

Alaska Chukchi Sea Exploration

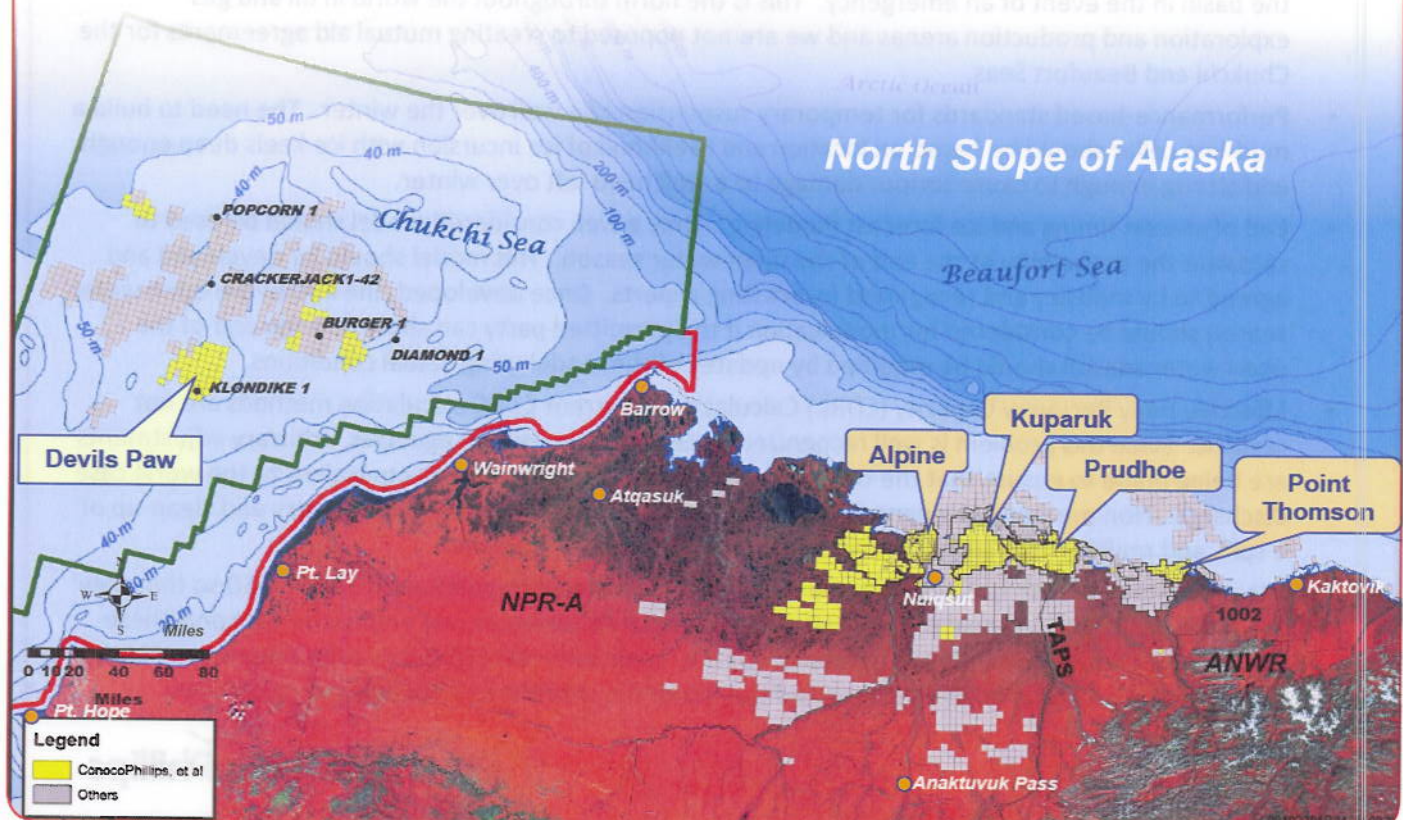


Opportunity of National Significance

- The Chukchi Sea is estimated by BOEM to hold 12 billion barrels of recoverable oil.¹
- If successful, multiple fields in excess of a billion barrels each could be developed, significantly increasing the U.S. domestic oil supply.
- Development requires significant industry investment (tens of billions of dollars) which will create thousands of jobs across the U.S. as well as creating billions in royalty and tax revenue for federal, state and local governments.
- ConocoPhillips (COP) acquired 98 leases in Lease Sale 193 at a cost of \$506 million.

