

AIIN THE SUPERIOR COURT FOR THE STATE OF ALASKA
THIRD JUDICIAL DISTRICT AT ANCHORAGE

CONOCOPHILLIPS ALASKA, INC.,

Appellant,

v.

STATE OF ALASKA DEPARTMENT OF
NATURAL RESOURCES, and OIL SEARCH
(ALASKA), LLC,

Appellees.

Case No. 3AN-22-09828 CI

**OIL SEARCH (ALASKA) LLC’S OBJECTIONS TO CONOCOPHILLIPS
ALASKA, INC.’S PROPOSED DECISION AND ORDER**

Appellee Oil Search (Alaska), LLC (“OSA”) hereby provides its objections to Appellant ConocoPhillips Alaska, Inc.’s (“CPAI”) Proposed Decision and Order (“Proposed Decision”) dated November 27, 2024, filed by CPAI pursuant to this Court’s order following oral argument on November 21, 2024.¹

OSA objects to the facts and legal conclusions contained in CPAI’s Proposed Decision and objects to the Court ordering CPAI to draft the Proposed Decision in this appeal. Specific objections to facts, legal conclusions, and procedure are detailed below.

¹ The Court ordered OSA and the State of Alaska, Department of Natural Resources (“DNR”) to file objections 10 days after CPAI filed the Proposed Decision. *See* Tr. of Oral Arg. (Nov. 21, 2024) at 90:14-22. CPAI filed the Proposed Decision on November 27, 2024. The ten-day period ended on Saturday, December 7, so the deadline for OSA and DNR to file objections is Monday, December 9. *See* Alaska R. App. P. 601(c) and 502(a).; *see also* Tr. of Oral Arg. at 90:24-91:1 (allowing filing of objections on “the next business day” if the deadline falls on a weekend).

While OSA provides specific objections to the Proposed Decision, these enumerated objections are not intended to limit OSA’s general objection to the entirety of the Proposed Decision, nor are they intended to evidence OSA’s agreement with any portion of the Proposed Decision not directly addressed in the objections below.

LEGAL OBJECTIONS

1. The Proposed Decision states that there are five questions of law that the Superior Court must decide on appeal.² OSA objects to this characterization of the legal questions on appeal. The only question on appeal is whether DNR could issue a Miscellaneous Land Use Permit (“the Permit”) under 11 AAC 96.010 to authorize reasonable concurrent use of roads on state land when two lessees are unable to agree on terms for reasonable concurrent use.

2. The Proposed Decision ignores AS 38.05.180 (the Alaska Land Act provision that governs oil and gas leases), including:

- a. AS 38.05.180(a)(1)(A), which recognizes that the people of Alaska have an interest in the development of the State’s oil and gas resources to maximize the economic and physical recovery of the resources; and
- b. AS 38.05.180(a)(2)(A)(ii), which recognizes that it is in the best interest of the State to minimize the adverse impact of exploration, development,

² Proposed Decision at 8.

production, and transportation activities.

3. The Proposed Decision fails to defer to the Commissioner’s interpretation of AS 38.05.180, including the Commissioner’s interpretation that under this statute, the State has an interest in developing the oil and gas resources in the Pikka Unit, and it is not in the State’s best interest to require construction of duplicate roads across the Kuparuk River Unit (“KRU”) to provide access to the Pikka Unit.³ Deference to the Commissioner’s interpretation of this statute is required by Alaska Supreme Court decisions, including *Teck American Inc. v. Valhalla Mining LLC*, 528 P.3d 30, 34-39 (Alaska 2023); *Marathon Oil Co. v. State*, 254 P.3d 1078, 1082-86 (Alaska 2011); *Alyeska Pipeline Service Co. v. State*, 288 P.3d 736, 739-41 (Alaska 2012). The Proposed Decision also misstates the grounds for deference to an agency’s interpretation of a statute,⁴ ignoring that under Alaska law there are two distinct rationales for deference to an agency’s interpretation (both of which apply here): agency expertise and determination of fundamental policies within the scope of the agency’s statutory functions.⁵

4. The Proposed Decision fails to defer to the DNR Commissioner’s interpretation of DNR’s own regulations, including 11 AAC 96.010(a)(3), as required by

³ See Exc. 169-70, 178 (Comm’r’s Decision at 13-14, 22).

⁴ Proposed Decision at 6.

⁵ *Teck Am.*, 528 P.3d at 34.

applicable Alaska Supreme Court decisions, including *Davis Wright Tremaine LLP v. State*, 324 P.3d 293, 301 (Alaska 2014); *AVCG, LLC v. Department of Natural Resources*, 527 P.3d 272, 289 (Alaska 2023) (interpreting DNR regulations governing oil and gas leases); *Pacifica Marine, Inc. v. Solomon Gold, Inc.*, 356 P.3d 780, 788 (Alaska 2015) (interpreting Alaska Land Act regulations governing mineral leasing).

