within 30 days of the close of the public comment period the Commissioner will prepare a summary of the public comments and make a Final Findings and Determination. The Commissioner's final Findings and Determination regarding a royalty reduction is final and not appealable to the court.

PUBLIC COMMENT
DOG invites the public to comment on any aspect of the royalty modification including the preliminary findings and determination and any proposed term or condition. Comments should be mailed, faxed or e-mailed to the Division of Oil and Gas, 550 W. 7th Ave., Suite 800, Anchorage, Alaska 99501-3560, Attention: Tim Ryherd, Commercial Analyst, Department of Natural Resources, Division of Oil and Gas; Phone 907-269-8771, Fax 907-269-8938; e-mail tlr@dnr.state.ak.us. Comments must be received no later than 5:00 p.m., January 18, 2006, to be considered in the final findings and determination.

Interested individuals may obtain copies of the preliminary finding and determination from DNR's website at www.dog.dnr.state.ak.us. The documents are also available for public review at the following locations: the Alaska State Library in Juneau, the Loussac Library in Anchorage, the DNR Public Information Center in Fairbanks, Anchorage, and the Barrow City Clerk's Office.

SUBJECT LEASE DESCRIPTION
Four of the subject leases are committed to the North Slope Oooguruk Unit (ADL's 389950, 389952, 389954, and 389958) and five of the subject leases lie adjacent to the unit (ADL's 355036, 355037, 355038, 355039, and 389959). The amended application requests that the royalty rate for ADL's 355036, 355037, 355038, and 355039 be modified from a fixed royalty rate of 12.5% with a 30% net profit share to the state to a 5% royalty rate with a 30% net profit share to the state and that the royalty rate for ADL's 389950, 389952, 389954, 389958, and 389959 be modified from a fixed royalty rate of 16.6667% to a fixed royalty rate of 5%. ADL's 355036, 389950, 389952, 389954, 389958, and 389959 lie offshore in the Beaufort Sea within state boundaries; ADL's 355037, 355038, and 355039 lie both offshore and onshore (Colville River Delta).

MAPS
A map of the subject lease area is available on the division's website at www.dog.dnr.state.ak.us and in the Preliminary Findings and Determination document.

FINAL BEST INTEREST FINDING
DNR anticipates making the final findings and determination available to the public on or about January 23, 2006.

ALTERNATIVE COMMUNICATION FORMATS
The State of Alaska, DNR, DOG complies with Title II of the Americans with Disabilities Act of 1990. This publication can be made available on CD or in alternative communication formats upon request. Please contact Temple Davidson at (907) 269-8784 to make any necessary arrangements.

Michael L. Menge
Commissioner

PUb: Dec 20/21/22, 2005

Ad Id 83192

AFFIDAVIT OF PUBLICATION

UNITED STATES OF AMERICA
STATE OF ALASKA
FOURTH DISTRICT
} SS.

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Michael L. Menge
Commissioner

SHANNA SPRACKLEN
NOTARY
PUBLIC
STATE OF ALASKA

Before me, the undersigned, a notary public, this day personally appeared Grace Farstad, who, being first duly sworn, according to law, says that he/she is an Advertising Clerk of the Fairbanks Daily News-Miner, a newspaper (i) published in newspaper format, (ii) distributed daily more than 50 weeks per year, (iii) with a total circulation of more than 500 and more than 10% of the population of the Fourth Judicial District, (iv) holding a second class mailing permit from the United States Postal Service, (v) not published primarily to distribute advertising, and (vi) not intended for a particular professional or occupational group. The advertisement which is attached is a true copy of the advertisement published in said paper on the following day(s):

12/20/2005 12/22/2005 12/21/2005

AO- 10 G 1627

and that the rate charged thereon is not excess of the rate charged private individuals, with the usual discounts.

Subscribed and sworn to before me on this 31 day of DECEMBER, 20 05

Notary Public in and for the State Alaska.

My commission expires August 26, 2009

ALASKA NEWSPAPERS INC.
301 CALISTA COURT, SUITE B
ANCHORAGE, ALASKA 99518-3028
☎(907) 272-9830 * 🖷(907) 272-9512

SOA/DNR
TEMPLE DAVIDSON
550 W 7TH AVE, STE 1100
ANCHORAGE, AK 99501

Date: December 27, 2005
CASE/PO: AO-10-G1625
INVOICE :AS310079

AFFIDAVIT OF PUBLICATION

UNITED STATES OF AMERICA, STATE OF ALASKA, THIRD DIVISION. BEFORE ME, THE UNDERSIGNED, A NOTARY PUBLIC THIS DAY PERSONALLY APPEARED **SHANNON MOONEY** WHO, BEING FIRST DULY SWORN, ACCORDING TO LAW, SAYS THAT SHE IS THE BILLING CLERK FOR:

THE **ARCTIC SOUNDER,**

PUBLISHED AT ANCHORAGE IN SAID DIVISION THREE AND STATE OF ALASKA AND THAT THE ADVERTISEMENT, OF WHICH THE ANNEXED IS A TRUE COPY, WAS PUBLISHED IN SAID PUBLICATION ON **12/22/2005** AND THEREAFTER FOR A TOTAL OF **1** CONSECUTIVE ISSUE(S), THE LAST PUBLICATION APPEARING ON **12/22/2005**, AND THAT THE RATE CHARGED THEREON IS NOT IN EXCESS OF THE RATE CHARGED TO PRIVATE INDIVIDUALS.

Shannon Mooney

SHANNON D. MOONEY
BILLING CLERK, ALASKA NEWSPAPERS

STAMP

CHRISTINA RITTER
NOTARY
PUBLIC
STATE OF ALASKA
My Commission Expires March 24, 2009

SUBSCRIBED AND SWORN TO ME ON December 27, 2005

Christina Ritter

CHRISTINA RITTER
MY COMMISSION EXPIRES ON MARCH 24, 2009

Affidavit of Publication

United States of America
State of Alaska
First Division

Ad #: 46415
Ref. No.: AO-10-G-1626
Legal #: 1200-036

AMENDED NOTICE OF THE ISSUANCE OF THE PRELIMINARY FINDINGS AND DETERMINATION FOR A PROPOSED ROYALTY MODIFICATION TO OOOGURUK DEVELOPMENT LEASES
ADL'S 355036, 355037, 355038, 355039, and 389959
AND
ADL'S 389950, 389952, 389954, and 389958
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MAPS

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FINAL BEST INTEREST FINDING

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Michael L. Menge
Commissioner
ublish: December 19, 20, and 21, 2005

1200-036

mothy P. Flanery, being first duly sworn, epose, and say that I am the Principle f the JUNEAU EMPIRE, a newspaper of circulation, published in the city of , State of Alaska; that the publication was ed in said newspaper on the 19th day of ier, 2005, and thereafter for 2 additional the last date of publication being ier 21st 2005.