Regulatory Issues that COP would like to see addressed

- Performance Based standards which are fit for purpose rather than prescriptive "one size fits all" standards
- BSEE timeline for response and action on OSRP approval process
- Conditional Approval of an EP and OSRP – request to contract all equipment prior to deeming the applications complete is not tenable
- Mutual Aid for assets in the Basin
- Performance based standards for temporary suspension of a well over the winter
- End of Season timing and Ice forecast modeling
- Effective Daily Recovery Capacity (EDRC) Calculations
- Predictability of standards and regulations throughout the exploration and development cycle.



¹ BOEMRE Assessment of Undiscovered Technically Recoverable Oil and Gas Resources of the Nations Outer Continental Shelf, 2011

Key Regulatory Issues

- Any new regulations should provide clear and reliable regulatory standards that apply throughout the exploration and development stages. The regulations must be well-considered at the time of their adoption, so that they are reliable, not subject to change during permitting, exploration, or development. Responsible exploration and development depends on high levels of investment and advance planning, especially in Alaska, making it especially important that the rules in effect at the time of investment and planning are not unnecessarily changed with respect to the leases undergoing exploration and development.
- New regulations should adopt performance standards rather than prescriptive technology requirements. There should be a clear process for approval of Exploration Plans, Oil Spill Response Plans and Applications for Permit to Drill, based on performance standards alone.
- The regulations should not impose or allow for a requirement that specific equipment is under contract prior to plan approval. A *de facto* requirement to have equipment under contract before a plan will be deemed complete is financially un-acceptable for most companies. The agencies must have and exercise clear regulatory authority to approve Exploration Plans and Oil Spill Response Plans based on the plans, without imposing a requirement for the operator to have vessels and equipment under contract. Furthermore, requiring that specific equipment is under contract prior to plan approval defies the concept and challenges the benefits associated with Industry mutual aid support.
- BSEE timeline for response and action on Oil Spill Response Plan approval process. To ensure predictability, BSEE should be under the same timeline constraints for review and determination of completeness for the Oil Spill Response Plan as BOEM is for the Exploration Plan. Namely, the agency should have 15 working days to determine whether an Oil Spill Response Plan is complete. Once determined complete, there should be 30 calendar days for the Secretary of Interior to approve the plan. Such predictability will reduce the permitting uncertainty on process and cost management.
- Mutual aid for assets in the Basin. ConocoPhillips is committed to providing aid to other operators in the basin in the event of an emergency. This is the norm throughout the world in oil and gas exploration and production arenas and we are not opposed to creating mutual aid agreements for the Chukchi and Beaufort Seas.
- Performance-based standards for temporary suspension of a well over the winter. The need to build a mud-line cellar should be based on location and likelihood of ice incursion with ice keels deep enough and strong enough to cause serious damage to a well head left over winter.
- End of season timing and ice forecast modeling. Only a well considered model should be used to calculate the probability of the end of the open water season. This model should be developed and agreed to by Industry and recognized forecasting experts. Once developed, the end of the open water season should be considered for modification if the permitted party can show that the end of the open water season should be modified by updates of the model using actual conditions.
- Effective Daily Recovery Capacity (EDRC) Calculations. Current EDRC calculation methods are not realistic. Since this problem is well recognized by several government agencies, arbitrary adjustments are being made to ensure that the true capacity is available to recover oil equivalent to the worst case discharge. Non mechanical means should be included in the calculations for recovery and clean-up of a spill, and realistic mechanical recovery calculations should be created.
- We understand and do not object to the need to update the air regulations in 30 CFR 550 so that they are reflective of the national ambient air quality standards. However, we emphasize that only these should be amended within the regulations, not the application of technology requirements nor the other current practices of air modeling and the use of the shoreline as the point of compliance.