5. The Proposed Decision fails to defer to the Commissioner’s application of DNR regulations, including 11 AAC 96.010(a)(3), to the facts of the permit decision, as required by relevant authority:

Once the interpretation of the regulations is resolved, the [agency’s] application of the “law” to the particular factual circumstances . . . is a matter committed to the agency’s sound discretion. Consequently, our scope of review is limited to whether the decision was arbitrary, unreasonable or an abuse of discretion.⁶

6. The Proposed Decision erroneously relies on a decision indicating that “whether a regulation applies to a case” is a question of law.⁷ The issue here is not whether 11 AAC 96.010(a)(3) “applies to [this] case,” but whether the Commissioner erred in his interpretation of this regulation or his application of this regulation to the facts of this case. As indicated above, the Commissioner is entitled to deference on both his interpretation of the regulation and his application of the regulation to the facts.

⁶ *Pacifica Marine*, 356 P.3d at 788 (affirming DNR’s decision on bids for mining leases).

⁷ Proposed Decision at 7 (citing *Municipality of Anchorage v. Stenseth*, 361 P.3d 898, 905 (Alaska 2015)).

7. The Proposed Decision fails to recognize the Commissioner’s direct authority to adopt 11 AAC 96.010(a)(3), as set forth in the Alaska Land Act, AS 38.05.020(b)(1). The Proposed Decision also suggests that this statutory authority is limited to “state land.” AS 38.05.020(b)(1) does not include this language—it grants the Commissioner broad authority to “adopt reasonable regulations necessary to carry out this chapter.”

8. The Proposed Decision fails to recognize or apply provisions of the Alaska Land Act giving the Director the duty and/or authority to issue the Permit, including AS 38.05.035(a)(2), AS 38.05.035(a)(3), AS 38.05.035(a)(7), and AS 38.05.850(a).

9. The Proposed Decision fails to defer to the Commissioner’s interpretation of the Leases, including the Grant Clause (§ 1) and the Reservations Clause (§ 29), as required by the principles stated in *State v. Alaskan Crude Corp*, 441 P.3d 393, 403-04 (Alaska 2018).⁸ Even under *de novo* review, the Proposed Decision’s interpretation of the Leases is inconsistent with the plain language of the Leases and must be rejected in favor of the interpretation of the Leases stated in the Director’s Decision and the Commissioner’s Decision.⁹

10. The Proposed Decision conflates analysis of the standard of review for

⁸ See OSA’s Appellee’s Br. at 24-27.

⁹ Exc. 164-75 (Comm’r’s Decision at 8-19).

statutes with analysis of the standard of review for contracts, does not properly identify or analyze the relevant considerations applicable to each standard of review, and wrongly rejects the deferential standards of review that should apply in this appeal.¹⁰ *See also* Objections 3 and 9.

11. The Proposed Decision states CPAI’s takings argument as an alternative ground for revoking the Permit.¹¹ This is incorrect. Any “takings claim” is not appropriately resolved in this appeal, is not a basis for reversing an agency action, and is thus beyond the scope of this appeal.¹² Counsel for CPAI conceded at argument that any takings claim would properly be litigated in a separate action, and the Court indicated at oral argument its unwillingness to reach the takings argument.¹³ In addition, CPAI asserts that OSA is currently using the KRU roads under the terms of the 2018 Ad Hoc Road Use Agreement, not the Permit,¹⁴ contradicting CPAI’s suggestion that it is entitled to damages for the period of time the Permit has been in place.

12. The Proposed Decision states the holding in overly broad terms. The

¹⁰ Proposed Decision at 6.

¹¹ Proposed Decision at 14-15.

¹² OSA’s Appellee’s Br. at 50.

¹³ *See* Tr. of Oral Arg. at 28:17-21; *id.* at 30:13-17 (CPAI’s counsel admitting that CPAI would need to pursue an inverse condemnation claim in a separate proceeding); *see also id.* at 29:13-14 (the Court asking if the takings argument needs to be reached).

¹⁴ Proposed Decision at 13 (“Indeed, OSA has been able to access the Pikka Unit to conduct operations before and during this litigation.” (citing the Ad Hoc Road Use Agreement (R. 1137))).