....

bed and sworn to before me this 17th day ary, 2005.

....

Public in and for the State of Alaska.

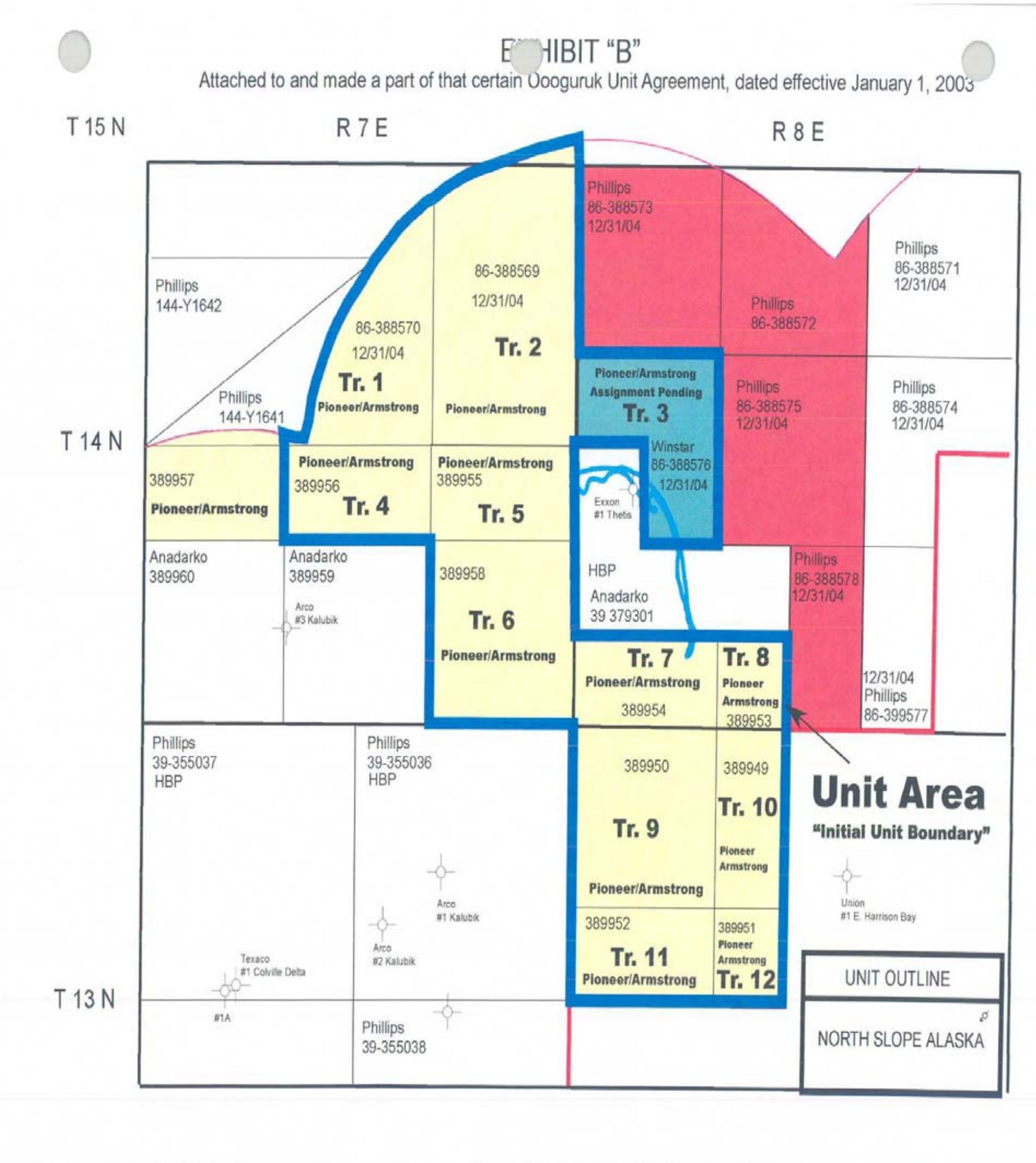
STATE OF ALASKA
OFFICIAL SEAL
Tonia Smith
NOTARY PUBLIC
My commission expires 08/02/08.

ATTACHMENT 3
List of Certified Wells

ADL 355036	ARCO-Kalubik No. 1	1992, Certified
	ARCO-Kalubik No. 1	1998
ADL 355037	Texaco Colville Delta No. 1	1985 Certified
	Texaco Colville Delta No. 1A	1985
ADL 355038	Texaco Colville No. 2	1986 Certified
ADL 355039	Texaco Colville No. 3	1986 Certified
ADL 379301	Exxon Thetis Island, No. 1	1993 Certified
ADL 389959	ARCO Kalubik No. 3	1998

ATTACHMENT 4

Pioneer is working with the Division to submit a final Unit Expansion application.
Current Unit boundaries
Ooguruk Unit Agreement, Exhibit B



ATTACHMENT 5
FIGURE 2A

Pioneer intends to apply to establish two participating areas; as well as expand the unit. Figures 2A and 2B

