

STATE OF ALASKA

FRANK H. MURKOWSKI, GOVERNOR

DEPT. OF ENVIRONMENTAL CONSERVATION
DIVISION OF SPILL PREVENTION AND RESPONSE
INDUSTRY PREPAREDNESS PROGRAM
Exploration Production & Refineries

555 Cordova Street
Anchorage, AK 99501
PHONE: (907) 269-3094
FAX: (907) 269-7687
<http://www.state.ak.us/dec>

December 16, 2004

File No.: 305.30.5105 (AES Strat Well)

OIL DISCHARGE PREVENTION AND CONTINGENCY PLAN APPROVAL

FILE COPY

Mr. John Lewis
Vice President, Operations
ASRC Energy Services Engineering and Technology, Inc.
3900 C Street, Suite 701
Anchorage, AK 99503

Re: ASRC Energy Services Engineering and Technology, Inc. (AES), Nearshore Stratigraphic Test Well; Oil Discharge Prevention and Contingency Plan dated April 2004; ADEC Plan Number: 044-CP-5105.

Dear Mr. Lewis:

The Alaska Department of Environmental Conservation (Department) has completed review of the application for approval received on April 26, 2004, and revisions submitted on May 4, July 26, August 2, and October 11 of 2004. This application is for drilling a "stratigraphic test well" with the intention of penetrating oil bearing formations near Kaktovik, Alaska, as described in the application. The application and plan were reviewed under the regulations in effect at the time the application was submitted. The Response Planning Standard (RPS) for this project is based on 5,500 of oil barrels per day, as required by 18 AAC 75.434. This approval applies to the following oil discharge prevention and contingency plan (C-plan):

Plan Title: **ASRC Energy Services Engineering and Technology, Inc. Oil Discharge Prevention and Contingency Plan, Stratigraphic Test Well, North Slope, Alaska dated April 1, 2004, as revised through October 11, 2004, consisting of one volume.**

Supporting Documents: **Alaska Clean Seas (ACS) Technical Manuals, Volumes 1 – 3, dated December 2003, as revised and updated; other documents as referenced in plan.**

Plan Holder: **ASRC Energy Services Engineering and Technology, Inc., Anchorage, Alaska**

Covered Facilities: **Exploration Well Sites known as Angoon Point Location and Anderson Point Location, using the SDC Mobile Offshore Drilling Unit.**

PLAN APPROVAL: The referenced plan is for proposed winter exploration drilling in nearshore waters of the State of Alaska for the operating season as described in the plan. The Department has determined that the referenced plan satisfies minimum planning standards and other requirements established under applicable statutes and regulations. Therefore, the referenced plan is hereby approved, effective December 16, 2004. A certificate of approval stating that the plan has been approved by the Department is enclosed.

This approval is subject to the following terms and conditions:

1. Notice of Changed Relationship with Response Contractor.

Because the plan relies on the use of response contractor(s) for its implementation, the plan holder must immediately notify the Department in writing of any change in the contractual relationship with the plan holder's response contractor(s), and of any event including but not limited to any breach by either party to the response contract that may excuse a response contractor from performing, that indicates a response contractor may fail or refuse to perform, or that may otherwise affect the response, prevention, or preparedness capabilities described in the approved plan.

This condition is reasonably necessary because there are certain risks associated with allowing a plan holder to rely in part or total upon a response contractor instead of obtaining its own response capability. The risks arise, in part, because the certainty of the contractor's response is dependent upon the continuation of the legal relationship between it and the plan holder. Given this risk, the Department must be promptly informed of any change of the contractual relationship between the plan holder and the response contractor, and of any other event that may arguably excuse the response contractor from performing or that would otherwise affect the response, prevention, or preparedness capabilities described in the approved plan. The Department may seek appropriate modifications to the plan or take other steps to ensure that the plan holder has continuous access to sufficient resources to protect the environment and to contain, cleanup, and mitigate potential oil spills.

2. Documentation Required Prior to Initiation of Annual Operations.

The Department has worked with the applicant to develop the requirements noted below that must be met *prior to each operating season* the plan is in effect, unless determined otherwise. All documents must be submitted to the Exploration, Production and Refineries (EP&R) Section of the Department at least 30 days prior to setting down the Steel Drilling Caisson (SDC), unless noted otherwise, as follows:

- a. Proof of Oil Spill Primary Response Action Contractors. The planholder must submit to the Department fully executed statements of contractual terms with the attestations required by 18 AAC 75.445(i)(1) with the following registered primary response action contractors: Alaska Clean Seas, to provide response resources as identified in the plan;

The O'Brien's Group, to provide primary support for staffing the incident command system as identified in the plan.