Proposed Decision recites the holding in terms of DNR’s authority over “private leasehold improvements” on state land.¹⁵ OSA objects to stating any holding in such broad terms: this case only concerns the KRU *roads*, and any holding of this Court regarding DNR’s authority to authorize reasonable concurrent use of access corridors on State oil and gas leases through a permit under 11 AAC 96.010 should be appropriately narrowed to the facts and specific legal question before the Court.

13. The Proposed Decision includes a purported quotation from an Alaska Supreme Court decision, *Wood v. Collins*, 812 P.2d 951, 956 n.4 (Alaska 1991).¹⁶ The decision does not contain the quoted language.

14. By reversing the Commissioner’s Decision and vacating the Permit, the Proposed Decision violates the Alaska Constitution’s mandates in Article 8, Sections 1 and 2 (maximum use) and Section 8 (reasonable concurrent use) and the statutory mandates in the Alaska Land Act, AS 38.05.180(a) (reasonable concurrent use and minimum impact) and fails to recognize and enforce DNR’s authority under the Alaska Land Act and DNR’s regulations, including AS 38.05.020, AS 38.05.035, AS 38.05.850 and 11 AAC 96.010(a)(3), and under the applicable Leases.

¹⁵ See Proposed Decision at 6, 8, 9, 11.

¹⁶ Proposed Decision at 7.

FACTUAL OBJECTIONS

15. The Proposed Decision omits material facts, including:
- a. The Proposed Decision omits facts regarding the importance of the State’s natural resources at the Pikka Unit, the significant benefit to the people of Alaska in developing those resources, and the need to utilize the KRU roads to access the Pikka Unit for development of the State’s resources.¹⁷
 - b. The Proposed Decision omits findings by the Commissioner that permitting a duplicative road system across the KRU for access to the Pikka Unit would expand surface impacts on the land and reduce the benefits of the Pikka Unit development to the people of Alaska, in direct contravention of Article VIII’s mandate to develop the State’s resources for the maximum benefit of the people consistent with the public interest, and the statutory mandates in AS 38.05.180 to achieve maximum use and to minimize adverse impacts of exploration, development, production, and transportation activity.¹⁸ The Proposed Decision states, “[t]here likewise is no basis in the record or applicable law to find that a [miscellaneous land

¹⁷ Exc. 158, 170, 178 (Comm’r’s Decision); *see also* OSA Appellee’s Br. at 17-18.

¹⁸ *See* Exc. 170 (Comm’r’s Decision) (“It would not be reasonable to require or even allow OSA to build an entirely separate road network to develop the [Pikka Unit] . . . CPAI’s suggestion that as an alternative OSA could build 75.5 miles of duplicative roads is not consistent with the public interest.”).

use permit] or other grant or authorization by DNR is required to serve the State’s interests,”¹⁹ which directly contradicts the record.

- c. The Proposed Decision states that “there are no record facts that support DNR’s claim that CPAI has frustrated DNR’s right to maximize land use or allow reasonable concurrent use of the unimproved acreage that encompasses the KRU leases.”²⁰ This is incorrect. Prior to OSA’s application for the Permit in February 2022, on November 23, 2021, CPAI threatened to block OSA’s access to the KRU roads and the Pikka Unit, stating that “CPAI has practical physical measures and legal remedies to prevent and remedy unauthorized use of KRU roads, which would be implemented as necessary.”²¹
- d. The Proposed Decision omits the fact that in negotiations with OSA prior to impasse, CPAI demanded payment from OSA of approximately \$600 million over the projected life of the proposed long-term road use agreements, an amount far in excess of a proportionate share of the purported \$10-\$20 million in annual maintenance expenses, as CPAI

¹⁹ Proposed Decision at 13.

²⁰ Proposed Decision at 13.

²¹ Exc. 279 (CPAI’s Letter to DNR (Nov. 23, 2021)).

suggested it was seeking at oral argument.²²

- e. The Proposed Decision omits the fact that in negotiations with CPAI prior to impasse, OSA offered to pay CPAI annually a proportionate share of the estimated \$70 million needed for capital improvements related to the KRU system, up to \$20 million for upgrades (\$10 million for known project upgrades plus \$10 million for unknown future upgrades), and to share a portion of annual maintenance costs or other improvements proposed by either the KRU Operator or the Pikka Unit Operator in order to use the KRU roads (estimated to total \$40 million at \$1 million annually escalated for 30 years).²³ CPAI rejected these terms.
- f. The Proposed Decision omits any reference to the Commissioner's determination that the parties were unable to agree on terms for reasonable concurrent use of the KRU roads and identifies no error in this determination.
- g. The Proposed Decision omits any description of the Permit terms that

²² See Exc. 423-81 (confidential excerpt with negotiation materials); OSA Appellee's Br. at 6-7 (providing calculations); *see also* Tr. of Oral Arg. at 63:9-13 (the Court indicating it believed "one party [was] offering zero, and the other [was] asking for some share of the ten to 20 million of the maintenance cost"); *id.* at 25:3-9 (representations by CPAI).

