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July 31, 2014

W.C. Barron
Director
Alaska Department of Natural Resources
Division of Oil and Gas
550 West 7th Avenue, Suite 1100
Anchorage, AK 99501

Via Hand Delivery

Re: Call for comments on 11 AAC 83

Dear Director Barron:

The Division of Oil and Gas held a public scoping meeting on June 23, 2014 to solicit input on the Oil and Gas Leasing regulations codified at 11 AAC Chapter 83, and is accepting written comments through July 31, 2014. ConocoPhillips attended the public meeting and welcomes this opportunity to submit written comments in support of changes to select regulations.

In selecting particular sections in Chapter 83 to comment on, we focused on areas where the burden imposed by the regulations outweighed the value. Thus, our comments are aligned with the Governor's Administrative Order No. 266, issued on August 26, 2013, which requires Departments of the state government to "[d]iscuss with members of the affected public, regulations that create an unnecessary burden[.]" Considering the very general nature of the scoping meeting and the relatively short period of time to comment on regulations with broad application, this letter should not be construed as a fully comprehensive review of Chapter 83.

ConocoPhillips believes that the interests of industry, government regulators, and the public are best served by a stable and clear regulatory environment where both the regulators and lease operators are able to understand what is required of them. We believe that these interests are best served by objective standards, applied consistently over time, and applied uniformly to all lease operators. The regulations should also be written and applied clearly to avoid contravening the terms of oil and gas leases or approved unit agreements.

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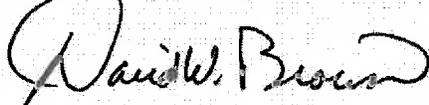
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Our comments on specific regulations in Chapter 83 are set forth in the attachment to this letter. To the extent the Division proposes to further consider or take action on these or other comments, ConocoPhillips encourages the Division to use an informal workshop approach to collaboratively develop the issues with the regulated industry and the public.

Thank you for the opportunity to comment. Please call me if you have any questions or need any additional information about these comments.

Very truly yours,

A handwritten signature in black ink that reads "David W. Brown". The signature is written in a cursive style with a large initial "D".

David W. Brown
Alaska Land Manager

cc: Michael Hurley

11 AAC 83.158. Plan of operations

11 AAC 83.356. Unit plan of operations

Issue: Under 11 AAC 83.158 and .356, a plan of operations or unit plan of operations must be approved before any "operations" may be undertaken on the lease or the unit. The scope of this requirement is unclear both as a matter of regulatory language, and in practice.

Discussion: ConocoPhillips recommends greater regulatory clarity around the need for plans of operations, especially within units. We see merit in the idea of identifying activities that are categorically approved within units or regions, especially for matters that are routine. ConocoPhillips would be pleased to work with the Division and others to discuss ways to achieve the permitting goals served by plans of operations in a manner that is less burdensome for both the Division and the industry.

11 AAC 83.235. Redetermination of volume allocations

Issue: The new regulation requiring refiling of NPSL statements due to a volumetric redetermination creates a mismatch between NPSL and Royalty Reports.

Discussion: Redeterminations are prospective changes. Requiring reports to be refiled retroactively invariably creates a discrepancy between the volumes on the A1 and VV reports. Per DNR response to public comments in August 2013, retroactive NPSL reporting requires royalty volumes to remain unchanged while working interest volumes would be adjusted. For example, if redetermination increased working interest volumes, ConocoPhillips would be retroactively restating revenue for NPSL purposes only, yet recording the royalties associated with those volumes with the NPSL filing for the current production month in which the royalties were paid. Filing reports retroactively will become overly burdensome for future redeterminations due to the substantial number of years' worth of reports that would be required to be refiled with the final redetermination.

Recommendation: We request that the Division consider alternatives which would be less administratively burdensome including repealing this regulation, or allowing lump sum "catch up" adjustments at the time of a redetermination.