The planholder will submit these fully executed statements of contractual terms to the Department prior to undertaking drilling or fuel transfer operations on the project. The actual contracts are not required to be part of the contingency plan document. The Statement of Contractual Terms form can be found on the Department's website (www.state.ak.us/dec).

This condition is reasonable and necessary to meeting the requirements at AS 46.04.030(e), 18 AAC 75.425(e)(3)(H) and 18 AAC 75.445(i).

- b. A copy of the contract between AES and the well-control specialist must be submitted for the Department's files.
- c. A copy of the Blowout Contingency Plan (BCP) must be submitted to the EP&R Office. For all subsequent drilling seasons, a statement from the planholder that the BCP remains in effect must be submitted.
- d. All phone numbers for the SDC and supporting operations, as updates to the plan as required by 18 AAC 75.415(b), and as referenced in Sections 1.1 and 1.2 of the plan.
- e. Documentation to support the Prudhoe Bay (PBU) and Kuparuk River Unit (KRU) Agreements between AES and the operators of PBU and KRU are to be submitted prior to mobilization of the SDC to the drill site, for inclusion in the Department's files.
- f. Documentation of the "Rig Sharing Agreement" between AES and other North Slope operators must be submitted to EP&R.
- g. Documentation of the 'fitness for service' of the SDC must be submitted to EP&R, such as the U.S. Coast Guard's Certificate of Inspection and the American Bureau of Shipping's inspection report, as referenced in the plan.

These conditions are reasonable and necessary since there are annual 'start up' preparations and changes for an operation such as the SDC's. Phone numbers may change from year to year, contracts may only be in effect for a 1-year term or less, and inspections of the SDC are required on a regular basis. Confirmation of the renewal of contracts with annual expiration dates is needed to assure the Department that all the necessary contracts to implement a response to a discharge or well control event are in place prior to the start of operations each drilling season. 18 AAC 75.434, 18 AAC 75.445(d)(2), 18 AAC 75.445(i).

3. Well Blowout Control and Cleanup.

- a. To reduce the risk or magnitude of an oil discharge and to ensure the effectiveness of planned spill response methods prior to when the planned response methods are rendered ineffective by environmental limitations, all drilling operations into hydrocarbon bearing formations for the subject drilling sites shall not commence prior to November 1, and must be completed by April 5 of each season.

- b. Exploration well testing may be extended by 15 days if casing has been set and cemented through the zones to be tested.

This condition is reasonable and necessary to ensure the plan holder's compliance with specific temporary measures until environmental conditions improve to reduce the magnitude of an oil discharge during periods of broken ice when planned spill response methods are rendered ineffective by environmental limitations consistent with the regulation at 18 AAC 75.445(f). The plan accounts for a 40-day response time, which includes both source control and cleanup. Using mid-May as the last date when on-ice operations can be safely done, to avoid the potential of "open water" near the shoreline (Ref: Section 3.4 of plan), and the potential for "broken ice" response strategies accounts for an April 5 drilling end date, and a November 1 start date. Additionally, the condition is necessary to ensure that oil produced during a formation flow test or other drilling operations is collected and stored in a manner that prevents the oil from entering the land or waters of the state in compliance with 18 AAC 75.045(a) and 18 AAC 75.445(d)(4).

4. Oil Storage Tanks.

If AES is going to undertake well-flow testing, AES must submit an amendment to the Department to address oil storage tank issues. The amendment must include for each drilling location a description of the oil storage containers greater than 10,000 gallons that will be used in conjunction with drilling operations. The description must include an identifying number/designation, capacity, construction date, specifications, application, the date and type of the last API 653 inspection, and any other information required by 18 AAC 75.425(e)(2)(E) and 18 AAC 75.425(e)(3)(A)(i) & (ii). This information must be submitted at least 40 days prior to well-testing. The plan requires that the tanks be placed on the deck of the SDC. Tank information will need to be added to the SDC Drawings referenced in Condition Number 6 of this approval, so that location where a tank is in use is clearly identified. In addition, a "Flow Test Tank Scenario" needs to be included with the amendment.