Royalty Modification Area

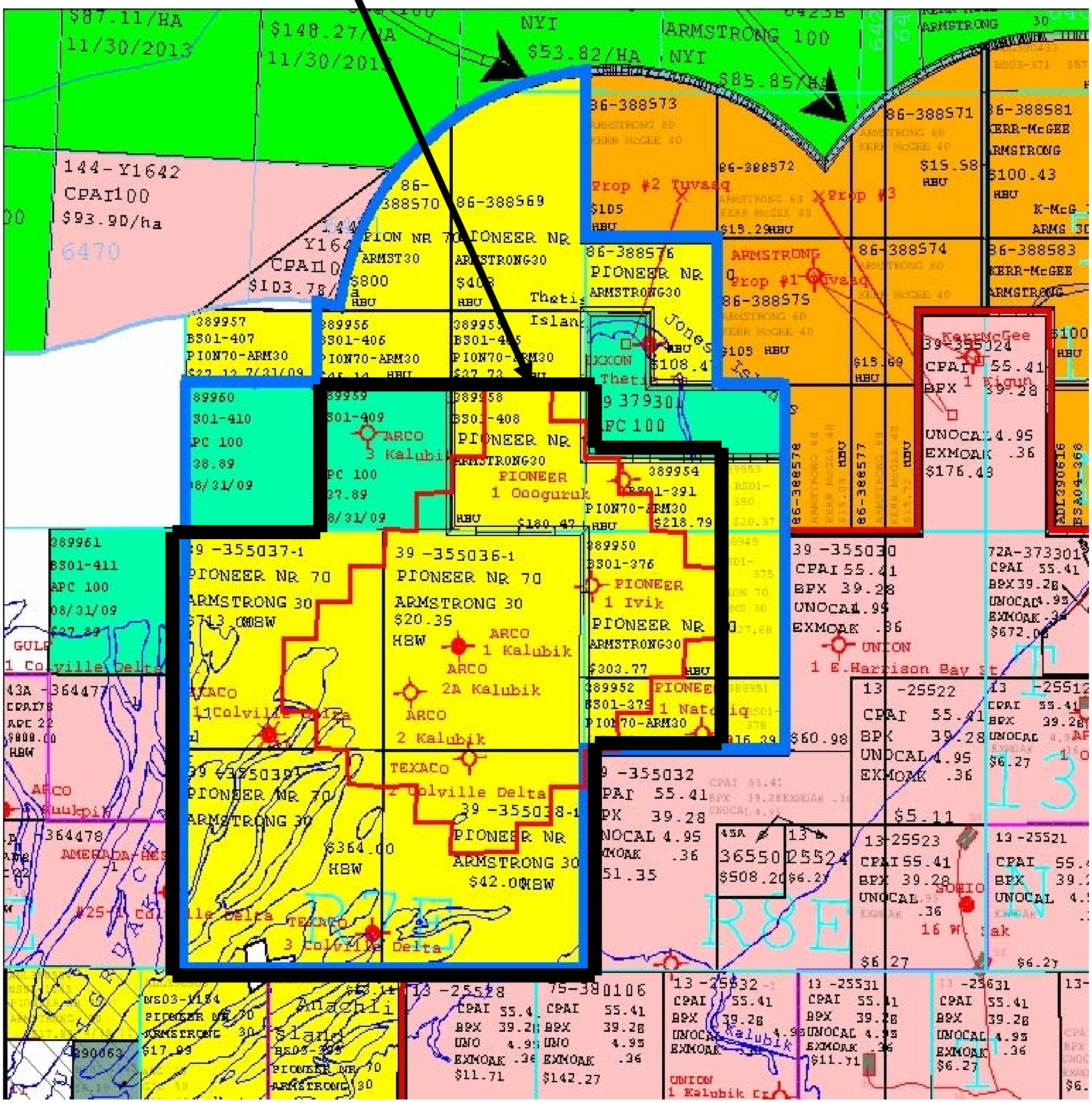


Figure 2A: Preliminary Nuiqsut Participating Area, Outlined in Red

ATTACHMENT 5
FIGURE 2B
Pioneer intends to apply to establish two participating areas; as well as expand the unit. Figures 2A and 2B
Royalty Modification Area

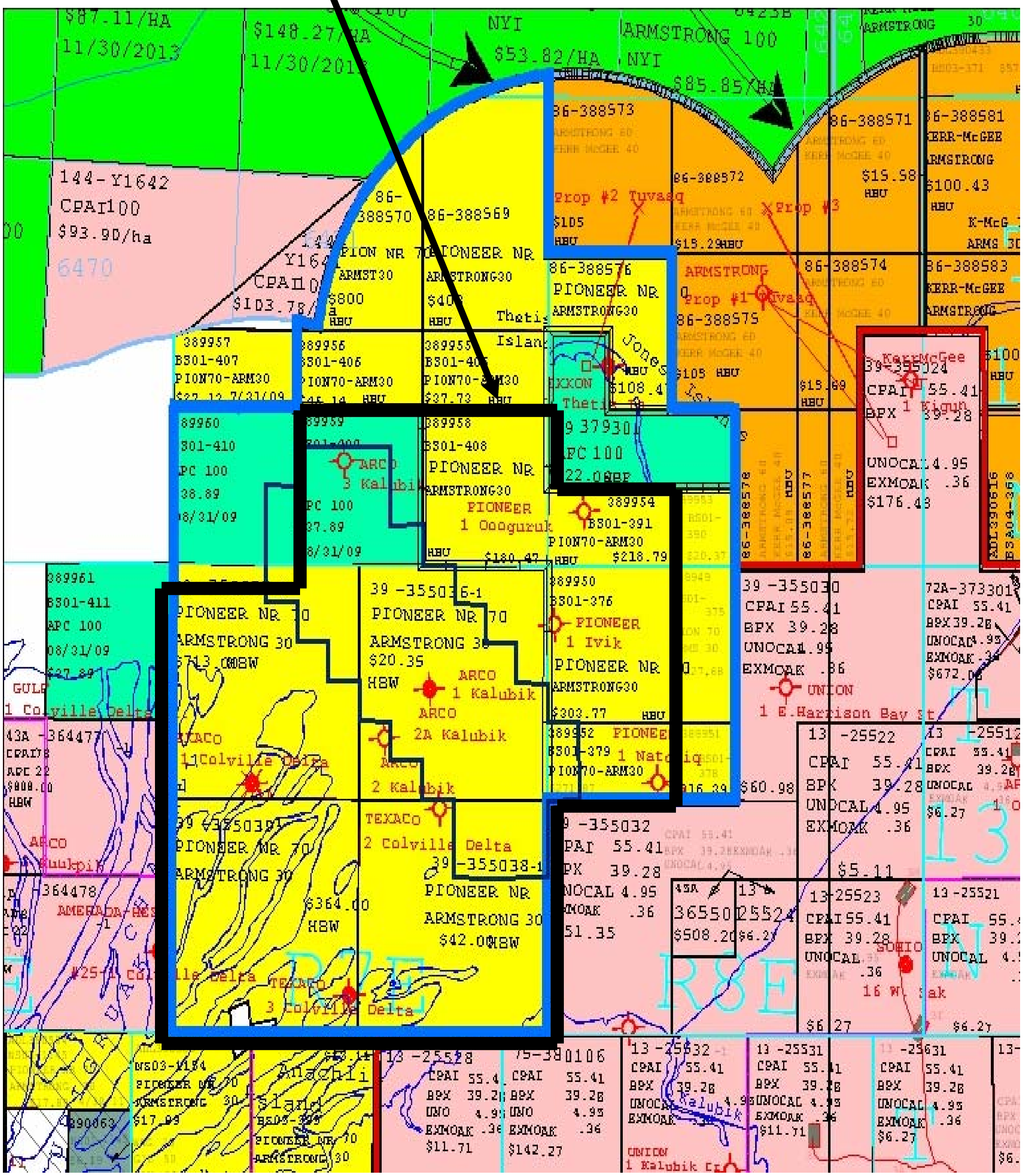


Figure 2B: Preliminary Kuparuk Participating Area, Outlined in Black

ATTACHMENT 6
Applicant submittals and Work Sessions

Applicant Submittals:

December, 2004	Powerpoint presentation of G&G
May 20, 2005	Formal Application for Royalty Modification
August, 2005	Powerpoint presentation with updated G&G, Projected Production Profiles, Capital, Operating Expense and Processing Fee study and estimate.
September 6, 2005	CD containing electronic version of August submittal, and economic model for project
November 2005	Amended Application for Royalty Modification

Work Sessions and Presentations:

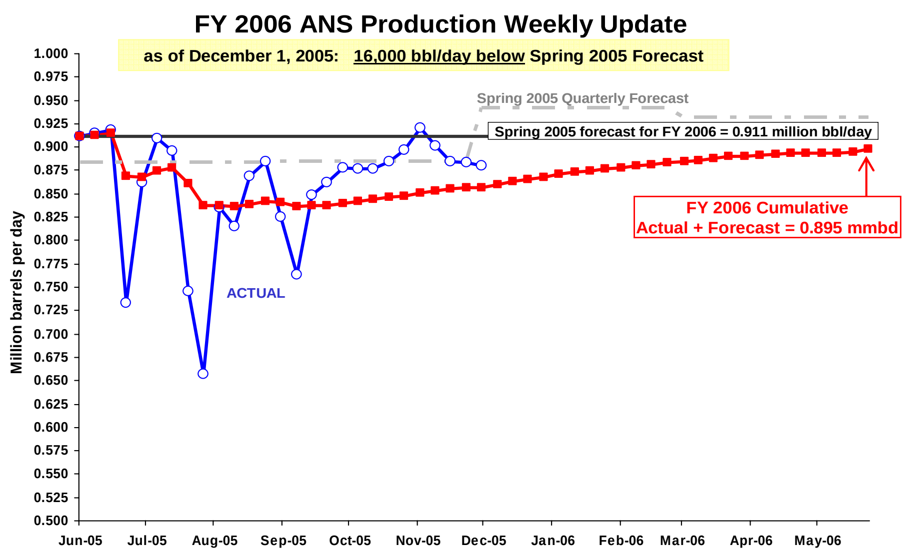
December 15, 2004	Presentation of preliminary development studies with Pioneer
April 20, 2005	Update of development studies with Pioneer
August 12, 2005	Update of development studies with Pioneer
October 10, 2005	Discussion of modeling results
October 14, 2005	Presentation of DNR analysis of royalty modification application to Pioneer
November 14, 2005	Presentation of amended application by Pioneer

ATTACHMENT 7
ANS Price Forecasts from Alaska State Department of Revenue, Tax Division

Alaska Department of Revenue, Tax Division
Spring 2005 Forecast Assumptions
$ per barrel

Fiscal Year	Price	ANS Transportation	TAPS Tariff	Feeder Pipeline & Other Adjustments (1)	ANS Wellhead
2005 (2)	41.75	1.72	3.25	0.04	36.74
2006	38.6	1.76	3.6	0.16	33.07
2007	34.3	1.81	3.61	0.21	28.66
2008	25.5	1.86	3.46	0.27	19.9
2009	25.5	1.91	3.5	0.28	19.8
2010	25.5	1.96	3.51	0.32	19.71
2011	25.5	2.01	3.55	0.43	19.51
2012	25.5	2.06	3.45	0.49	19.5
2013	25.5	2.11	3.52	0.52	19.34
2014	25.5	2.16	3.63	0.55	19.15
2015	25.5	2.21	3.81	0.57	18.90

(1) Other adjustments include quality bank charges, location differentials and amended information.
(2) FY 2005 includes reported information through January 2005.



Attachment 8
North Slope of Alaska Facility Sharing Study

Web Address:
http://www.dog.dnr.state.ak.us/oil/products/publications/otherreports/nsfacility/facility.share.report.pdf

Attachment 9
Charter for Development of the Alaskan North Slope

Web Address:
http://www.state.ak.us/local/bparco.pdf

Oooguruk Development Royalty Modification Application

Preliminary Findings and Determination of the Commissioner of the Department of Natural Resources

CONFIDENTIAL under AS 38.05.180(j) and "Deliberative Process Privilege"

Economic Analysis and Internal Decision Process

December 7, 2005

Attachment 11

DNR received public comment from the following persons:

Jack Chenoweth
Legilative Affairs – Legal
Capitol Building
Juneau, Alaska
99801

Mr. D. W. Haugen
Vice President
Lynden
6441 South Airpark Place
Anchorage Alaska 99502-1809

Ms. Jeanine St. John
Vice President
Lynden
6441 South Airpark Place
Anchorage Alaska 99502-1809

Mr. Tadd Owens
Executive Director
Resource Development Council for Alaska, Inc.
121 West Fireweed
Suite 250
Anchorage, Alaska
99503-2035

Mr. James Gilbert, President
The Alliance
360 West Benson Boulevard
Suite 200
Anchorage, Alaska
99503

Mr. Paul Laird, General Manager
The Alliance
360 West Benson Boulevard
Suite 200
Anchorage, Alaska
99503

Mr. D. L. Matthews
Vice President & Alaska General Manager
H.C. Price Co.
301 W. Northern Lights Blvd.
Suite 300
Anchorage, Alaska
99503

Mr. R. E. Cox
Vice President, Supply and Distribution
Petro Marine Services
3111 C Street
Suite 500
Anchorage, Alaska
99503

Mr. Lynn C. Johnson
President
Dowland – Bach Corp.
P.O. Box 230126
Anchorage, Alaska
99523-0126

Eric J. Dompeling
520 Mary Circle

Anchorage, Alaska 99515

Dowland – Bach Corp.
6130 Tuttle Place
Anchorage, Alaska
99507

Mr. Keith Silver
Vice President, Finance
Colville Incorporated
Pouch 340012
Prudhoe Bay, Alaska
99734

Kip Knudsen
Government Affairs Manager
Tesoro Alaska Company
P.O. Box 196272
Anchorage, Alaska
99519-6272

Mr. Reed Christensen

Temple Davidson

From: Tim Ryherd [tim_ryherd@dnr.state.ak.us]
Sent: Tuesday, January 03, 2006 11:04 AM
To: Temple Davidson
Subject: FW: Question/suggestion re preliminary findings concerning Oooguruk oil royalty rates

---

From: Jack Chenoweth [mailto:Jack_Chenoweth@legis.state.ak.us]
Sent: Tuesday, December 27, 2005 2:32 PM
To: tim_ryherd@dnr.state.ak.us
Subject: Question/suggestion re preliminary findings concerning Oooguruk oil royalty rates

The December 17 press release announcing the preliminary findings for the Oooguruk development royalty modification application directs that public comments may be directed to you.