11 AAC 83.247. Redetermination

Issue: This regulation allows the Commissioner to re-determine the amount of net profit due to the state as the result of an inspection of records or an audit of a Net Profit Share Lease (NPSL). It also requires the Commissioner to notify the Lessee of any underpayment or overpayment.

However, the regulation does not state what information will be provided to the Lessee with the notification.

Discussion: Net Profit Share accounting is complicated and issues are often raised under audit concerning improper costs claimed and the allocation of revenue and costs to a NPSL within a unit. It is crucial for the Lessee to know what costs are disallowed and the basis for the disallowance. It is also important for Lessee to know why any methods of allocation are improper. The notification should include sufficient detail to allow the Lessee to assess whether or not the Division's adjustments are reasonable in light of the lease language and regulations and to detect and challenge errors.

This can be accomplished if the Division's notification includes a detailed factual accounting of the adjustments along with the bases for the adjustments. The Division's notification should also include the audit work papers so the Lessee can review them for computational errors. Additionally, the Division's notification should include the audit criteria used to insure that the lease language and regulations are consistently applied.

Recommendation: We request that the Division add regulatory language that requires the Division (upon the conclusion of a review of records or an audit) to provide the Lessee with the Division's audit criteria, a complete copy of its audit work papers with formulae intact, and a complete copy of its audit report that includes the basis for adjustments or changes to any allocation methodology.

11 AAC 83.250. Lessee protests

11 AAC 83.252. Informal conferences

11 AAC 83.255. Formal hearings

Issue: Under 11 AAC 83.245 the Division has a four- or six-year period within which to audit the NPSL reports of a Lessee, but there are no time limits within which it must hold an Informal Conference or a Formal Hearing.

Discussion: Audits often span many years. Under 11 AAC 83.250 the Lessee is only allowed 60 days to protest a redetermination. Under 11 AAC 83.252 the Informal Conference Office has no deadline to complete a recommendation of the Lessee's protest. If the Lessee is dissatisfied with the Informal Conference Officer's recommendation the Lessee has 30 days to file to a request for a formal hearing. Under 11 AAC 83.255 the Division has no deadline to complete a formal hearing decision. This arduous appeal process can lead to unreasonable delays.

Recommendation: We request that the Division add regulatory language to provide a set schedule for Informal Conference and Formal Hearing decisions which will ensure resolution of audit issues within a reasonable period of time.

11 AAC 83.321. Copies of application required

Issue: Multiple copies of lengthy applications are burdensome to produce and submit in paper form.

Discussion: Common practice has moved away from paper and toward more efficient forms of information delivery, such as thumb drives or other computer-based communication, but the regulations have not kept pace with the changes in actual practice.

Recommendation: Revise this regulation to avoid the need to submit multiple paper copies, and allow for submission by more practical and efficient ways.

11 AAC 83.351. Participating area

Issue: A unit operator is required under 11 AAC 83.351(a) and (c) to either apply to form a new participating area (PA) or apply to expand an existing PA when ... *"land is reasonably known to be underlain by hydrocarbons and known or reasonably estimated through use of geological, geophysical, or engineering data to be capable of producing or contributing to production of hydrocarbons in paying quantities."*

Additionally, 11 AAC 83.343(a) provides in part: *"A unit plan of development must be filed for approval as an exhibit to the unit agreement if a participating area is proposed for the unit area under 11 AAC 83.351, or when a reservoir has become sufficiently delineated so that a prudent operator would initiate development activities in that reservoir."*

At issue here is the requirement that an operator form a PA when land is *reasonably known or reasonably estimated* to be underlain by hydrocarbons capable of producing in paying quantities, along with the requirement that an operator must file a plan of development for activities based on data *reasonably available* at the time the plan is submitted.

Discussion: These two regulatory requirements have led to confusion and inefficiencies. With modern 3D seismic, well information and other data, an operator may have compelling evidence that land is reasonably known to be underlain by hydrocarbons capable of producing in paying quantities, thus meeting the criteria for being included within a PA. However when applying for the PA under the standards of 11 AAC 83.351, a development plan may not be mature with

respect to all areas of the proposed PA. This sometimes results in PAs being approved on a well spacing or drainage radius basis rather than for a larger area, requiring iterative PA expansions later as development plans mature. This is unnecessarily cumbersome and runs contrary to the language in section 351 governing PAs.

