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Point Thomson Background

Key facts:

- The Point Thomson unit contains 38 leases on roughly 93,000 acres of land.
- Point Thomson's massive retrograde gas condensate reservoir, located 60 miles east of Prudhoe Bay, is estimated to hold up to 8 trillion cubic feet (TCF) of gas and hundreds of millions of barrels of gas liquids and oil.
- Point Thomson contains approximately 25 percent of the North Slope's natural gas reserves and is critical to any major gas commercialization project.
- The Point Thomson gas reservoir is challenging to develop because it is highly pressurized – with at least three times the pressure of the Prudhoe, Alpine or Kuparuk fields.

Timeline:

- Richfield Oil, Humble Oil and BP Exploration acquired the first Point Thomson oil and gas leases in 1965.
- ExxonMobil discovered commercial quantities of oil at Point Thomson in 1975 and vast gas reserves in 1977.
- The Alaska Department of Natural Resources (DNR) approved the Point Thomson unit in 1977, with ExxonMobil as the unit operator. Today, the other major working interest owners include BP and ConocoPhillips.
- ExxonMobil and other companies drilled 17 wells by 1983 but did not drill any new wells between 1983 and 2009.
- DNR put the unit in default in 2005 after 30 years without development. This began a series of administrative proceedings and legal battles that continued until yesterday.
- In November 2006, the Murkowski Administration terminated the unit after the Producers refused to move the field into production. This matter was appealed to the Alaska Superior Court, but remanded in 2007 to DNR.
- In 2008, on remand, DNR again terminated the unit, rejecting a proposed plan from the Producers to potentially develop the unit.
- The Producers again appealed DNR's unit termination decision to the Superior Court in 2008.
- The Superior Court reversed DNR's unit termination in 2010 and ordered it to hold a separate hearing under Section 21 of the Unit Agreement.

- DNR filed a petition for review with the Alaska Supreme Court, which was granted. This petition halted the ongoing Superior Court proceeding. The main issue before the state Supreme Court centered on whether the superior court properly interpreted the applicable law to require a Section 21 hearing. The state Supreme Court was not asked to address whether DNR properly terminated the unit because that issue was still pending before the Superior Court.

- A ruling from the Alaska Supreme Court on the state's petition for review was still pending as of the settlement.

- The parties to the litigation settled all issues related to the Point Thomson dispute on March 29, 2012.

- Concurrent with the unit litigation, in 2009, DNR Commissioner Tom Irwin allowed ExxonMobil to drill two wells on state leases conditioned upon the Producers commitment to bring these leases into production.

- Prior to the settlement, ExxonMobil successfully drilled two wells, and diligently moved forward with its development plan to bring these leases into production. The settlement agreement built on these work commitments.

Key terminology:

Unit: DNR is authorized under state law to aggregate multiple leases overlying an oil and gas reservoir to ensure efficient development, maximize recovery of hydrocarbons, and prevent waste. The termination of a unit does not automatically result in the termination of the leases in the unit.

Gas Cycling: In a cycling operation, gas and liquids are initially produced together and then the liquids are stripped out of the gas and sent down TAPS. The gas is re-injected to maintain reservoir pressure and to allow for the maximum recovery of liquids from the reservoir. The initial development authorized by the Point Thomson settlement is a cycling project.

Gas Blowdown: In a gas blowdown operation, produced gas is not injected into the reservoir to maintain pressure. Instead, the gas is produced, the liquids are stripped out of the gas and sent into TAPS, and the gas is sent to a gas pipeline. Thus, to "blow down" the field, a gas pipeline and a liquids pipeline must be available to transport the hydrocarbons.

Major Gas Sale (MGS): In the context of the Point Thomson settlement agreement, a Major Gas Sale is a large-scale pipeline project with a design throughput of more than 500 million cubic feet of gas per day that results in delivery of gas off the North Slope of Alaska.

Sanction: In the context of the Point Thomson settlement agreement, "sanction" means that all required state and federal gas line permits have been issued for a Major Gas Sale, and the pipeline sponsors have secured all necessary financing and received full corporate approval to proceed with pipeline construction.