STATE OF ALASKA

FRANK H. MURKOWSKI, GOVERNOR

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

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February 8, 2005

File No.: 305.30 Kerr McGee/Two Bits

FILE COPY

OIL DISCHARGE PREVENTION AND CONTINGENCY PLAN APPROVAL

Mr. Stuart Boggan
Kerr-McGee Oil & Gas Corporation
16666 Northchase Drive
Houston, TX 77060

Re: Transfer of Operator of the Oil Discharge Prevention and Contingency Plan for Exploration Drilling at "Two Bits Prospect" North Slope, Alaska, from Armstrong Alaska Inc. to Kerr-McGee Oil & Gas Corporation; New Plan Number 054-CP-5108

Dear Mr. Boggan:

The Alaska Department of Environmental Conservation (Department) has completed its review of the application for transfer of operator from Armstrong Alaska Inc. to Kerr-McGee Oil & Gas Corporation for the above referenced plan dated July 2004 with revisions through October 5, 2004.

This approval applies to the following Oil Discharge Prevention and Contingency Plan (plan):

Plan Title:	**Kerr-McGee Oil Discharge Prevention and Contingency Plan for Two Bits Prospect Drilling Program, North Slope Alaska.**
Supporting Documents:	**Alaska CHADUX Corporation Spill Response Manual, Consisting of Two Volumes, as revised, updated, and amended upon approval.**
Plan Holder:	**Kerr-McGee Oil & Gas Corporation 16666 Northchase Drive Houston, TX 77060**
Covered Facilities:	**Exploration Drilling Activities on the North Slope. Two Bits Pad Location is approximately 3 miles Northwest of the Kuparuk River Unit's West Sak 18. Latitude 70 degrees 19.6 minutes North, Longitude 150 degrees 10.1 minutes West.**

PLAN APPROVAL: Approval of the referenced plan is hereby **effective February 8, 2005.** This approval supersedes all previous Department approvals and Certificates of Approval.

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A certificate of approval stating that the contingency plan has been approved by the Department is enclosed. **This approval is subject to the following terms and conditions:**

1. **Proof of Oil Spill Primary Response Action Contractor.** 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 Chadux Corporation, 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 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).

2. **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

3. **Facility Description and Supporting Documents.** Prior to drilling operations Kerr-McGee must provide to all holders of the plan:
   - current drill pad layout depicting the drilling rig, oil storage tanks and response equipment locations;
   - a current copy of the Alaska CHADUX Corporation Spill Response Manual.

   These are reasonable and necessary as a plan conditions under the requirements of 18 AAC 75.425(e)(1)(H), 18 AAC 75.425(e)(3)(H), and AS 46.04.030(e). Additionally, because the plan incorporates by reference the Alaska CHADUX Spill Response Manual and because this manual

contains information necessary to implement and/or complete the Kerr-McGee plan, the plan must be accompanied by the CHADUX response manual as required by 18 AAC 75.425.(e)(1).

4. **Seasonal Drilling Restrictions.** To reduce the risk or magnitude of an oil discharge and to ensure the effectiveness of planned spill response methods prior to periods when the planned response methods are rendered ineffective by environmental limitations, all drilling operations into hydrocarbon bearing formations for the Kerr-McGee Two Bits Prospect must be completed by April 15th of each drilling season that the plan approval is in effect.

   This condition is reasonable and necessary to ensure the plan holder's compliance with specific temporary measures until environmental conditions improve to reduce the risk or magnitude of an oil discharge during periods when planned spill response methods are rendered ineffective by environmental limitations, which are provided at 18 AAC 75.445(f). Additionally, the condition is necessary to ensure that oil produced during a formation flow test or other drilling operation is collected and stored in a manner that prevents the oil from entering the land or waters of the state consistent with the standards of 18 AAC 75.045(a) and 18 AAC 75.445(d)(2).

5. **Actual Flow Rate and Response Planning Standard.** Once the flow rate of an exploration well has been tested, if that flow rate exceeds 5500 barrels per day, Kerr-McGee must submit a plan amendment addressing the increased response planning standard (RPS) volume within 30 days of the flow test.

   This condition is reasonable and necessary to ensure the plan holder's ability to respond to a larger volume discharge than was originally planned for. The actual flow rate of a well cannot be determined until the well is tested. The RPS initially set at 5,500 barrels per day in this plan and in 18 AAC 75.434(b) and is a realistic maximum oil discharge volume; however, if a higher flow is encountered, an amendment must be submitted in accordance with 18 AAC 75.434(d).

6. Plan revisions must be submitted to this office or to any other agencies or parties holding copies of the plan prior to undertaking drilling operations on the project. The revisions must include plan title changes and any personnel and operational changes.

7. If Kerr-McGee plans to conduct drilling operations at the Two Bits Prospect during the 2005-2006 winter drilling season, the plan must be revised in its entirety to reflect the change in operator by September 30, 2005.

EXPIRATION: This approval **expires November 4, 2009.** After the approval expires, Alaska law prohibits operation of these facilities until an approved plan is once again in effect.

AMENDMENT: Before any change to this plan may take affect, the planholder 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 planholder'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).

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)).

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 pas 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

Enclosure: Certificate of Approval, Number 05-CER-4634

cc: Lydia Miner, ADEC
Ted Moore, ADEC

cc w/o enclosure:
Ed Meggert, ADEC
Rex Okakok, North Slope Borough
Mark Fink, ADF&G
Carol Fries, ADNR
Kathleen Sheehan-Dugan, ADNR OPMP
Carl Lautenberger, USEPA
Capt. Ron Morris, USCG MSO-Anchorage
Bob Britch, Northern Consulting
Trustees for Alaska
Northern Alaska Environmental Center