This condition is reasonable and necessary so that in the event of well-flow testing, a plan amendment is in place to ensure specific details of the tanks used at the facility are included in the plan and on the drawings of the SDC. This information is needed to guide responders in an emergency event or discharge of any size and that complete information about the oil storage tanks used at the facilities is contained in the plan in compliance with AS 46.04.030(e) and 18 AAC 75.425(e)(1) and 18 AAC 75.065 and 18 AAC 75.425(e)(2)(E). A scenario is needed to address the requirements of 18 AAC 75.425(e)(1)(F) and 18 AAC 75.434, the timeline provides for a minimum of time needed to address any potential requirement for public review should the Department determine that the proposed amendment may diminish AES's capability to respond to a spill (18 AAC 75.415).

5. Communications.

AES will have Alaska Clean Seas (ACS) place operational repeater(s) in place to provide dedicated spill response communications in place prior to drilling the well. Confirmation of the placement and location of the repeater(s) will be submitted to EP&R within 3 days of their placement in the field.

This condition is reasonable and necessary to ensure that an oil discharge response communications network is in place prior to a discharge. Due to the remote location and the distance from the ACS operations base, the time needed to identify optimum location(s) for spill response communications repeater systems needs to be performed prior to an event to allow for the most efficient and rapid response time using best available technology. 18 AAC 75.445(d)(3), 18 AAC 75.445(k).

6. SDC Orientation (Layout).

Prior to commencement of drilling operations, AES must provide drawings of the SDC's orientation to true-north and its position relative to the shoreline. The drawings must be completed as an "as-built" to include the position of the SDC in relation to true north, with the oil blowout plume superimposed on at least one version of the drawing. One version of the drawing needs to be of a scale of no less than 1" = 100' to show the location of the potential blowout plume (spill trajectory) relative to the location of the drill rig, crew quarters, fuel storage tank(s), testing tanks, road access (contingency), any pre-staged spill response equipment, and potential berming and collection areas for free oil recovery based on the surrounding topography (ice rubbing). Another version needs to show the SDC's relative position in relation to the shoreline, of a scale where 1" = 1 mile.

This condition is reasonable and necessary to ensure site specific details of the facility layout/orientation is available to guide responders in an emergency event or discharge of any size for compliance with AS 46.04.030(e) and 18 AAC 75.425(e)(1).

7. Pre-Deployment of Boom during Fuel Transfers.

AES will pre-boom all fuel transfers to/from the SDC. The Realistic Maximum Response Operating Limitations (RMROL) of the boom, vessels and skimming equipment will be taken into consideration prior to fuel transfers taking place. Fuel transfers will not take place when RMROL is exceeded. At least two skiffs capable of supporting the pre-booming operation and response will be pre-deployed in the water during the fuel transfer. AES will notify the EP&R section at least 2 weeks prior to a fuel transfer. As a fuel facility, AES must maintain and submit a copy of the Oil Discharge Prevention and Contingency Plan Verification Log to the EP&R section, as required by 18 AAC 75.460. A revised scenario for a release during fuel transfer, including equipment lists and limitations, will be submitted 60 days prior to the SDC entering State Waters.

This condition is reasonable and necessary to prevent oil from reaching sensitive areas before response equipment can be deployed. Given the remote location where the SDC will be drilling and the distance from the primary response action contractor, the pre-booming of the fuel transfers is needed to reduce the magnitude of an oil discharge. Furthermore, fuel transfers should not take place when RMROL conditions are exceeded to avoid environmental impacts during a transfer. In addition, since the scenario in the current copy of the plan depicts environmental impacts, the scenario needs to be revised to reflect the minimization of the impacts and the response-ready state of the pre-deployed equipment. 18 AAC 75.425(e)(1)(F), 18 AAC 75.445(d)(4), 18 AAC 75.445(f).

8. Ice Monitoring.

AES must provide EP&R with an ice-monitoring data to enable the Department to make a determination that solid ice conditions are present at the drill site. AES must provide for ice monitoring that measures ice thickness and concentrations within a 2-mile circumference around the SDC, and report conditions to this office on a daily basis starting November 1 of each season of operation. Drilling below the intermediate casing cannot commence until the ice-monitoring firm has determined and advised AES, and the Department has concurred, that the ice is contiguous and of sufficient thickness to support the onsite equipment deployment and containment strategies and described in the plan, and within a 2-mile circumference of the drill site.

