

STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES

MINERALS AND ENERGY MANAGEMENT

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Decision of the Director
Division of Minerals and Energy Management
Initial Kuparuk Participating Area
Milne Point Unit

In letters of March 5 and March 8, 1982, Conoco, Inc. ("Conoco"), the Milne Point Unit Operator, filed an application for approval of an initial Participating Area, Kuparuk Reservoir, Milne Point Unit, in accordance with Section 11 of the Milne Point Unit Agreement. Objections were filed to Conoco's application by Hamilton International Oil Company ("Hamilton"), one of the unit's working interest owners, in letters dated March 8, and March 25, 1982. Conoco filed additional material on March 17, 1982.

On March 9, 1982, an information discussion was held in the DMEM office between representatives of the Division of Minerals and Energy Management ("DMEM"), Conoco, and Hamilton regarding the Conoco application and Hamilton's objections. As a result of this discussion, Conoco, Hamilton, and DMEM entered into an agreement dated March 15, 1982, whereby Hamilton agreed to withdraw its objections to the 30-day notice period afforded working interest owners under the Unit Operating Agreement provided it received test data from the Milne Point Unit D-1 well by March 19, 1982; Hamilton agreed to submit written objections, if any, to the proposed participating area by March 25, 1982. As part of this agreement, DMEM agreed not to act on Conoco's application prior to March 26, 1982.

Hamilton filed written objections with DMEM in a letter dated March 25, 1982. The objections as stated by Hamilton are summarized below:

1. At the time Conoco requested a vote of the working interest owners on the proposed participating area, Conoco withheld vital D-1 well information from Hamilton and other working interest owners which indicated that additional acreage surrounding the D-1 location might be included in the proposed participating area. This action violates the terms of the Unit Agreement and Unit Operating Agreement.*
2. Under the unit agreement and the unit regulations, the Director must officially certify that the unit or participating area contains a reservoir capable of producing hydrocarbons in commercial quantities before approving a proposed participating area. Because the Director has not certified the existence of a commercial reservoir, an initial participating area may not be approved.

*Because Hamilton's March 25, 1982, objections do not challenge the adequacy of Conoco's notice of the proposed participating area, that objection is considered withdrawn, and no opinion will be expressed on that objection.

3. The economic aspects of commerciality of a reservoir are dependent upon the technical and engineering methods used to develop and produce the reservoir; until Conoco declares this methodology, neither the working interest owners nor the Director can determine that the proposed participating area contains a reservoir capable of producing unitized substances in commercial quantities.

Hamilton's Objection #1

The initial participating area proposed by Conoco is based on sound geologic and engineering criteria, as indicated by a review of those wells within the participating area, two of which have been certified as capable of producing unitized substances in paying quantities. However, based on a preliminary review of the D-1 well results, it appears that the initial participating area as submitted on March 8, 1982, should be expanded. Paragraph 11 of the Unit Agreement requires that the initial participating area be revised from time to time subject to the director's approval whenever that revision "appears proper as a result of further drilling operations or otherwise, to include additional land then regarded as reasonably proved to be productive in paying quantities...." Further, according to Article 37 of the Unit Operating Agreement, a revised participating area based on a volumetric determination of equity will be required six months after the completion of the Milne Point Unit Well C-1 (which was completed on March 18, 1982). As a condition of this approval of the initial participating area, pursuant to the Director's authority under Section 11 of the Unit Agreement, the Unit Operator and Working Interest Owners shall expand the participating area to include that acreage reasonably proven to be capable of production in paying quantities as a result of the D-1 tests not later than September 18, 1982.

Hamilton's Objections #2 and #3

11 AAC 83.351(a) provides that "within 12 months after certification of a reservoir as capable of producing hydrocarbons in commercial quantities in the unit area, but in any event before production from a reservoir, the unit operator shall submit to the commissioner a description, based on subdivisions of the public land survey or its aliquot parts, of the portion of the unit area reasonably proved to be capable of producing hydrocarbons in paying quantities." Under this regulation, a reservoir need not be certified as capable of production in commercial quantities prior to the submission of an application for approval of a participating area; however, a participating area must be established before the commencement of production. This regulation is not inconsistent with the Milne Point Unit Agreement, which provides even more specific guidance for the establishment of a participating

area. Section 11 of the Agreement states in part, "Upon completion of a well capable of producing unitized substances in paying quantities, the Unit Operator shall, within the month of such completion, if practicable, or as soon thereafter as required by the Director, submit for approval by the Director a schedule ... of all unitized land then regarding as reasonably proved to be productive of unitized substances in paying quantities; ..." The Milne Point Unit Wells A-1 and B-1 were certified as being capable of producing hydrocarbons in paying quantities on June 30, 1980 and June 16, 1981 respectively. Following certification of the A-1 well, and in accordance with Section 11 of the unit agreement, the Director of the Division of Minerals and Energy Management requested on October 14, 1980 that Conoco establish an initial participating area by September 28, 1982. Conoco's March 8, 1982 application for approval of the initial participating area is a procedurally proper response to the Director's request. Under these circumstances, the reservoir need not be certified as capable of production in commercial quantities prior to the approval of a participating area as stated in Hamilton's objection #2. Because the reservoir need not be certified as capable of production in commercial quantities prior to approval of a participating area, it is unnecessary to address Hamilton's objection #3 on the methodology for determining commerciality.

Request for Hearing

Hamilton requested that a hearing be held to review its objections before a decision is made on this application. Due to the substantial written and other materials that were provided by Conoco and Hamilton, and in light of the fact that a reservoir need not be certified commercial prior to the approval of a participating area under the circumstances of Conoco's application, it is unnecessary to hold a further hearing in this matter. If Hamilton is dissatisfied with this decision, it has the right under 11 AAC 88 to request reconsideration by the Director at which time it may file a written brief and request the opportunity to present oral argument.

Conclusion

For these reasons, I find that the requirements set forth in the Milne Point Unit Agreement and 11 AAC 83 have been met and approve the proposed participating area filed by Conoco on March 8, 1982, subject to the conditions set out in this decision.



Kay Brown, Director
Division of Minerals & Energy Management

KB Date: April 20, 1982

KB Effective: April 23, 1982

DELEGATION OF AUTHORITY

Under 11 AAC 83.351(a), I am authorized to approve the area of productivity which constitutes a participating area before the participating area of a unit is effective, and revisions to that area. I hereby delegate this authority to Kay Brown, Director, Division of Minerals and Energy Management, for the purposes of the proposed initial participating area of the Milne Point Unit, and the first revision of the participating area. This is not intended to be construed as a delegation to the director which constitutes the final determination of the department. Authority under 11 AAC 88.155 vests the Commissioner with authority for purposes of reconsideration or appeal and that authority is expressly reserved.

Date: April 19, 1982 John W. Katz
John W. Katz, Commissioner
Alaska Department of Natural Resources

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