The process to prepare and submit PA applications can be 6 to 9 months long, involving expertise from the operator's land, geoscience, engineering, drilling, legal and tax departments, along with staff from working interest owner companies. Similarly, from the State's perspective, PA applications require significant manpower resources for evaluation and approval. We believe there is opportunity to improve this process under 11 AAC 83.351, 11 AAC 83.343 and 11 AAC 83.303.

Recommendation: Consider regulatory or administrative changes to improve the process for forming and expanding PAs, and approving plans of development.

Issue: A second issue under Section 351 involves the Department of Revenue (DOR) codified at 15 AAC 55.212(f), regarding Gross Value Reductions (GVRs), which relies on determinations made by DNR with respect to PA expansions.

Discussion: The DOR's regulations require a written decision by the commissioner approving the expansion of a PA before DOR will approve a GVR. The DNR's practice of only approving PA expansions 90 days before the commencement of sustained production puts operators in a situation where they are unable to obtain a GVR determination by DOR until facilities are constructed and nearly in operation. This creates a timing issue which goes against the intent of the GVRs, which is to provide an economic incentive to develop areas of "new" oil outside of existing PAs and developments, since the operator would have no certainty of receiving a GVR at the time a final investment decision on the development is made.

Recommendation: Allow the operator to apply for and receive approval of PA expansion well in advance of the 90 days before sustained production in appropriate circumstances to mitigate the timing issue described above.

11 AAC 83.356. Unit area; contraction and expansion

Issue: The regulation states in part "If any portion of a lease is included in the participating area, the portion of the lease outside the participating area will neither be severed nor will it continue to be subject to the terms and conditions of the unit. The portion of the lease outside the participating area will continue in full force and effect so long as production is allocated to the unitized portion of the lease and the lessee satisfies the remaining terms and conditions of the lease" (emphasis supplied).

Discussion: In most cases, any tract within a PA will have production allocated to it. However, under the Colville River Unit Agreement participating areas are required to be established by the circle and tangent method. This can lead to tracts included within the PA which have a 0% tract allocation. Under the regulations, if a portion of the lease within the PA has production allocated to it, the portion of the lease outside the PA is held by the participating area. However the regulation is not clear what the effect would be if the portion of the lease within the PA does not have production allocated to it.

Recommendation: Amend the regulation to clarify that if any portion of a lease is included within a PA the lease will not be severed regardless of whether production is allocated to that particular tract.

Miscellaneous Comment 1

Issue: Tracts south of the NS royalty line that were formerly created as 5,760 acre tracts are now being subdivided into 4 parcels each, each of which are bid on separately and awarded as separate leases.

Discussion: The subdivision results in more administrative burden for lessees and the lessor. This also results in land descriptions which include only portions of sections of land rather than entire 640 acre sections. This is burdensome to administer and results in less land held by a discovery well. Orderly development of these lands remote from infrastructure would be enhanced by larger tracts, as used in the past.

Recommendation: The Division should revert back to 5,760 acre tracts south of the NS royalty line, or alternatively, change to 4 section 2,560 acre tracts as is the case north of the NS royalty line.

Miscellaneous Comment 2

Issue: The Division's current oil and gas lease assignment form contains language which attempts to summarize some of the lease requirements concerning liability to the state of prior lessees and required actions upon surrender.

Discussion: This language is unnecessary, imprecise and may be interpreted to impose duties on the lessee other than the duties that arise under the language of the lease itself and applicable law and regulations. The State's interest is not served by this additional language, which tends to undermine the objective of a simple, orderly process for assignment of oil and gas leases and the efficient management of state mineral lands.

Recommendation: The Division should delete the superfluous language from its assignment form.