



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Natural Resources

DIVISION OF OIL & GAS

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December 22, 2017

CERTIFIED MAIL
RETURN SERVICE REQUESTED

Cory E. Quarles
Vice President
ExxonMobil Alaska Production Inc.
P.O. Box 196601
Anchorage, AK 99519-6601

Re: PTU Revised Expansion Project Planning POD — Approval

Dear Mr. Quarles:

Thank you for your October 12, 2017 letter regarding the Point Thomson Unit (PTU) Plans of Development (PODs). The Division approved ExxonMobil Alaska Production's (Exxon) Initial Production System (IPS) POD and denied the Expansion Project Planning POD on August 29, 2017. Your letter provides new information that supplements the Expansion Project Planning POD and thus represents an amendment to that proposed POD (Revised Planning POD). This decision approves the Revised Expansion Project Planning POD.¹

The primary concern that the Division raised with the initial Planning POD was that it conditioned planning work on a commercial agreement and a decision to fund. For example, the Planning POD included the following instances of conditional language:

- “Securing Heads of Agreement (HOAs) or other necessary commercial arrangements with PBU for injection of PTU gas *will be necessary to allow FEED activities to move forward.*”
- “The WIOs will need to have a clear understanding of the commercial arrangements for gas injection at PBU. Sufficient clarity and certainty regarding terms, either through a Heads of Agreements (HOAs) or otherwise, *will be necessary to allow FEED funding and the work activity to move forward.*”
- “*If funded, FEED would progress...*”
- “The FEED phase *would* include...”
- “Additionally, the FEED phase *would* address...”
- “Additional meetings with State and Federal agencies *would* take place as part of that process.”

¹ Unless noted otherwise, “Revised Planning POD” refers to the October 12, 2017 letter with the contents of Exxon’s initial June 30, 2017 Planning POD incorporated by reference.

- “Interfacing with IPS Operations personnel *would* be critical...”
- “Integration or interface with existing plans or procedures implemented for PTU Operations *would* be addressed...”
- Emergency preparedness and response *would* also be addressed...”
- “Calibration of existing hydraulic models for the IPS wells, West Pad gathering line and PTEP with operational data *would* underpin process design data for the facility.
- “Power loads of IPS infrastructure and utility systems performance *would* be used during FEED...”
- Data from start-ups/shutdowns *would* be used...”

In a July 6, 2017 email to Exxon, the Division pointed to the conditional language and observed that “[t]his language appears to qualify the expansion planning as tasks that you will only conduct if funded. Please clarify whether this was your intent.”

At a July 12, 2017 technical meeting, representatives from Exxon confirmed that it intended the Planning POD to be conditional, stating that Exxon would not proceed with Expansion Project Planning work unless the Working Interest Owners first entered a commercial agreement with the Prudhoe Bay Unit working interest owners and also decided to fund the work. Subsequent to that meeting, a representative from ConocoPhillips Alaska, Inc. (Conoco) called the Division’s Unit Section to confirm that Exxon had stated at the July 12 meeting that Exxon would not move forward with Expansion Project Planning work unless the Working Interest Owners entered the commercial agreement and decided to fund. Based on these statements, the Division understood that Working Interest Owners indeed intended the Planning POD to be conditional. The Division articulated that understanding in its August 29, 2017 decision.

The Revised Planning POD changes Exxon’s position on the conditional language. In particular, you stated that Exxon now “does not condition all planning work on agreement on terms for delivery of gas to Prudhoe Bay, and engineering and permitting work is ongoing.” This is very different from the initial Planning POD language and Exxon’s and Conoco’s earlier statements about the meaning of that language.

The Revised Planning POD also states that Exxon “must obtain necessary authorization from the working interest owners as provided in the Point Thomson Unit Operating Agreement and has obtained such authorization to progress expansion project work activity through 2017, and this work is ongoing as detailed in the attachment. All requisite approvals to progress expansion project work to a decision point of year-end 2019 have not been received and thus ExxonMobil has clarified the status and process for owner approvals.” This merely describes typical industry practice. Noting the current status of Working Interest Owner authorizations is very different

from the language in the initial POD, which indicated that Exxon would only complete planning work “if funded.”