²³ Exc. 462-63, 479-81; OSA's Appellee's Br. at 7 n.16.

protect CPAI’s ongoing and future use of the KRU roads by, *inter alia*, recognizing CPAI’s priority for use of the KRU roads, prohibiting OSA from interfering with CPAI’s use, and requiring OSA to reimburse CPAI for the cost of repairing damage to the KRU roads associated with OSA’s use.²⁴ These Permit terms establish that OSA’s concurrent use of the KRU roads is “reasonable” and reinforce that CPAI has not suffered any harm from OSA’s use of the KRU roads.

16. The Proposed Decision asserts facts that are not supported by the record, including:

- a. That the KRU Lessees “incur annual property taxes on the assessed value of the KRU . . . roads.”²⁵ The State Resource Assessment Board (“SARB”) decision cited in the Proposed Order did not make any findings or rulings regarding CPAI’s tax liability for the KRU roads, nor does the Schell Affidavit discuss CPAI’s tax liability.²⁶
- b. That “[t]he cost to build comparable roads today would exceed \$1 billion.”²⁷ There is no support for that statement in the record, and the

²⁴ See OSA’s Appellee’s Br. at 8-9, 36-37 (summarizing the terms).

²⁵ Proposed Decision at 3.

²⁶ See Exc. 38-39 (SARB decision); see Exc. 136-40 (Schell Affidavit) (omitting any discussion of taxes).

²⁷ Proposed Decision at 3.

Proposed Decision cites as support for that proposition inadmissible statements of counsel at oral argument.²⁸

- c. That DNR requires parties to obtain “commercial agreement[s]” to govern road use.²⁹ This is not accurate, and there is no support for this statement in the record. Neither the Schell Affidavit nor the record at 3313 support this assertion.
- d. That DNR concedes that the OSA Permit represents the first time that DNR has issued a miscellaneous land use permit for this purpose.³⁰ The cited source (Comm’r’s Decision at 22 (Exc. 178)) does not say this. On the preceding page (Exc. 177) the Commissioner said that whether DNR had previously exercised this authority when two unit operators failed to agree on commercially reasonable terms is irrelevant.
- e. The Proposed Decision includes multiple references to statements in the affidavit of John Schell submitted to DNR in the agency appeal.³¹ These references improperly put the appellate court in the position of finder of

²⁸ Proposed Decision at 3. The Proposed Decision also cites CPAI’s March 23, 2022 comments, but the page cited by CPAI does not say anything about CPAI’s costs to build the KRU roads.

²⁹ Proposed Decision at 3.

³⁰ Proposed Decision at 6.

³¹ Proposed Decision at 2-5, 13.

fact. The Commissioner was the finder of fact, and in this appeal CPAI did not challenge any findings of fact by the Commissioner.

17. The Proposed Decision also misstates and mischaracterizes facts, including the following:

- a. The Proposed Decision asserts that DNR could authorize reasonable concurrent use of pipelines under a miscellaneous land use permit and that “Appellees acknowledged their belief that [11 AAC] 96.010 would allow DNR to grant third-party use of a pipeline or building constructed by a lessee on state land.”³² Neither of these statements is correct. As DNR confirmed at oral argument, pipelines are regulated under an entirely separate statutory and regulatory scheme, and neither DNR nor OSA agreed at oral argument that DNR could require reasonable concurrent use of a pipeline through a miscellaneous land use permit. Instead, Appellees responded that pipelines were governed by distinct legal authorities and thus the reasonable concurrent use analysis would be markedly different than the analysis for roads.³³
- b. The Proposed Decision includes a paragraph regarding Brooks Range

³² Proposed Decision at 12.

³³ Tr. of Oral Arg. at 42:6-13; *see also id.* at 45:16-19, 69:6-19.

Petroleum Corporation’s (“Brooks Range”) appeal regarding OSA’s easement for use of the Mustang Road.³⁴ The paragraph is irrelevant and should be stricken.³⁵ Moreover, the only source cited for the statement in the Proposed Decision that the Mustang Road easement was the first time DNR granted third-party use of a North Slope road³⁶ is a statement made by Brooks Range in its DNR appeal document.³⁷ A party’s *contentions* in an appeal are not the basis for this Court to make factual findings.

