

NIKAITCHUQ UNIT

APPROVAL OF EXTENSION TO THE TERM OF THE NIKAITCHUQ  
UNIT

Findings and Decision of the Director  
of the Division of Oil and Gas,  
Under Delegation of Authority  
from the Commissioner of the State of Alaska  
Department of Natural Resources

MAY 13, 2009

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## I. INTRODUCTION AND DECISION SUMMARY

By letter dated March 16, 2009, the Nikaitchuq Unit Operator, Eni US Operating Co. Inc (Eni) requested:

- extension to the Nikaitchuq Unit (NIKU) Agreement under 11 AAC 83.336(a)(2) and Article 14.2 of the NIKU Agreement until April 1, 2011; and
- extension of the contraction deadline that pertains to lease ADL 391283, (as specified in Article IV Section A.3 of the First Expansion of the Nikaitchuq Unit Area dated October 5, 2007), until October 5, 2010.

Under 11 AAC 83.336 and Article 14.2 of the NIKU Agreement, the NIKU Agreement automatically terminates five years from the effective date unless certain conditions are met. Without extension, the NIKU Agreement would terminate effective April 30, 2009. Furthermore, under the terms of the First Expansion of the Nikaitchuq Unit Area effective October 5, 2007, on October 5, 2009 any portion of lease ADL 391283 not committed to a participating area would be segregated as to the portion committed to the participating area and the portion not committed to the participating area would automatically contract from the unit unless covered by an approved Plan of Exploration (POE) or Plan of Development (POD).

The State of Alaska, Department of Natural Resources (DNR), Division of Oil and Gas (Division) gave notice under 11 AAC 83.311 of the proposed extension of the unit agreement on March 20, 2009. The period for public comment closed effective April 27, 2009. No comments were received.

The Nikaitchuq Unit, formed effective April 29, 2004, is located on the North Slope of Alaska, immediately north of the Kuparuk River Unit (KRU) and initially contained 12,968 acres encompassing eight state oil and gas leases (state leases). The Nikaitchuq unit formation approval included Exhibit G to the NIKU Agreement and the initial Plan of Exploration (1<sup>st</sup> POE), effective January 1, 2007. The five-year plan of exploration included the drilling of eight wells that targeted the Schrader Bluff Formation.

The NIKU was expanded on October 5, 2007. The adjacent Tuvaq Unit, also operated by Eni, was combined into the Nikaitchuq Unit along with lease ADL 391283. As a result, NIKU now covers approximately 33,870 acres in eighteen state leases. In the approval of the NIKU expansion, lease ADL 391283 was committed to the unit with the stipulation that on October 5, 2009, any portion of ADL 391283 not committed to a participating area would be segregated as to the portion committed to the participating area and the portion not committed to the participating area. The portion not committed to the participating area would automatically contract from the unit unless covered by an approved POE or POD.

This Approval constitutes the written findings and decision required under 11 AAC 83.303 and is fully appealable. The Division finds that approval of the Unit Extension Request promotes conservation of all natural resources, prevents economic and physical waste, provides for the protection of all parties of interest, including the State, and meets the requirements of 11 AAC 83.336(2). DNR approves the extension in accordance with the criteria under 11 AAC 83.303.

Furthermore, DNR approves extension of the deadline for inclusion of lease ADL 391283 in a participating area until October 5, 2010. On October 5, 2010, any portion of ADL 391283 not committed to a participating area would be segregated as to the portion committed to the participating area and the portion not committed to the participating area. The portion not committed to the participating area would automatically contract from the Unit unless covered by an approved POE or POD.

## **II. DISCUSSION OF DECISION CRITERIA**

AS 38.05.180(p) gives DNR the authority to approve an oil and gas unit. DNR previously approved the Nikaitchuq Unit. The Commissioner of DNR (Commissioner) reviews unit agreement extensions under 11 AAC 83.336 (2), subject to the criteria specified in 11 AAC 83.303. By memorandum dated September 30, 1999, the Commissioner approved a revision of Department Order 003 and delegated this authority to the Division Director.

