STATE OF ALASKA

SARAH PALIN, *GOVERNOR*

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL & GAS

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August 4, 2008

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

DECISION

Chevron USA, Inc.
Land Manager - Alaska
P.O. Box 36366
Houston, Texas 77236

Oil & Gas Lease
ADL 47572

Point Thomson Unit
Tract 16

LEASE EXPIRATION DUE TO ELIMINATION FROM UNIT

The State of Alaska (State), Department of Natural Resources (DNR), Division of Oil and Gas (Division) issued oil and gas lease ADL 47572 effective October 1, 1969 with a ten-year primary term. ADL 47572 was committed in its entirety to the Point Thomson Unit (PTU), effective March 1, 1977.

On August 31, 2005, ExxonMobil Corporation (ExxonMobil), the PTU Operator, submitted the 22nd Plan of Development (22nd POD) for the PTU to the Division for approval. On September 30, 2005, the Division Director rejected the POD in a written decision. That decision was amended on October 27, 2005 (Amended Decision). The Amended Decision found that the 22nd POD was unacceptable, put the PTU in default, and provided that the failure to cure the default would lead to unit termination.

ExxonMobil, as the Unit Operator, appealed the Amended Decision to the DNR Commissioner. On November 27, 2006, the Commissioner issued a written decision on appeal that: (1) affirmed the Director's Decision in all respects except to the extent it could be read to mean the PTU contained wells capable of producing in paying quantities; (2) adopted and incorporated the findings and rationale of the Director's Decision as modified by the Commissioner's Decision; (3) rejected the cure or revised 22nd PTU POD submitted by ExxonMobil on October 18, 2006; and (4) terminated the PTU. On December 27, 2006, the Acting DNR Commissioner issued a decision on reconsideration that affirmed the November 27, 2006 decision in all respects.

On February 13, 2007, I issued a decision terminating the lease because it was eliminated from the unit and was beyond its primary term. Lessees appealed and designated an appeal record.

Exxon Mobil, and other PTU working interest owners, BP Exploration Alaska (BPXA), Chevron USA, Inc. (Chevron), and ConocoPhillips Alaska, Inc. (ConocoPhillips) (collectively "Appellants") also appealed the Commissioner's PTU termination decision to Alaska State Court. The appeals were consolidated and assigned to Anchorage Superior Court Judge Sharon Gleason. On December 26, 2007 Judge Gleason issued a decision: (1) affirming DNR's rejection of the 22nd POD; and (2) confirming that DNR had the authority to administratively terminate the PTU. Judge

Gleason expressly declined to address the Commissioner's decision that the PTU "certified wells" were not capable of producing in paying quantities. Regarding the remedy of unit termination, Judge Gleason ruled that Appellants' due process rights were violated because they did not have adequate notice that DNR would invoke the remedy of unit termination if it did not approve the revised 22nd POD. Judge Gleason directed DNR to conduct proceedings to allow Appellants to present and support alternative remedies to unit termination in light of the rejection of the 22nd POD.

On February 19, 2008, Appellants submitted a 23rd POD as a proposed remedy for DNR's rejection of the 22nd POD. In accordance with Judge Gleason's decision, DNR Commissioner Tom Irwin accepted written filings and conducted an administrative hearing March 3 through 7, 2008 to address whether the proposed 23rd POD was an appropriate remedy for DNR's rejection of the 22nd POD. On April 22, 2008, Commissioner Irwin issued a written decision concluding that the proposed 23rd POD was not an appropriate remedy and, after examining the history of the unit and making findings regarding the evidence presented at the remand hearing, terminated the PTU. On May 12, 2008, Appellants sought reconsideration of Commissioner Irwin's termination decision. On June 11, 2008 Commissioner Irwin issued a reconsideration decision affirming his termination decision.

In accordance with the April 22, 2008 and June 11, 2008 DNR Commissioner's decisions, the PTU no longer exists. Further, in accordance with the November and December 27, 2006 DNR Commissioner's decisions regarding well status, there are no wells capable of producing in paying quantities on any lease in what is now the former PTU. Therefore, pursuant to AS 38.05.180(m) and 11 AAC 83.140, ADL 47572 expires effective 90 days from the April 22, 2008 decision, or July 22, 2008, because it is a non-producing lease beyond its primary term, that is no longer part of a unit, and does not contain a well capable of producing in paying quantities.

These actions have been included in the Division's records.

Any 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 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. In any appeal, the record previously designated in the response to the appeal of the February 22, 2007 decision will be considered the record on the appeal You may, however, also submit additional documents for Commissioner Irwin's consideration. This decision takes effect immediately. An eligible person must first appeal this decision in accordance with 11 AAC 02 before appealing it to Superior Court. You may obtain a copy of 11 AAC 02 from any regional information office of the Department of Natural Resources.

Kevin R. Banks, Director
Division of Oil and Gas