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VIA HAND DELIVERY

May 2, 2016

Corri Feige, Director
Division of Oil and Gas
Department of Natural Resources
550 West 7th Avenue, Suite 1100
Anchorage, AK 99501-3560

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MAY 02 2016
DIVISION OF OIL AND GAS

Re: 2016 Prudhoe Bay Unit IPA Plan of Development
Response to Division's Letter of April 11, 2016

Dear Director Feige:

We are responding to your April 11 letter ("Division's Letter") seeking additional information for Division of Oil and Gas ("Division") review of the 2016 Plan of Development ("IPA POD"), and expanding the scope of a new "POD requirement" first asserted in the January 14, 2016 letter to operators of State units ("January Letter"). We submitted the IPA POD on March 31, 2016, as Prudhoe Bay Unit operator ("PBU Operator") and on behalf of the working interest owners ("WIOs").

PBU Operator's submission of the IPA POD satisfies all requirements of the Prudhoe Bay Unit Agreement ("PBUA") and POD regulations. Yet the Division's Letter seeks extraordinary additional information concerning "the timing and type of activities that will be conducted to prepare for MGS [Major Gas Sales]." These new requirements asserted by the Division are contrary to the terms of the PBUA as well as the Division's regulations and the Division's own interpretation of its regulations over many decades.

A. The IPA POD Complies with the PBUA and Alaska POD Regulations

The requirements for a plan of development ("POD") are contained in Section 4.2 of the PBUA and 11 AAC 83.343(a). PBUA Section 4.2 states that a POD is to comprise "engineering and production practices . . . on a Reservoir basis (or portion thereof), designed to efficiently and economically produce Unitized Substances."

11 AAC 83.343(a) states that a POD submission contain, among other information, development activities for the unit, including plans to delineate underlying oil or gas reservoirs, bring the reservoirs into production, and maintain and enhance production once established, "**to the extent**

that available information exists” [Emphasis added]. 11 AAC 83.303 includes considerations that the Division will weigh in approving a POD, but does not expand the scope of the information required to be provided in a POD.

Consistent with the contractual requirements of the PBUA and the POD regulations, the IPA POD contains plans for the development and operation of the IPA for the one-year POD period as well as a discussion of projects under evaluation by the IPA WIOs. The discussion of long-term projects was based on information available to PBU Operator about those projects. Additionally, in conjunction with the submission, the PBU Operator met with Division staff and during that meeting overviewed IPA field activities and development during the previous year and planned IPA activities and development for the coming year.

This is similar to past practice, including most recently in 2015, when the PBU Operator held an annual field review with Division staff on March 24, 2015, which covered (among other matters) the technical information and plans in the 2015 IPA POD. The Division notified PBU Operator on April 10, 2015 that the 2015 IPA POD was complete, and that POD was approved by the Division on May 13, 2015. The Division has followed a similar practice for all previous POD submissions.

B. The Division Has Access to Information Relevant to the Information the Division Seeks from PBU Operator

The Division’s Letter seeks information relating to in-fill drilling plans and strategies required to initiate gas offtake for MGS, plans, strategies and timing related to CO2 management during MGS, and technical strategies, timing and activities required to achieve a gas balancing agreement.

The Division already possesses much information related to those matters. Division staff attended the September 2015 Alaska Oil & Gas Conservation Commission (“AOGCC”) hearing on BPXA’s application for amendment of Prudhoe Oil Pool Rule 9, including the confidential portion of the hearing.

Filings and testimony during the public part of the hearing addressed potential PBU development activities, including potential drilling and workover activity that would support MGS with January 2025 startup date. That testimony also addressed projected PBU development activities that are currently assumed to occur during MGS, including normal annual turnaround maintenance events, perforations to add gas production, and conversion of the apex gas injectors to gas producers late in project life.

The AOGCC testimony described the initial Alaska LNG Project plan to return CO2 byproduct to the PBU, as well as the initial plan for the WIOs to handle injection. Testimony also addressed the potential location for CO2 byproduct injection, which is currently projected to occur through existing injection wells, wells converted to injection, or newly drilled and permitted injection wells. But, this CO2 injection would not start at the time of MGS, and construction of CO2 facilities would not start until 2-3 years before MGS start up, well beyond the time frame of the 2016 POD.

The Division also has access to public information in FERC Docket No. PF14-21-000, Alaska LNG Draft Resource Report No. 1 Section 1.3.3.2, describing potential PBU modifications and new facilities that might be necessary for the Alaska LNG Project.

Regarding the Division's interest in commercial matters, including gas balancing, related to MGS, it is public knowledge that the State of Alaska is engaged in negotiations with the Alaska LNG Project participants regarding numerous commercial agreements. DNR leadership have provided non-confidential briefings on these commercial negotiations, including to the Legislature, which is available to the Division.

More generally, the Division currently has information regarding activities related to eventual commencement of a MGS, including agreements the Governor of Alaska has determined are essential to MGS. See <http://gov.alaska.gov/newsroom/2015/12/governor-walker-makes-public-signed-gas-availability-agreements/>.

C. The PBU Operator Does Not Possess Long-Range Information the Division Wants

The Division's Letter seeks MGS-related information regarding infill drilling plans and timing required to initiate gas offtake, plans and timing related to CO₂ management, strategies, timing and activities related to gas balancing, and changes in IPA operations. PBU Operator's discussion of long-range IPA plans and activities in the IPA POD reflects information available to PBU Operator regarding those activities.

PBU gas has been extensively developed to increase oil recovery. By expanded gas cycling and continued use of the gas for enhanced oil recovery and extraction of NGLs, we have produced to date three billion barrels of oil more than originally estimated. The 2016 IPA POD continues to appropriately focus on using gas to enhance oil recovery.