AES must continue to monitor and report ice conditions on a daily basis for the duration of the drilling program. In the event an open-water/open-ice lead develops within a 2-mile circumference of the SDC, EP&R must be notified immediately. EP&R will consult with the ice-monitoring firm to evaluate the nature of the open lead and the potential for impeded on-ice response activities, forecast whether the lead will persist over an extended time, and the status of the drilling activity. EP&R may direct suspension of drilling operations until the lead no longer impedes on-ice response capability.

This condition is reasonable and necessary to ensure that conditions do not exceed RMROL during "open hole" operations. The AES plan does not provide for the capability to respond to spills in "broken ice", a condition which exists when there are open-water leads. The only way to ascertain whether the ice is thick enough to support operations, and to determine if there are open leads, is to perform ice monitoring activities during the drilling operations. 18 AAC 75.445(f).

9. Revisions to Oil Discharge Prevention and Contingency Plan.

Within seven days of issuance of this approval letter, AES shall provide to the Alaska Department of Conservation, and any other person in possession of a copy of the plan, complete revisions to incorporate all approved revisions to the Oil Discharge Prevention and Contingency Plan ("plan"). The corrections to AES's plan must be provided as page changes to the plan and highlighted in the text, with a letter or revision page explaining the changes. AES must provide three complete copies of the plan revisions to EP&R.

This condition is necessary to comply with 18 AAC 75.410(a), 18 AAC 75.425(a) and 18 AAC 75.415(e), so that complete copies of the approved version of the amended plan are provided to the Department and other persons in possession of a copy of the plan.

EXPIRATION: This approval **expires December 16, 2009**. After the approval expires, Alaska law prohibits operation of the facility until an approved plan is once again in effect.

AMENDMENT: Before any change to this plan may take effect, the plan holder must submit an Application for Amendment to the plan with any additional information needed to evaluate the proposed amendment. This is to ensure that changes to the plan do not diminish the plan

holder's ability to respond to a discharge and to evaluate any additional environmental considerations that may need to be taken into account. (18 AAC 75.415).

RENEWAL: To renew this approval, the plan holder must submit a completed renewal application and plan to the Department no later than 180 days prior to the expiration of this approval. This is to ensure the submitted plan is approved before the current plan in effect expires. (18 AAC 75.420).

REVOCATION, SUSPENSION, OR MODIFICATION: This approval is effective only while the plan holder is in "compliance with the plan" and with all of the terms and conditions described above. The Department may, after notice and opportunity for a hearing, revoke, suspend, or require the modification of an approved plan if the plan holder is not in compliance with it, or for any other reason stated in AS 46.04.030(f). In addition, Alaska law provides that a vessel or facility that is not in "compliance with the plan" may not operate (AS 46.04.030). The Department may terminate approval prior to the expiration date if deficiencies are identified that would adversely affect spill prevention, response or preparedness capabilities.

DUTY TO RESPOND: Notwithstanding any other provisions or requirements of this contingency plan a person causing or permitting the discharge of oil is required by law to immediately contain and cleanup the discharge regardless of the adequacy or inadequacy of a contingency plan (AS 46.04.020).

NOTIFICATION OF NON-READINESS: Within twenty-four (24) hours after any significant response equipment specified in the plan becomes non-operational or is removed from its designated storage location the plan holder must notify the Department in writing and provide a schedule for the equipment's substitution, repair, or return to service (18 AAC 75.475(b)).

NOTICE OF CHANGED RELATIONSHIP WITH RESPONSE CONTRACTOR: The planholder shall immediately notify Department in writing of any change in the contractual relationship with the planholder's response contractor(s), and of any event including but not limited to any breach by either party to the response contract that may excuse a response contractor from performing, that indicates a response contractor may fail or refuse to perform, or that may otherwise affect the response, prevention, or preparedness capabilities described in the approved plan.

CIVIL AND CRIMINAL SANCTIONS: Failure to comply with the plan may subject the plan holder to civil liability for damages and to civil and criminal penalties. Civil and criminal sanctions may also be imposed for any violation of AS 46.04, any regulation issued thereunder, or any violation of a lawful order of the Department.

