



THE STATE
of **ALASKA**
GOVERNOR MIKE DUNLEAVY

Department of Natural Resources

DIVISION OF OIL & GAS

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November 13, 2020

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Rick Dusenberry
Chief Operating Officer
Furie Operating Alaska, LLC
188 W Northern Lights Blvd, Suite 620
Anchorage, AK 99503

Re: Kitchen Lights Unit 7th Plan of Development – Approved with Modifications

Dear Mr. Dusenberry,

On September 14, 2020, the Department of Natural Resources, Division of Oil and Gas (Division), received the proposed 7th Kitchen Lights Unit (KLU) Plan of Development (POD) from Furie Operating Alaska, LLC (Furie). The Division notified Furie by email on September 16, 2020 that the POD submittal was deemed complete. Furie provided a technical review to the Division on October 28, 2020. This letter conditionally approves the proposed POD.

Kitchen Lights Unit History

The KLU was formed February 1, 2007 as the “Kitchen Unit”, with Escopeta Oil Company, LLC (Escopeta) as operator. In 2009, the “Kitchen Unit” was renamed the “Kitchen Lights Unit” when the unit expanded to include acreage from the former Corsair Unit, a proposed Northern Lights Unit, and other leases. In 2012, Escopeta changed its name to Furie. On July 1, 2020, HEX LLC (HEX) acquired the assets and existing equity interests of Furie out of Chapter 11 bankruptcy proceedings. The 7th KLU POD is the first under HEX’s administration of the KLU.

KLU contains 30 leases covering 83,394 acres. Gas production for the 2019 calendar year was 4.35 billion cubic feet (Bcf), down from 6.21 Bcf in 2018. Cumulative gas production through September 2020 was 24.05 Bcf.

Kitchen Lights Unit 6th POD

During the 6th KLU POD period, Furie committed to:

- Drilling and acquiring all necessary logs and data to properly evaluate one new development well from the Julius R. Platform to the stratigraphic equivalent of the Sterling flow tested zones in the KLU #3 well (unless interpretations from shallower data in a well indicate that producible hydrocarbons are unlikely to be found by drilling to that equivalent hydrocarbon depth);
- Conducting development operations specific to KLU #A-2A and KLU #3 wells to increase production, including adding perforations;
- Developing a plan for completing the well and presenting the plan to the Division based on logs and data acquired from the new development well;
- Maturing two prospects for exploration wells outside the Corsair Block, present them to the Division, and continue exploration drilling throughout the KLU

In January 2019, however, Furie experienced hydrate plugging that formed in the KLU gas pipeline forcing them to shut-in production. After continuous work commenced to resolve the issue Furie was able to restore the gas pipeline flow in April 2019, and has since implemented various measures to avoid future similar occurrences. The hydrate plugging issue, however, rendered Furie unable to meet its 6th POD work commitments.

On March 1, 2019, pursuant to the Division's request and although not a specific work commitment, Furie submitted a proposal to the Division for the establishment of one or more Participating Areas (PA). That application remains pending after requests for further information.

The 7th KLU POD was originally due by October 7, 2019. Yet, pursuant to Furie's request, and the Division's subsequent approval, Furie was granted an extension of the 6th POD period as Furie was engaged in ongoing bankruptcy proceedings. In the December 18, 2019 extension approval, the Division established the new due date for the 7th POD to be "no later than 90 days after the Effective Date of the Debtors' Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code".

As a result of the 6th POD extension period, Furie accomplished additional operations, including:

- Perforating the Beluga formation in the KLU #A-1; and
- Returning the KLU #A-2A to production in the Beluga formation; and
- Commissioning two replacements gas-fired generators and an auxiliary diesel-fired generator; and
- Installing a coalescing filter separator for improved dehydration performance; and
- Remediating spans under pipeline; and
- Developing and implementing a Spill, Prevent, Control and Countermeasure (SPCC) plan for both the Central Processing Facility and the Julius R. Platform

Kitchen Lights Unit Proposed 7th POD

For the proposed 7th KLU POD period, Furie, under the new ownership of HEX, commits to:

- Continue development of the proven gas reserves in the KLU; and
- Continue and increase production of natural gas on the Julius R Platform; and
- Continue exploration of the KLU, including the new analysis of seismic data and offset wells to identify specific targets for exploration outside of the Corsair Block

Finding and Decision

When considering a POD, the Division must consider the criteria in 11 AAC 83.303(a) and (b). Accordingly, the Division considered the public interest, conservation of natural resources, prevention of economic and physical waste, protection of all interested parties including the state, environmental costs and benefits, geological and engineering characteristics of reservoirs or potential hydrocarbon accumulations, prior exploration activities, plans for exploration or development, economic costs and benefits to the state, and any other relevant factors, including mitigation measures. 11 AAC 83.303(a), (b).

The Division further may require and add conditions as proposed modifications to a POD. 11 AAC 83.343(b). The Division here adds the following conditions to this POD:

- Furie will complete its existing PA applications or submit a new PA application on or before December 31, 2020.
- Furie will provide a technical presentation to the Division on or before July 1, 2021, detailing with specificity the progress made on the subsurface description of the KLU along with any other activities undertaken by Furie related to the further development of the KLU and exploration activities

In approving the prior POD(s) for the KLU, the Division considered the 11 AAC 83.303(b) criteria and found that the PODs promoted conservation of natural resources, promoted prevention of waste, and protected the parties' interests. The Division incorporates by reference those findings.

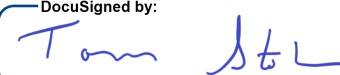
The public has an interest in diligent exploration, evaluation, and development of the State's resources. The plans set forth in the 7th POD protect this public interest both by maintaining the continuing production of natural gas and increasing production of natural gas from the KLU, while commencing operations with a focus of safe and effective development. The 7th POD therefore is necessary and advisable to protect the public interest.

Based upon the Division's prior POD approvals and analysis of the 11 AAC 83.303(b) criteria, the Division finds the 7th POD protects the public interest, promotes conservation, prevents waste, and protects the parties' interests. The 7th KLU POD is conditionally approved for the period of July 1, 2020 through January 3, 2022. Furie will accept the proposed modifications in writing by November 23, 2020, or the proposed POD will be disapproved.

This conditional approval is only for a general plan of development. Specific field operations require separate approval under 11 AAC 83.346, Unit Plan of Operations. Under 11 AAC 83.343, the 8th KLU POD is due by October 5, 2021, 90 days before the 7th POD expires.

If you have questions regarding this decision, contact Ryan King with the Division at 907-269-8799 or via email at ryan.king@alaska.gov.

Sincerely,

DocuSigned by:

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Tom Stokes
Director

An eligible person affected by this decision may appeal it, in accordance with 11 AAC 02. Any appeal must be received within 20 calendar days after the date of "issuance" of this decision, as defined in 11 AAC 02.040(c) and (d), and may be mailed or delivered to Commissioner, Department of Natural Resources, 550 W. 7th Avenue, Suite 1400, Anchorage, Alaska 99501; faxed to 1-907-269-8918; or sent by electronic mail to dnr.appeals@alaska.gov. This decision takes effect immediately. An eligible person must first appeal this decision in accordance with 11 AAC 02 before appealing this decision to Superior Court. A copy of 11 AAC 02 may be obtained from any regional information office of the Department of Natural Resources.