- c. The Proposed Decision misrepresents CPAI’s understanding and expectations regarding use of the KRU roads for access to the Pikka Project.³⁸ The record is clear that from the start of Pikka project permitting, the Pikka project was premised on use of the KRU roads to access the Pikka project site. During the Pikka planning and permitting process, CPAI never objected to the anticipated use of the KRU roads. When Pikka activity began in 2018, CPAI entered into the Ad Hoc Road Use Agreement with OSA, authorizing OSA’s use of the KRU roads for access to Pikka. CPAI

³⁴ Proposed Decision at 4-5.

³⁵ *See* Exc. 388. At oral argument, the Court appeared to agree that the Mustang Road easement appeal is not relevant. Tr. of Oral Arg. at 49:15-16 (“We won’t go there right now. I have enough cases to worry about besides [the Mustang Road appeal].”).

³⁶ Proposed Decision at 5.

³⁷ R. 2366.

³⁸ *See* Proposed Decision at 4.

only informed OSA that it would require a new road use agreement after CPAI learned that OSA was going to build its own saltwater treatment plant (“STP”) rather than pay CPAI for use of its STP.³⁹

18. The Proposed Decision improperly purports to adopt the contents of CPAI’s appeal briefs.⁴⁰ OSA objects to the incorporation by reference of any portion of CPAI’s appeal briefs.

OTHER OBJECTIONS

19. OSA objects to the Court’s order directing CPAI to prepare the Proposed Decision. This case is governed by the Rules of Appellate Procedure.⁴¹ The Rules of Appellate Procedure do not authorize the Court to order a party to submit a proposed appellate decision.⁴²

20. If adopted, the Proposed Decision will allow a private oil and gas company to prevent the State from developing State oil and gas resources at the adjacent Pikka

³⁹ OSA’s Appellee’s Br. at 3-4, 5 (summarizing the relevant facts, with citations to source documents); *see also* Exc. 210-11, 252-53, 257, 259, 264, 269.

⁴⁰ Proposed Decision at 2 (adopting the factual and procedural history of CPAI’s appeal briefs), 15 (“For the foregoing reasons, and those outlined in the briefing of Appellant ConocoPhillips Alaska, Inc., *which this Court adopts in full, . . .*”) (emphasis added).

⁴¹ *See, e.g., Sengutpa v. University of Alaska*, 21 P.3d 1240, 1251 (Alaska 2001) (“Sengupta’s appeal to superior court, similarly, was governed not by the Civil Rules, but by the Rules of Appellate Procedure.”).

⁴² *Cf. Alaska R. Civ. P. 78* (providing for the successful party to file proposed findings of fact, conclusions of law, judgments and orders).

Unit by continuing to demand excessive amounts (at last demand, approximately \$600 million) for use of gravel roads that were built on state land subject to State oil and gas leases for the sole purpose of developing the State’s resources. CPAI’s contention that it is simply attempting to recoup costs associated with the roads is not supported by the record: CPAI is attempting to profit from the KRU roads and is demanding an amount of money well in excess of the proportionate share of annual maintenance costs associated with the roads. CPAI seeks to operate the KRU roads as a profit seeking venture, unrelated and independent from the development of the KRU oil and gas resources subject to its leases. CPAI admits that it has never heretofore charged for KRU roads, notwithstanding that the KRU Road System provides access to a host of other developments, including the Colville River Unit, the Southern Miluveach Unit, the Nikaitchuq Unit, the Oooguruk Unit, Greater Moose’s Tooth Unit – 1 and 2, and the Bear Tooth Unit (Willow).⁴³ The Proposed Decision would give CPAI unlimited ability to exclude all parties—including the State itself—from using roads built on State oil and gas leases pursuant to State authorizations, directly interfering with the State’s ability to access and develop its oil and gas resources in adjoining units. CPAI’s Proposed Decision

⁴³ CPAI’s Proposed Decision states: “The KRU Lessees constructed the roads at their sole expense, and over their 40+ years of use have continued to incur *all* ongoing construction, maintenance, repair and management expenses[.]” Proposed Decision at 2 (emphasis added).

restricts the State's ability to manage State resources and leases on its own land in direct violation of the mandates of Article VIII of the Alaska Constitution and the broad authority given to DNR by the Alaska Legislature under the Alaska Land Act to effectuate that mandate.

REQUEST FOR STAY

If the Court issues an order vacating the Permit, the Court should stay the order pending appeal per Alaska Rule of Appellate Procedure 205. OSA plans to join DNR in moving for a stay pending appeal.

CONCLUSION

For all of the reasons stated herein, OSA objects to CPAI's Proposed Decision. The Court should not adopt the Proposed Decision and should instead affirm the DNR Commissioner's decision.

DATED: December 9, 2024

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that on December 9, 2024, a true and correct copy of the foregoing document was served by email on:

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