

STATE OF ALASKA
ALASKA OIL AND GAS CONSERVATION COMMISSION
333 W. 7th Avenue, Suite 100
Anchorage Alaska 99501

Re: Inquiry into potential revision of gas)
offtake limit for the Prudhoe Oil) Prudhoe Oil Pool
Pool, Prudhoe Bay Field) Prudhoe Bay Field

December 5, 2005

REPORT ON COMMISSION INQUIRY
INTO POTENTIAL REVISION OF GAS OFFTAKE LIMIT
FOR THE PRUDHOE OIL POOL, PRUDHOE BAY FIELD

Gas offtake from the Prudhoe Oil Pool is currently limited to 2.7 billion standard cubic feet per day (“bscfd”). This limitation is prescribed by Rule 9 of Conservation Order No. 341D and is among the pool rules for the Prudhoe Oil Pool that were adopted by the Commission in 1977. On March 3, 2005, and May 19, 2005, the Commission held public hearings to inquire into whether Rule 9 should be updated. This report presents the Commission’s conclusion as to that question and as to certain aspects of how to proceed with respect to a potential redetermination of the appropriate offtake limitation.

Approximately 700 million standard cubic feet per day of Prudhoe Oil Pool gas are currently allowed to be used for fuel and other field operations, for the production of salable natural gas liquids, for enhanced recovery in other reservoirs, and for minor local gas sales. The remaining two bscfd available for sale under Rule 9 are re-injected to maintain reservoir pressure and otherwise aid in the recovery of oil. This situation would change dramatically with the construction of a large capacity gas pipeline system that would make North Slope gas available for major gas sales. One scenario being considered by North Slope working interest owners would involve the shipment of approximately 4.5 bscfd of gas through a pipeline system, of which approximately 2.9 bscfd would come from the Prudhoe Oil Pool. This rate of gas offtake from the Prudhoe Oil Pool would require an upward revision of the current limitation in Rule 9. Moreover, after recently reviewing the history and basis of Rule 9, the Commission believes that there is a need to comprehensively revisit the question of the appropriate gas offtake limitation in light of several decades of reservoir development and the information that has become available since 1977, and in light of the current understanding of reservoir management and improved techniques for reservoir simulation.

Because the allowable gas offtake rate may impact ultimate oil and gas recovery in complex and significant ways, the Commission believes that its decision on this question must be informed by data and analysis in which the Commission, the Prudhoe Oil Pool working interest owners (“Owners”) and operator, and the public will have a high degree of confidence. To date none of the Owners has applied for revision of the existing gas offtake rate. Nonetheless, because delay in the Commission’s decision-making could disrupt the timetable for a potential gas pipeline project, the Commission

believes that it is desirable to adopt a proactive approach to ensuring that there will be an adequate factual basis for its eventual decision on allowable gas offtake, rather than relying solely on whatever material the Owners and the operator might choose to submit in support of a future application to amend the pool rules.

Reservoir simulation studies will certainly be a major component in the Commission's evaluation of the gas offtake question. There are two ways the Commission might take a proactive role with respect to such studies. One would be to conduct or arrange for consultants to conduct independent reservoir simulations. The other would be to monitor the Owners' and operator's own reservoir simulation studies on an ongoing basis, so that any questions calling for additional attention or needs for adjustment can be identified and responded to in a timely way during the study process. Assuming adequate cooperation on the part of the Owners and the operator, the latter approach has significant advantages: lower cost to the Commission, less time required to complete evaluation of the studies, more complete and accurate input data, and use of a proven, probably more sophisticated simulation model.

In response to questions posed by the Commission in connection with the hearings on this subject, the Owners and the operator have displayed a willingness to extend to the Commission the requisite cooperation regarding review of their reservoir studies, including simulation studies. In particular, the Owners and operator have agreed to the principles set out in Attachment A hereto, which the Commission adopts and incorporates into this report. Based on the Owners' and the operator's agreement to these principles, the Commission will forego pursuing independent full field reservoir simulation studies, although it reserves the right to initiate such studies at any time.

Assuming that reservoir studies proceed in accordance with the above-stated plans and principles, the Commission does not currently envision a need to further pursue the current inquiry prior to the future initiation of actual adjudication proceedings to redetermine allowable gas offtake rates, although the Commission reserves the right to conduct further inquiry at any time as it may deem appropriate. The Commission expects to receive reports from its staff and consultants as to whether the study process is proceeding in a timely and effective fashion, and the Commission may issue periodic progress reports to the public in this matter.

Accordingly, this inquiry is terminated.

DONE at Anchorage, Alaska and dated December 5, 2005.

John K. Norman
Chairman

Daniel T. Seamount, Jr.
Commissioner

Cathy P. Foerster
Commissioner