Nevertheless, as the Division knows, the State of Alaska together with affiliates of the three largest PBU WIOs are collectively pursuing the Alaska LNG Project (currently in pre-FEED) with a potential startup targeted in the 2025 timeframe. PBU Operator and the WIOs are cooperating with the Alaska LNG Project participants to provide needed technical information regarding PBU operations and facilities (such as PBU gas composition, anticipated gas delivery pressures, potential gas delivery points, and so forth). Beyond that, the PBU WIOs continue to evaluate viable plans to optimize gas and oil recovery and to address facilities, equipment, wells and operational changes to position for major gas sales. Those activities are still in the evaluation stage, recognizing that the Alaska LNG Project would not be ready to receive gas from the PBU IPA for at least eight or nine years. The information that the Division's Letter seeks does not exist at this stage, and to require it violates 11 AAC 83.343(a).

D. Technical Workshop on Potential Plans and Activities for MGS

As set out in this response, and as indicated in our IPA POD submission, the PBU WIOs are evaluating plans and activity that would be necessary to support MGS. Those plans are still being developed and are not required in connection with the submission of the IPA POD. Consistent with past practice, if it would be helpful to the Division, following approval of the 2016 IPA POD, PBU Operator would be available to conduct one or more informal and

confidential technical meetings with Division staff during the next IPA POD period to discuss the Division's interest in understanding IPA plans and activities supportive of MGS.

E. The Division's Newly Asserted Requirements Are Inconsistent with the PBUA, 11 AAC 83.343, and 40 years of Well Established Division Precedent for Approval of PODs

A requirement for submission of long-range MGS related information set forth in the Division's Letter, including strategies, timing and activities related to marketing and commercial arrangements, is outside the scope of the POD terms of the PBUA and the POD regulations at 11 AAC 83.343. (See Section A.) These newly asserted requirements are also inconsistent with well-established precedent and DNR's course of conduct in approving past PODs. Over the 40 years that the Division has received and approved PODs (and reviewed annual updates to PODs), it has never required submission of such long-range hypothetical plans that extend well beyond the one-year term of the POD or information regarding marketing or commercial arrangements.

The IPA POD content is consistent with past IPA PODs submitted to and approved by the Division, including in 2015. The Division has never required the type of information now being sought. Nor has it ever attempted to interpret applicable statutes and regulations to require submission of such information as part of the POD process. The IPA POD submission, together with the information provided by PBU Operator at the overview, and the information provided at our meeting with Division staff, demonstrate that the WIOs' plans to develop the IPA fully comply with both the terms of PBUA Section 4.2 and the POD regulations, including the Division's long standing interpretation of POD information requirements.

F. The Division's Requirement For Long-Range Plans and Activities Relating to Preparations for MGS Constitutes Impermissible Rulemaking

The Division's asserted requirement of long-range information related to preparation for MGS in this year's IPA POD and all future PODs is contrary to the PBUA and the Division's regulations. The Division's Letter expands the scope of a new "POD requirement moving forward, commencing in 2016", first asserted in the January Letter, to provide information regarding "how all hydrocarbons available for offtake are being utilized on the unit, are being sold within the state, or are being prepared and/or marketed for potential future sale."

PBU Operator understands this new "POD requirement" also was included in January Letters to operators of State units on the North Slope and in Cook Inlet. The requirement is outside the scope of current regulations and constitutes impermissible rulemaking. Before issuing a new "regulation," the Division must comply with the Alaska Administrative Procedures Act's requirements of public notice, supporting material, an opportunity to be heard thus allowing all WIOs in all state units to comment on the new regulation, and prospective effect. As applied to the IPA, such a "regulation" may not contravene the PBUA. Even if properly promulgated as a regulation, the new "POD requirement" asserted in the January Letter, and expanded in the Division's Letter, would contravene the PBUA.

Nevertheless, PBU Operator voluntarily provided to the Division, in our March 31, 2016, letter information related to PBU operations, including third party access and use of PBU facilities

such as the PBU road system. That information was provided voluntarily because the Division lacks authority to require submission of that data in connection with a POD.

G. PBU Operator Does Not Have WIO Marketing Information

The Division's Letter states that the PBU Operator "indicated that the WIOs prefer that the marketing of gas from the unit be performed by the WIOs individually." This statement by the Division is a mischaracterization of PBU Operator's statement in our March 31, 2016, letter to the Division. What we stated in the letter was that "marketing of unit production is subject to U.S. antitrust laws and is performed by the WIOs individually." We further stated that PBU Operator does not possess unit marketing information because we do not market on behalf of the unit.

Instead, the Division's Letter now indicates that PBU Operator "direct each WIO to provide its own separate response" to the requested marketing information, and states that the Division would incorporate the separate responses into the IPA POD but not disclose those POD portions to any other WIO, including PBU Operator. However, PBU Operator neither possesses the right, nor the ability, to direct the PBU WIOs to market gas, and certainly cannot "direct" them to provide gas marketing information to the Division. Moreover, the fact PBU Operator does not, and cannot, possess each individual WIO's marketing information demonstrates the inappropriateness of the Division's newly asserted "requirement" to include such information in the IPA POD. Finally, an operator cannot be expected to plan and execute field development pursuant to a POD, when portions of the POD must be kept secret from that operator. Nevertheless, we have sent the Division's Letter to the other WIOs.

We have not attempted to be exhaustive in this response, rather highlighting a number of our objections to the January Letter and the Division's Letter. In light of these considerations, we respectfully request that the Division find our March 31, 2016, submission of the IPA POD complete and approve the IPA POD.

Sincerely,



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Alaska Reservoir Development
BP Exploration (Alaska) Inc.

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