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

#### **1. The Environmental Costs and Benefits**

The extensions of the NIKU Agreement and the contraction deadline for lease ADL 391283 does nothing more than revise the expiration deadlines and therefore, the extensions will have no environmental costs and benefits beyond those considered in the original unit formation approval and subsequent plans of exploration and development.

#### **2. Geologic and Engineering Characteristics and Prior Exploration and Development Activities**

Approval of the extensions to the NIKU Agreement and the contraction deadline for lease ADL 391283 has no impact on the Division's prior consideration of the geologic and engineering characteristics of the potential hydrocarbon accumulation(s) or reservoir(s) in the Unit area.

#### **3. Plans of Exploration and Development**

Since approval of the POE and the POD, Eni has engaged in exploration operations. Eni tested two of the eight wells and found the "Schrader Bluff Formation OA sand

hydrocarbons to be viscous oil (16-19 degrees API with 100-180 cp) characterized by low GOR (80-140 scf/stb).”

Eni has conducted activities from the onshore drill site at Oliktok Point (ODS). Plans for that drill site include a standalone processing facility and a maximum of 26 wells: producers, injectors, water source wells and disposal wells. Eni plans to use Spy Island as a second offshore drillsite (SID) which will accommodate more than fifty additional wells, remotely operated and connected to Oliktok Point by a sub-sea flowline and utility bundle. In addition, Eni has also either completed or initiated the following activities:

- construction of the Oliktok Point pad which will support the ODS and the Nikaitchuq Processing facilities, the SID, and the pad for the Nikaitchuq Operating Center,
- fabrication on the Production Facilities,
- commencement of engineering and other operations for a subsea cable from the offshore drilling pad to the Oliktok Point production pad,
- drilling of the first production well for the Nikaitchuq Unit development (N03-P05), and
- construction and installation of vertical support members (VSMs) for Eni’s proposed 8-inch Nikaitchuq crude oil gathering line.

Eni submitted the Nikaitchuq First Plan of Development (1<sup>st</sup> Nik POD) on June 10, 2008. The 1<sup>st</sup> Nik POD was approved for the period October 5, 2008 through October 4, 2009. Activities covered by that POD included the completion of all installation projects by September 2009 consisting of two interconnected modules containing the required vessels, pumps, valves, utilities, etc. to process the three phase fluids. The processing and operations modules were to be eighty percent completed at the fabrication yard and then sealifted to Alaska for final completion onsite during the summer/fall of 2009. Initial production wells were scheduled for completion by late fall 2009 with first oil production anticipated in December 2009.

Work stoppage at the Louisiana fabrication yard as a result of Hurricane Ike, drop in crude oil price from \$140/barrel to \$40/barrel, plus current national economic conditions has resulted in Eni revamping their development of Nikaitchuq. Plans are now to:

- fully complete the production modules in Louisiana with a sealift date of 2010, and
- delay completion of the initial production wells by a year until production modules are onsite and functional. First oil production now is anticipated in December 2010.

Eni has undertaken substantial exploration operations under approved plans of exploration and development. Eni requests a two-year extension to the term of the

NIKU Agreement. Approval of the Unit Extension Request meets the requirement of 11 AAC 83.336(a)(2) and provides adequate time for Eni to complete module fabrication/shipment, well completion and PA(s) formation.

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

Under 11 AAC 83.336 and Article 14.2 of the NIKU Agreement, a unit agreement automatically terminates five years from the effective date unless certain conditions are met. By approving the Unit Extension Request, Eni has the opportunity to complete the Nikaitchuq facility infrastructure and bring wells online, thus resulting in the State receiving royalties from the oil production.

The Nikaitchuq Unit contains eighteen leases. All but three of the leases are past the primary term. ADL 390433 expires April 30, 2011. ADL 390615 and ADL 390616 have an expiration date of June 30, 2012. Since the rest of the leases are past primary term, with expiration of the NIKU Agreement, the lease acreage would return to the State and be available for the next North Slope area wide lease sale. However, termination of the unit agreement also would result in the loss of potential development of State's resource under an approved unit plan of development.

Unitized development promotes the conservation of all natural resources, protects all parties of interest, and prevents economic and physical waste. Considering Nikaitchuq, this would comprise the inclusion of lease ADL 391283, which has a contraction date of October 5, 2009, unless that date is extended. The short term benefit of receiving bonus bid revenue is outweighed by the benefits of continued unitized development.