My question/suggestion goes to subparagraph 1b. of the preliminary finding's proposed terms (page 22 of the December 16 preliminary findings document). As to the leases identified as ADL 355036, 355037, 355038, and 355039, I understand the mathematics of the suggested royalty modification phase out: a 1.875 percent increase for each of four years (7.5 percent in total) will, when added to the proposed royalty modification rate, restore the 12.5 percent fixed royalty rate of the lease for the four leases as initially issued. However, as to the leases identified as ADL 389950, 389952, 389954, 389958, and 389959 -- the five leases initially issued with a 16.67 percent fixed rate -- that same royalty modification phase out rate of 1.875 percent for each of four years does not restore the rate to the full 16.67 percent. In other words, strict application of the royalty modification phase out rate of 1.875 percent for each of four years would not, at the end of the four years, yield "[a] fixed royalty rate for [these leases that] will be 16.6667 percent."

Now it is possible that language may simply be missing from the description set out in subparagraph 1b, or it may be that I am not understanding something within the material set out. But, on its face, application of the royalty modification rate to these five leases does not yield the expressed result. If the language describing the rate of royalty modification phase out takes precedence, then the holder(s) of the five leases may contend argue that the fixed royalty rate, by negotiated agreement, is not more than 12.5 percent, not the 16.67 percent as originally initiated. To that extent, the language presents some ambiguity and I'm sure that the department would not want to have that occur.

If there is merit to my question, then the department's final finding and determination may want to include a revision to subparagraph 1b. of the proposed terms to clarify or separately stating the application of the rate of royalty modification phase out as applied to the five 16.67 percent royalty rate leases identified above.

Thank you for your consideration.

Jack Chenoweth

RESOURCE DEVELOPMENT COUNCIL

Growing Alaska Through Responsible Resource Development

January 10, 2006

Mr. Tim Ryherd, Commercial Analyst
Alaska Department of Natural Resources
Division of Oil and Gas
550 W. 7th Avenue, Suite 800
Anchorage, Alaska 99501-3560

Re: Proposed Royalty Modification to Oooguruk Leases

Dear Mr. Ryherd:

On behalf of the Resource Development Council for Alaska, Inc. (RDC), I am writing in support of the Alaska Department of Natural Resource's (DNR) preliminary finding in favor of royalty relief for Pioneer Natural Resources Alaska, Inc.'s proposed Oooguruk development project.

RDC is a private, non-profit business association representing individuals and leading companies from each of Alaska's resource industries — oil and gas, mining, forest products, tourism and fisheries. RDC's membership also includes local governments, organized labor, Native corporations and a broad range of industry-support firms. Through RDC, these diverse interests work together to encourage economic growth and advocate responsible development of Alaska's natural resources.

Pioneer's Oooguruk project calls for installation of a 6-acre gravel drill site in State of Alaska waters in the Beaufort Sea near the mouth of the Colville River, and drilling of approximately 40 horizontal wells. Production from Oooguruk will be transported to shore in a buried sub-sea "pipe-in-pipe" flow-line. Processing of the Oooguruk production stream will take place at the Kuparuk River Unit facilities operated by ConocoPhillips — the first instance of facility sharing by an independent producer in the history of North Slope development.

Pioneer and DNR concur that Oooguruk development is not economically viable without royalty relief. The resource underlying the Oooguruk unit was identified two decades ago but has not been developed due to the project's marginal economics. Large capital investments will be required to bring production from Oooguruk on-line and even then the project remains vulnerable to fluctuating oil prices and the possibility of less than optimal reservoir performance.

DNR's economic modeling demonstrates the proposed royalty modification improves the project's economics, enabling Pioneer to develop the field and the state to receive revenues from severance, property and corporate income taxes, as well as royalty. With the modification, the state expects the project to generate approximately $160 million in local and state

121 West Fireweed, Suite 250, Anchorage, Alaska 99503-2035
Phone: 907/276-0700 Fax: 907/276-3887 Email: Resources@akrdc.org Website: www.akrdc.org

revenue. Without the modification, it is likely the project will remain dormant as it has for nearly twenty years.

The Department has structured the proposed royalty modification in such a way as to provide investment security for a marginal project while maintaining the state's original lease terms once the capital investment has been recovered. DNR has appropriately balanced the trade-off between providing incentives for economic development and maximizing revenue to the state from its oil and gas resources. RDC fully supports the preliminary findings and determination by DNR in favor of approving a royalty modification for the Oooguruk project.

Thank you for the opportunity to comment.

Sincerely,

RESOURCE DEVELOPMENT COUNCIL
for Alaska, Inc.

Tadd Owens

Tadd Owens
Executive Director

cc: Commissioner Mike Menge
Bill Van Dyke

RECEIVED
JAN 1 1 2006
DIVISION OF
OIL AND GAS

LYNDEN

6441 South Airpark Place
Anchorage, Alaska 99502-1809
(907) 245-1544
Fax: (907) 245-1744

January 9, 2006

Alaska Department of Natural Resources
Division of Oil & Gas
550 W. Seventh Avenue, Suite 800
Anchorage, AK 99501-3560

To Whom it May Concern,

Lynden strongly endorses the Alaska Department of Natural Resources' recommendation to grant temporary royalty reductions on nine leases in the Oooguruk Unit under Alaska Statute 38.05.180. Royalty terms proposed by the Division of Oil & Gas are pivotal not only to making this economically marginal project commercially viable, but also to sending a strong message to prospective independent oil and gas developers like Pioneer Natural Resources that Alaska is truly "open for business."

By the division's own calculations, a prevailing oil price of $40 per barrel is required in order to merely generate marginal returns on the project. Large capital investments will be required to understand reservoir performance, and if prices return to lower levels or reservoir performance fails to meet expectations, the project will be economically challenged. Even with royalty relief, Pioneer and its partner, ENI Petroleum Exploration Co. Inc. face formidable commercial and geologic risks in developing Oooguruk.

The division is recommending that royalties be reduced from 12.5% on four leases and 16.67% on five others to 5% for all nine until capital investments have been recovered. Lynden firmly believes that 5% of something is better than 12.5% -- or even 16.67% -- of nothing. And that's precisely what the state will reap from Oooguruk if it isn't developed … along with no jobs for Alaskans and no business opportunities for Alaskan companies. Indeed, according to DNR's projections, Oooguruk will generate $160 million in state revenues through royalties, property and income taxes and net profit share payments, even with the proposed temporary royalty revisions.

Lynden also commends DNR for measures protecting the state's best interests in its findings regarding royalty revisions for Oooguruk, including a deadline for project sanction, minimum facility cost provisions and a state share of net profits from all nine leases once capital costs are recovered.

LYNDEN

Lynden has the potential to begin generating benefits to Alaskans almost immediately and to continue to yield Alaskan jobs, business opportunities and state revenues for many years to come. With necessary permits, Pioneer hopes to build the 6-acre gravel island this winter and will begin procuring materials and equipment and fabricating facilities in order to install Oooguruk's subsea flowline in early 2007. The field is estimated to contain some 70 million barrels of recoverable oil, and production is expected to peak at between 15,000 and 20,000 barrels per day. Field life is projected at 25-30 years. Pioneer and ENI plan to spend $470 million, including drilling, to develop the project.