In addition to the concerns about the POD being conditional, the Division’s August 29, 2017 decision also pointed out areas where the Planning POD lacked sufficient detail. The Revised Planning POD provides some additional information about Exxon’s proposed Planning work.

The Division has considered the Revised Planning POD, particularly in light of the new information it provides, and considered whether the Revised Planning POD is consistent with the Settlement Agreement. Paragraph 4.6.2 of the Settlement Agreement states that the WIOs “must begin engineering and permitting of a Point Thomson Expansion Project” and submit an Expansion Project Planning POD “that includes work plans for evaluation and selection of an option for development of the Point Thomson Reservoir through a Point Thomson Expansion Project.” This POD must include plans to address (1) data acquisition and technical evaluations and qualifications to support the development plan; (2) well planning, including identification of the number, location, and completion plans for wells; (3) the project design basis and engineering plans for infrastructure, pads, and processing facilities; (4) acquisition of permits and other approvals; (5) operation and maintenance considerations; (6) construction and start-up, including estimated completion times; (7) logistics; and (8) safety, security, health, and environmental considerations.

The Revised Planning POD discusses a potential expansion to the IPS facilities and infrastructure to increase production to more than 50,000 barrels per day of condensate to transport through TAPS and 920 million standard cubic feet per day of gas to inject into the Prudhoe Bay Unit (PBU). As part of this project, Exxon would drill two new production wells from the Central Pad, drill a disposal well, and convert PTU 15 and PTU 16 from injectors to producers. Exxon set forth five activities for the 2017-2019 Expansion Project Planning POD period:

- Negotiate a commercial agreement to inject gas into PBU.
- Discuss technical alignment and scope with the PBU WIOs.
- Front End Engineering Design (FEED) planning and execution.
- Develop applications for federal and state permits.
- Prepare unspecified “deliverables.”

The Revised Planning POD sets forth planned activities related to each of the categories of items required by the Settlement Agreement, including greater detail regarding the five activities listed above.

As discussed above the Revised Planning POD also removes the conditions that Exxon included in the initial Planning POD. In particular, the Division understands the Revised Planning POD to commit to the proposed planning work, rather than describe work Exxon might do if the Working Interest Owners decide to fund it and enter a commercial agreement with the Prudhoe Bay Unit working interest owners. Exxon will perform the planning work set forth in the Revised

Planning POD. If the PTU Working Interest Owners do not fund the planning work or enter a commercial agreement with the Prudhoe Bay Unit working interest owners, those events will not in any way absolve Exxon from fulfilling its obligation to complete the planning work promised in the Revised Planning POD.

With the additional detail and removal of conditions provided in the Revised Planning POD, the Division finds that the Revised Planning POD is consistent with the Settlement Agreement. Accordingly, the Revised Planning POD is approved.

In addition to revising the Expansion Planning POD, the October 12, 2017 letter took issue with the Division considering the IPS and Expansion Project Planning PODs separately. As the Division stated in the August 29, 2017 letter, the State interprets the Settlement Agreement as addressing (1) the prior IPS POD; and (2) specific Future PODs for a Major Gas Sale Sanction, Expansion Project Planning, and Expansion Project Commitment. The current and future IPS PODs do not fall into those categories. Rather, the current and future PODs for IPS are governed by the unit agreement and pertinent regulations. It was because the IPS POD was governed by the regulations that the Division could consider Exxon's failure to sustain production of 10,000 barrels per day as a deviation from the POD under 11 AAC 83.343(c) rather than a breach of the Settlement Agreement. The Division was satisfied with Exxon's explanation for the POD deviation and approved the new IPS POD on August 29, 2017. That outcome might have been quite different had the Division instead been forced to consider Exxon's explanation as breach of contract defense.

It is the Division's understanding that the Settlement Agreement sought to alter DNR's administrative appeal procedures and superior court jurisdiction over challenges to DNR decisions by making a challenge to an Expansion Project Planning POD decision subject to review in the first instance in superior court. To the extent this understanding is incorrect or a person who is not party to the Settlement Agreement seeks to challenge this decision, 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 Andrew T. Mack, 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. 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.

Sincerely,



Chantal Walsh
Director