INSPECTIONS, DRILLS, RIGHTS TO ACCESS AND VERIFICATION OF EQUIPMENT, SUPPLIES AND PERSONNEL: The Department has the right to verify the ability of the plan holder to carry out the provisions of its contingency plan and access to inventories of equipment, supplies and personnel through such means as inspections and discharge exercises, without prior notice to the plan holder. The Department has the right to

enter and inspect the covered vessel or facility in a safe manner at any reasonable time for these purposes and to otherwise ensure compliance with the plan and the terms and conditions (AS 46.04.030(e) and AS 46.04.060). The plan holder shall conduct exercises for the purpose of testing the adequacy of the contingency plan and its implementation (18 AAC 75.480 and 485).

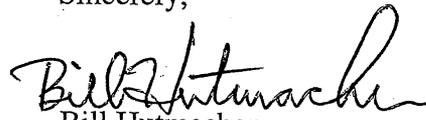
FAILURE TO PERFORM: In granting approval of the plan, the Department has determined that the plan, as represented to it by the applicant in the plan and application for approval, satisfies the minimum planning standards and other requirements established by applicable statutes and regulations, taking as true all information provided by the applicant. The Department does not warrant to the applicant, the plan holder, or any other person or entity: (1) the accuracy or validity of the information or assurances relied upon; (2) that the plan is or will be implemented; or (3) that even full compliance and implementation with the plan will result in complete containment, control, or clean-up of any given oil spill, including a spill specifically described in the planning standards. The plan holder is encouraged to take any additional precautions and obtain any additional response capability it deems appropriate to further guard against the risk of oil spills and to enhance its ability to comply with its duty under AS 46.04.020(a) to immediately contain and clean up an oil discharge.

COMPLIANCE WITH APPLICABLE LAWS: If amendments to the approved plan are necessary to meet the requirements of any new laws or regulations, the plan holder must submit an application for amendment to the Department at the above address. The plan holder must adhere to all applicable state statutes and regulations as they may be amended from time to time. This approval does not relieve the plan holder of the responsibility for securing other federal, state or local approvals or permits, and that the plan holder is still required to comply with all other applicable laws.

ADJUDICATORY HEARING: Any person who disagrees with this decision may request an adjudicatory hearing in accordance with 18 AAC 15.195- 18 AAC 15.340 or an informal review by the Division Director in accordance with 18 AAC 15.185. **Informal review requests** must be delivered to the Division Director, 410 Willoughby Avenue, Suite 303, Juneau, Alaska 99801 within 15 days of the permit decision. **Adjudicatory hearing requests** must be delivered to the Commissioner of the Department of Environmental Conservation, 410 Willoughby Avenue, Suite 303, Juneau, Alaska 99801, within 30 days of the permit decision. If a hearing is not requested within 30 days, the right to appeal is waived.

If you have any questions, please contact Lydia Miner at 269-7680 or me at 269-3054.

Sincerely,


Bill Hutmacher
Program Manager

Mr. John Lewis
AES

9

December 16, 2004

Attachment: Summary of Basis for Department Decision

Enclosure: Certificate of Approval, Number: 04-CER-4632
C-plan Verification Log Form

cc w/o enclosure:

Larry Dietrick, ADEC SPAR Director
Lydia Miner, ADEC, IPP, Anchorage
Kirsten Ballard, ADEC, IPP, Anchorage
Ed Meggert, ADEC, NART, Fairbanks
Chris Pace/Craig Wilson, ADEC, FRPI, Juneau
Jack Winters, Robert F. McLean, ADNR, Fairbanks
Sam Means, ADNR, Anchorage
Kathleen Sheehan-Dugan, ADNR, OPMP, Anchorage
Mark Fink, ADFG, Anchorage
Rex Okakok, NSB
Lon Sonsalla, City of Kaktovik
Native Village of Kaktovik
Christy Bohl, MMS, Anchorage
Capt. Ron Morris, USCG, MSO-Anchorage
Carl Lautenberger, USEPA, Anchorage
Bob Randall, Trustees for Alaska
Deb Moore, Northern Alaska Environmental Center
Gabriel Scott, Cascadia Wildlands Project
Bob Britch, Northern Consulting
(plan copy)