Projects like Oooguruk are critical to the long-term health of Alaska's oil and gas industry and our entire economy. Lynden commends and endorses the royalty revisions recommended by DNR as a positive step promoting responsible development of our oil and gas resources.

Sincerely,

David W. Haugen
Vice President
Lynden

LYNDEN

6441 South Airpark Place
Anchorage, Alaska 99502-1809
(907) 245-1544
Fax: (907) 245-1744

January10, 2006

Alaska Department of Natural Resources
Division of Oil & Gas
550 W. Seventh Avenue, Suite 800
Anchorage, AK 99501-3560

To Whom it May Concern,

Lynden strongly endorses the Alaska Department of Natural Resources' recommendation to grant temporary royalty reductions on nine leases in the Oooguruk Unit under Alaska Statute 38.05.180. Royalty terms proposed by the Division of Oil & Gas are pivotal not only to making this economically marginal project commercially viable, but also to sending a strong message to prospective independent oil and gas developers like Pioneer Natural Resources that Alaska is truly "open for business."

By the division's own calculations, a prevailing oil price of $40 per barrel is required in order to merely generate marginal returns on the project. Large capital investments will be required to understand reservoir performance, and if prices return to lower levels or reservoir performance fails to meet expectations, the project will be economically challenged. Even with royalty relief, Pioneer and its partner, ENI Petroleum Exploration Co. Inc. face formidable commercial and geologic risks in developing Oooguruk.

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Lynden also commends DNR for measures protecting the state's best interests in its findings regarding royalty revisions for Oooguruk, including a deadline for project sanction, minimum facility cost provisions and a state share of net profits from all nine leases once capital costs are recovered.

Lynden has the potential to begin generating benefits to Alaskans almost immediately and to continue to yield Alaskan jobs, business opportunities and state revenues for many years to come. With necessary permits, Pioneer hopes to build the 6-acre gravel island this winter and will begin procuring materials and equipment and fabricating facilities in order to install Oooguruk's subsea flowline in early 2007. The field is estimated to contain some 70 million barrels of recoverable oil, and production is expected to peak at between 15,000 and 20,000 barrels per day. Field life is projected at 25-30 years. Pioneer and ENI plan to spend $470 million, including drilling, to develop the project.

Projects like Oooguruk are critical to the long-term health of Alaska's oil and gas industry and our entire economy. Lynden commends and endorses the royalty revisions recommended by DNR as a positive step promoting responsible development of our oil and gas resources.

Sincerely,

Jeanine St. John

Jeanine St. John
Vice President
Lynden

THE ALLIANCE

... for responsible development of Alaska's Oil, Gas & Mineral Resources

- FAXED 1/11/06 -

January 11, 2006

Alaska Department of Natural Resources
Division of Oil & Gas
550 W. Seventh Ave., Suite 800
Anchorage, Alaska 99501-3560
ATTN: Tim Ryherd, Commercial Analyst

Dear Mr. Ryherd:

The Alaska Support Industry Alliance, with 400 member organizations providing more than 30,000 jobs for Alaskan workers, strongly endorses the Alaska Department of Natural Resources' recommendation to grant temporary royalty reductions on nine leases in the Oooguruk Unit under Alaska Statute 38.05.180. Royalty terms proposed by the Division of Oil & Gas are pivotal not only to making this economically marginal project commercially viable, but also to sending a strong message to prospective independent oil and gas developers like Pioneer Natural Resources that Alaska is truly "open for business."

By the division's own calculations, a prevailing oil price of $40 per barrel is required in order to merely generate marginal returns on the project. Large capital investments will be required to understand reservoir performance, and if prices return to lower levels or reservoir performance fails to meet expectations, the project will be economically challenged. Even with royalty relief, Pioneer and its partner, ENI Petroleum Exploration Co. Inc. face formidable commercial and geologic risks in developing Oooguruk.

The division is recommending that royalties be reduced from 12.5% on four leases and 16.67% on five others to 5% for all nine until capital investments have been recovered. The Alliance firmly believes that 5% of something is better than 12.5% -- or even 16.67% -- of nothing. And that's precisely what the state will reap from Oooguruk if it isn't developed ... along with no jobs for Alaskans and no business opportunities for Alaskan companies. Indeed, according to DNR's projections, Oooguruk will generate $160 million in state revenues through royalties, property and income taxes and net profit share payments, even with the proposed temporary royalty revisions.

ALASKA SUPPORT INDUSTRY ALLIANCE
360 W. Benson Blvd., Suite 200 • Anchorage, Alaska 99503 • Phone: (907) 563-2226 • Fax: (907) 561-8870 • www.alaskaalliance.com

The Alliance also commends DNR for measures protecting the state's best interests in its findings regarding royalty revisions for Oooguruk, including a deadline for project sanction, minimum facility cost provisions and a state share of net profits from all nine leases once capital costs are recovered.

Oooguruk has the potential to begin generating benefits to Alaskans almost immediately and to continue to yield Alaskan jobs, business opportunities and state revenues for many years to come. With necessary permits, Pioneer hopes to build the 6-acre gravel island this winter and will begin procuring materials and equipment and fabricating facilities in order to install Oooguruk's subsea flowline in early 2007. The field is estimated to contain some 70 million barrels of recoverable oil, and production is expected to peak at between 15,000 and 20,000 barrels per day. Field life is projected at 25-30 years. Pioneer and ENI plan to spend $470 million, including drilling, to develop the project.

Projects like Oooguruk are critical to the long-term health of Alaska's oil and gas industry and our entire economy. The Alliance commends and endorses the royalty revisions recommended by DNR as a positive step promoting responsible development of our oil and gas resources.

Sincerely,

James Gilbert
President

Paul Laird
General Manager

PRICE H.C. PRICE CO.

301 W. Northern Lights Blvd., Suite 300
Anchorage, Alaska 99503
(907) 278-4400 • Fax (907) 278-3255

January 11, 2006

RECEIVED
JAN 11 2006
DIVISION OF
OIL AND GAS

Alaska Department of Natural Resources
Division of Oil and Gas
550 W. 7th Avenue, Suite 800
Anchorage, AK 99501-3560

Attn: Tim Ryherd
Commercial Analyst

Subject: Proposed Royalty Modification
To Oooguruk Leases

Gentlemen:

I represent H. C. Price Co.'s Alaska Division. H. C. Price is a general contractor who supports the Oil & Gas industry, private sector, and State/Federal government on development, revamp, and maintenance projects. H. C. Price and its employees are deeply rooted in Alaska and all wish its development, access, and opportunities to be available to responsible corporate citizens. Most of our employees derive their livelihood in the Resource Development Industry.