#### **B. Decision Criteria Considered Under 11 AAC 83.303(a)**

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

The Division considered the promotion of the conservation of all natural resources criteria during the approval of the NIKU Agreement, plans of exploration and plans of development. The Approval of the Unit Extension Request extends the term of the NIKU Agreement for a period of twenty-four months, and requires development and production to occur under an approved unit plan of development, i.e., unitized development promotes conservation of all natural resources. Furthermore, extension of the contraction deadline of lease ADL 391283 ensures development of the reservoir in its entirety instead of piecemeal development and production.

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

Approval of the Unit Extension Request and extension of the contraction deadline for lease ADL 391283 prevents economic and physical waste because it approves development of all potentially productive leases under an approved unit agreement, rather

than on a lease by lease basis. Unitization provides for equitable allocation of costs and revenues and efficient and consolidated reservoir management under a unified plan of development, eliminates redundant facilities and lessens environmental impact.

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

Approval of the Unit Extension Request protects all parties of interest, including the State, for the same reasons as the previous approvals of the unit formation, and plans of exploration and development. Eni US Operating Co. Inc is operator of the Nikaitchuq Unit on behalf of its affiliate Eni Petroleum US LLC, owner of 100% of the working interest in the Nikaitchuq Unit leases. Unitized development under an approved plan promotes development of the State's resources while minimizing impacts to cultural and environmental resources. Unitized development protects the economic interest of the working interest owners and royalty owners of a common reservoir. Operations conducted under the NIKU Agreement will not diminish access to public and navigable waters beyond those limitations (if any) imposed by law or already established in the oil and gas lease contracts. The NIKU Agreement and State statute and regulation provide for notice and an opportunity to be heard. No comments were received.

Extension of the term of the NIKU Agreement and extension of the contraction deadline for lease ADL 391283 further protects all parties by affording Eni the opportunity to continue development efforts, while allowing additional time to make adjustments due to unforeseen intervening events including the work stoppage at the Louisiana fabrication plant and current national economic conditions

## **III. FINDINGS AND DECISION**

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

1. The approval of the Unit Extension Request and the extension of the contraction deadline for lease ADL 391283 will conserve all natural resources, including hydrocarbons, gravel, sand, water, wetlands, and valuable habitat.

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

1. Approval of the Unit Extension Request and the extension of the contraction deadline for lease ADL 391283 prevents economic and physical waste.


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

1. The Approval of the Unit Extension Request and the extension of the contraction deadline for lease ADL 391283 adequately and equitably protects the public interest, and is in the State's best interest.

For the reasons discussed in this Findings and Decision, I hereby approve the Extension Request to the term of the Nikaitchuq Unit Agreement retroactively effective from April 29, 2009 through April 1, 2011.

Furthermore, in consideration of Eni's request, I approve extension of the contraction deadline for lease ADL 391283 with the stipulation that on October 5, 2010, any portion of ADL 391283 not committed to a participating area will be segregated as to the portion committed to the participating area and the portion not committed to the participating area. The portion not committed to the participating area will automatically contract from the Nikaitchuq Unit, unless covered by an approved POE or POD.

A person affected by this decision may appeal it, in accordance with 11 AAC 02. Any appeal must be received within 20 calendar days after the date of "issuance" of this decision, as defined in 11 AAC 02.040(c) and (d) and may be mailed or delivered to Tom Irwin, Commissioner, Department of Natural Resources, 550 W. 7th Avenue, Suite 1400, Anchorage, Alaska 99501; faxed to 1-907-269-8918, or sent by electronic mail to [dnr.appeals@alaska.gov](mailto:dnr.appeals@alaska.gov). This decision takes effect immediately. An eligible person must first appeal this decision in accordance with 11 AAC 02 before appealing this decision to Superior Court. A copy of 11 AAC 02 may be obtained from any regional information office of the Department of Natural Resources.