On behalf of our company, the purpose of this letter is to voice our full support for the following issues regarding Pioneer's Oooguruk project :

- Pioneer's request meets the requirements established in state law for a royalty modification – the leases are subject to a drilling agreement; the field has been sufficiently delineated; the field has not previously produced oil or gas for sale; production from the field would not otherwise be economically feasible; and development of the field is in the state's best interest.
- The resource underlying the Oooguruk unit was identified two decades ago, but not developed because it is a marginal project at $30 per barrel of oil.
- Pioneer and DNR concur that Oooguruk development is not economically viable without royalty relief.
- The proposed royalty relief is structured in such a way as to provide investment security for a marginal project while maintaining the state's original lease terms once the capital investment has been recovered.
- DNR's economic modeling demonstrates that with royalty modification, project economics improve, enabling Pioneer to develop the field and the state to receive revenues from severance, property and corporate income taxes, as well as royalty.

Thank you for your assistance in this issue.

H. C. PRICE CO.

David L. Matthews
Vice President & Alaska General Manager

DLM/rf/521

PETRO MARINE SERVICES

Petroleum Marketing to the Marine Industry

January 16, 2006

Alaska Department of Natural Resources
Division of Oil and Gas
Attn: Tim Ryherd, Commercial Analyst
550 W. 7th Avenue, Suite 800
Anchorage, Alaska 99501-3560
VIA FACSIMILE: 269-8938

Subject: Ooogumk Development

Dear Mr. Ryherd:

I am writing today in support of the Oooguruk Development Royalty Modification Application submitted by Pioneer Natural Resources ("Pioneer").

Pioneer has requested that the royalty rate for four of its leases be modified from a fixed royalty rate of 12.5% to a 5% royalty rate and that the royalty rate for the other five leases in this development be modified from 16.667% to 5%.

Pioneer and DNR concur that Oooguruk Development is not economically viable without royalty relief. In fact, the resource underlying the Oooguruk unit was identified two decades ago, but has not been developed because it is a marginal project at well head oil prices below $30 per barrel. I note the Alaska Department of Revenue, Tax Division, forecasts oil prices below this level starting in FY 2007. Thus, in order to facilitate movement of this project to development, royalty modification is required.

It is my belief that Pioneer's request meets the requirements of state law. The field has been well delineated, but production has not occurred because it is not economically feasible. As throughput in the TAPS line continues to decline, state revenues decline commensurately. With additional oil field production, the State will receive revenues from severance, property and corporate income taxes, as well as royalty. Thus, it is clearly in the state's best interest that Pioneer's royalty modification application be approved.

Sincerely,

Robert E. Cox

Robert E. Cox
Vice President, Supply & Distribution

cc: Resource Development Council for Alaska

3111 "C" Street, Suite 500 • Anchorage, Alaska 99503 PETRO MARINE Phone (907) 562-5000 • Fax (907) 561-6500

A HARBOR ENTERPRISES COMPANY

DOWLAND-BACH

P.O. Box 230126
Anchorage, Alaska 99523-0126
phone (907) 562-5818
fax (907) 562-5816

FAX TRANSMISSION IS 2 (TWO) PAGES TOTAL. **January 16, 2006**

TO: Mr. Tim Ryherd. State Of Alaska Division of Oil & Gas Fax: (907) 269-8938
FROM: Lynn C. Johnson, Dowland-Bach Corporation, Anchorage, Alaska

RE: Faxed copy of DNR comments on Ooogururk royalty revisions.

Dear Mr. Ryherd:

Please accept the following for addition to the public comments on the royalty reduction testimony. I will also be sending a copy of this letter to you via US Mail.

Thank You,

Lynn C. Johnson, President
Dowland-Bach Corp.

Jan-16-06 02:18pm From-DOWLAND BACH 9075625816 T-786 P.01/02 F-668

DOWLAND — BACH
WWW.DOWLANDBACH.COM

P.O. BOX 230126
ANCHORAGE, ALASKA 99523-0126
(907) 562-5818

January 16, 2006

State of Alaska
Division of Oil & Gas
550 West Seventh Avenue Suite 800
Anchorage, Alaska 99501-3560
Attn: Tim Ryherd, Commercial Analyst, DNR, Oil & Gas Divison

Dear Mr. Ryherd:

I am writing to you today to express my complete and total support for the Alaska Department of Natural Resources' recommendations to grant temporary royalty reductions on nine leases in the Oogunuk Unit under Alaska Statue 38.05.180. The royalty terms proposed by the Division of Oil and Gas are needed to encourage the development of this economically marginal project. An incentive of this type in the form of royalty reduction will also send a clear message to other so called "independents" and smaller oil production companies that the State of Alaska is indeed a good place to invest their exploration and capital investment dollars.

An incentive such as the proposed royalty reduction is needed to spur additional interest and investment in fields such as Oooguuk. This formation was discovered nearly twenty years ago, and was deemed not economically viable because of oil prices less than $40.00 per barrel and high development costs to even begin initial production. The temporary reduction as proposed should be exactly what is needed to create incentives for Pioneer and ENI to spend nearly $500 million in our Great State of Alaska.

In summary, the DNR is to be commended for this proposal and ideas to encourage this additional development on the North Slope. The best interests of the State are being protected. including a deadline for project sanctions, minimum facility cost provisions and a state share of net profits from all nine leases once capital costs are recovered. This is just what the doctor ordered.

Sincerely,

Lynn C. Johnson, President
Dowland-Bach Corporation

Jan-16-06 02:18pm From-DOWLAND BACH 9075625818 T-786 P.02/02 F-668

Eric J. Dompeling
520 Mary Circle
Anchorage, AK. 99515
e.dompeling@att.net

January 17, 2006

Alaska Department of Natural Resources
Division of Oil & Gas
550 W. Seventh Ave., Suite 800
Anchorage, Alaska 99501-3560

To whom it may concern:

As a resident of the State of Alaska, I strongly encourage the Alaska Department of Natural Resources' recommendation to grant temporary royalty reductions on nine leases in the Oooguruk Unit under Alaska Statute 38.05.180. Royalty terms proposed by the Division of Oil & Gas are pivotal not only to making this economically marginal project commercially viable, but also in sending a strong message to prospective independent oil and gas developers like Pioneer Natural Resources that Alaska is truly "open for business."

By the division's own calculations, a prevailing oil price of $40 per barrel is required in order to generate marginal returns on the project. Large capital investments will be required to develop this marginal offshore project, and if prices return to lower levels or reservoir performance fails to meet expectations, the project will be economically challenged. Even with royalty relief, Pioneer and its partner, ENI Petroleum Exploration Co. Inc. face formidable commercial and geologic risks in developing Oooguruk. The division is recommending that royalties be reduced from 12.5% on four (4), leases and 16.67% on five (5) others to 5% for all nine until capital investments have been recovered.