  
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Kevin R. Banks,  
Director  
Division of Oil and Gas

5-13-09  
Date

#### IV. ATTACHMENT

1. Request for extension of: (i) the Term of the Nikaitchuq Unit Agreement and (ii) the October 1, 2009 deadline to include ADL 391283 in a Participating Area under the terms of Nikaitchuq Unit Expansion Agreement.



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RECEIVED

MAR 17 2009

DIVISION OF  
OIL AND GAS



March 16, 2009

The Honorable Commissioner Tom Irwin  
State of Alaska  
Department of Natural Resources  
550 W. 7<sup>th</sup> Avenue, Suite 1400  
Anchorage, Alaska 99501

Re: Request for extension of: (i) the Term of the Nikaitchuq Unit Agreement and (ii) the October 1, 2009 deadline to include ADL 391283 in a Participating Area under the terms of Nikaitchuq Unit Expansion Agreement.

Dear Commissioner Irwin:

Eni US Operating Co. Inc is Operator of the Nikaitchuq Unit on behalf of its affiliate Eni Petroleum US LLC, owner of 100% of the working interest in the Nikaitchuq Unit leases (hereinafter individually and collectively referred to as "Eni"). Eni hereby requests that the Commissioner of the State of Alaska Department of Natural Resources extend the term of Nikaitchuq Unit Agreement until April 1, 2011 pursuant to the provision of 11 AAC 83.336 (a) (2), after public notice as provided in 11 AAC 83.311.

In accordance with the terms of the Article 14 of the Nikaitchuq Unit Agreement, dated effective April 30, 2004, by and between the State of Alaska and Eni, the initial term of the Unit Agreement will expire on April 30, 2009.

Eni has conducted extensive reservoir evaluation, engineering studies, and economic analysis to determine if it is feasible to develop and produce the hydrocarbons discovered in the Schrader Bluff and Sag River formations within the Nikaitchuq Unit Area. Eni has, on a confidential basis, shared with various personnel within the Division of Oil and Gas, the results of such reservoir and engineering analysis, and economic studies related to the Nikaitchuq Unit Area.

In support of this extension request, Eni has further completed and or initiated the following Nikaitchuq activities:

- Construction of an onshore production pad, onshore operations pad and offshore drilling pad.
- drilled the initial production well for the Nikaichuq Unit development (N03-P05),
- commenced fabrication of Production Facilities
- initiated engineering and other operations for a subsea cable from the offshore drilling pad to the Oliktok Point production pad
- commenced construction and installation of Vertical Support Members for Eni's proposed 8-inch Nikaitchuq crude oil gathering line.

Also, in accordance with the terms of its approved Plan of Exploration, Eni contracted with PGS to shoot a 3-D marine seismic survey during the 2008 open water season in State of Alaska waters in the Beaufort Sea utilizing an ocean bottom cable/transition zone technique. The seismic survey covered Nikaitchuq Unit leases and the seismic data acquired is currently being interpreted and will be beneficial in both future development drilling and in any subsequent exploratory drilling that might be conducted on the Nikaitchuq Unit leases.

The Director of the Division of Oil and Gas, under delegation from the Commissioner of the State of Alaska Department of Natural Resources approved the First Expansion of the Nikaitchuq Unit Area ("First Expansion"), effective October 5, 2007. The terms of Article V (Findings And Decision) of the First Expansion, under Section C. 12 provides in pertinent part as follows:

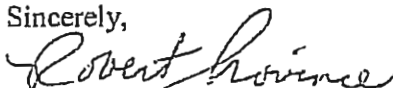
"On October 5, 2009, any portion of ADL 391283 not committed to a participating area will be segregated as to the portion committed to the participating area and the portion not committed to the participating area. The portion not committed to the participating area will automatically contract from the Unit unless included in an approved POE or POD."

Eni requests that the State of Alaska Department of Natural Resources hereby amend the terms of the First Expansion by extending the date until October 5, 2010 by which any portion of ADL 391283 must be included in a participating area under Article V. Section C.12.

Eni requests that the information previously provided on a confidential basis remain confidential to the extent permitted by law and regulation consistent with the requirements of these extension requests and the related review process.

Should you have any questions please give me a call at (907) 865-3350.

Sincerely,



Robert Province  
Land Manager-Alaska