According to DNR's projections, Oooguruk will generate $160 million in state revenues through royalties, property and income taxes and net profit share payments, even with the proposed temporary royalty revisions. I also commend DNR for measures taken to protect the state's best interests in its findings regarding royalty revisions for Oooguruk, including a deadline for project sanction, minimum facility cost provisions and a state share of net profits from all nine leases once capital costs are recovered.

Oooguruk has the potential to begin generating benefits to Alaskans almost immediately and to continue to yield business opportunities, state revenues and Jobs for Alaskan's for many years to come. With the necessary permits, Pioneer hopes to build the 6-acre gravel island this winter and will begin procuring materials and equipment and fabricating facilities in order to install Oooguruk's sub sea flowline in early 2007. The field is estimated to contain some 70 million barrels of recoverable oil, and production is expected to peak at between 15,000 and 20,000 barrels per day. Field life is projected at 25-30 years. Pioneer and ENI plan to spend $470 million, including drilling, to develop the project.

Eric J. Dompeling
520 Mary Circle
Anchorage, AK. 99515
e.dompeling@att.net

Projects like Oooguruk are critical to the long-term health of Alaska's oil and gas industry and our entire economy. I would like to commend and endorse the royalty revisions recommended by DNR as a positive step in promoting responsible development of our oil and gas resources.

Sincerely,

Eric Dompeling

Colville
INCORPORATED

January 17, 2006

Alaska Department of Natural Resources, Division of Oil and Gas
Attn: Tim Ryherd, Commercial Analyst
550 W. 7th Ave, Suite 800
Anchorage, Alaska 99501-3560

Re: Ooogurук development leases

Via E-mail tjr@dnr.state.ak.us

Dear Sir,

I am writing to support the decision by ADNR to provide royalty relief to Pioneer Natural Resources Alaska Inc.'s Ooogurук development leases. It is extremely important that the independent oil development companies receive the utmost in consideration from the Alaska state royalty and permitting process. The major oil companies have done the initial development and now the independents are stepping in to do the balance of the exploration and development. Their smaller size makes them more flexible and able to work the marginal fields that are rejected by the major oil companies.

Another reason to adjust the royalty rate is that this field requires the construction of an island to do the development. Extra consideration should be given to companies that are willing to go to extraordinary measures to develop the oil fields.

Colville's shareholders have a homestead just 6.2 miles south of the proposed Ooogurук development. They will be able to see the development out their living room windows. They have lived in the area longer (since 1948) than any other local residents and support this development. By way of disclosure, Colville, Inc. does currently do business with Pioneer and find them an excellent company to work for.

Please continue this level of support for the companies such as Pioneer that risk their capital to develop Alaska's resources.

Sincerely,
Keith Silver,
V.P. Finance, Colville, Inc.

Pouch 340012, Prudhoe Bay, Alaska 99734 907-659-3198 Fax 907-659-3190

Temple Davidson

From: Tim Ryherd [tim_ryherd@dnr.state.ak.us]
Sent: Wednesday, January 18, 2006 4:29 PM
To: 'Temple Davidson'
Subject: FW: Ooogurk Royalty Reduction

From: Reed Christensen [mailto:Reed@dowlandbach.com]
Sent: Monday, January 16, 2006 3:13 PM
To: tim_ryherd@dnr.state.ak.us
Cc: palmergroup@gci.net
Subject: Ooogurk Royalty Reduction

I am sending this message in support of reducing the royalties on all nine of the leases in the Ooogurk Unit under Alaska Statute 38.05.180; leases currently held by Pioneer Natural Resources and its partner ENI Petroleum Exploration Co. to 5% until capital investments have been recovered. In fact I think we need to do more creative thinking like this to encourage "Independents" to explore and produce oil to flow into TAPS and money to flow into the local economy.

To date there has been a lot of talk about "Independents" and about developing "marginal" fields, but little action. Pioneer seems committed on this project and we should not let the opportunity go by because someone may say would could have gotten more money. I already have too many friends that abound with advice on what stocks I should have bought 5 years ago. These same "friends" are not exactly resting on the laurels of their own investment portfolios.

Ooogurk looks like a project worth moving forward on. We will never know how this new style of development on the North Slope will work if we never attempt to do it.

Sincerely,

Reed Christensen

Dowland Bach Corp

6130 Tuttle Place

Anchorage, AK 99507

phone (907) 562-5818

fax (907) 562-5816

Temple Davidson

From: Tim Ryherd [tim_ryherd@dnr.state.ak.us]
Sent: Wednesday, January 18, 2006 4:37 PM
To: 'Temple Davidson'
Subject: FW: Proposed Royalty Modification to Oooguruk Lease
Attachments: DNR Letter - Kip Knudson.bmp

From: Pennington, Merri F. [mailto:MPennington@tsocorp.com]
Sent: Wednesday, January 18, 2006 4:24 PM
To: tim_ryherd@dnr.state.ak.us
Cc: Knudson, Kip C.
Subject: Proposed Royalty Modification to Oooguruk Lease

Comments from Kip Knudson with Tesoro.

Thank you.

Tim Ryherd, Commercial Analyst
Division of Oil and Gas
Alaska Department of Natural Resources
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Fax: 907-269-8938
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TESORO
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907 561 5521
907 561 5047 Fax

RE: **Proposed Royalty Modification to Oooguruk Leases**

Dear Mr. Ryherd:

Tesoro Alaska supports the Department's analysis and your proposed royalty modifications to the Oooguruk leases held by Pioneer Natural Resources. We expect the outcome of the modifications will be increased Alaska crude production.

Tesoro Alaska operates a rated 72,000 barrel per day, medium complexity refinery on the Kenai Peninsula, adjacent to the Cook Inlet. We also operate 29 gas stations, a branded dealer program, and a large wholesale program to sell gasoline, diesel, jet fuel, propane and home heating oil, primarily to satisfy Alaska demand. We employ over 600 Alaskans throughout the state.

When refinery production began in 1969, 100% of our throughput was Cook Inlet crude. Today we refine every drop of Cook Inlet crude, yet that constitutes only, on average, one-third of our throughput. An additional third of our crude slate originates from the North Slope, with the remainder originating from foreign sources.

Tesoro supports responsible exploration and production from marginal leases in Alaska that could increase crude supply and provide alternatives to purchasing from foreign producers, while providing an important benefit to the Alaska economy.

If you have any questions about our industry, please do not hesitate to call me at 261-7221.

Sincerely,

Kip Knudson MP.
Kip Knudson
Government Affairs Manager