

FRANK H. MURKOWSKI
GOVERNOR

DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL AND GAS

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CERTIFIED MAIL
RETURN RECEIPT REQUESTED

May 16, 2003

Mr. Fritz Gunkel
Northstar Delivery Manager
BP Exploration (Alaska) Inc.
P.O. Box 196612
Anchorage, AK 99519-6612

RE: Northstar Unit, Northstar Participating Area
Interim Unit Tract Participations Approved

Dear Mr. Gunkel:

On January 29, 2003, BP Exploration (Alaska) Inc. (BPXA), the Northstar Unit Operator, proposed Interim Unit Tract Participations (Interim Participations) for the Northstar Participating Area (Northstar PA) in accordance with the *Procedures for Redetermination of Northstar Participating Area Unit Tract Participations*, Exhibit C-1 of the Northstar Unit Agreement. BPXA submitted supplemental data dated February 6 and February 28, 2003, supporting the proposed Interim Participations. The Northstar Reservoir Modeling Team (the Joint Team) reviewed the available data, and on April 28, 2003, the Joint Team recommended that the Director of the Division of Oil and Gas, Department of Natural Resources (DNR) and the Regional Supervisor, Minerals Management Service (MMS) approve the proposed Interim Participations.

DNR considered the criteria in 11 AAC 83.303 and finds that the Interim Participations will 1) promote the conservation of natural resources; 2) promote the prevention of economic and physical waste; and 3) provide for the protection of all parties of interest, including the State. I approve the proposed Interim Participations and Expense Allocation for the Northstar PA, as set forth on the attached Exhibits C and E, effective June 1, 2003.

DNR, MMS, and the Northstar Unit Operator shall implement the final redetermination in accordance with Section 2.0 of Exhibit C-1 to the Northstar Unit Agreement:

Within two months following the fourth anniversary of Northstar Production, the Unit Operator shall prepare and submit to the Regional Supervisor and the Commissioner any proposed revisions to the Interim Unit Tract Participations (the "Proposed Final Unit Tract Participations") based upon analysis of the data

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available through the first four years of production. The data and analysis submitted in support of the Proposed Final Unit Tract Allocations shall be consistent with Section 4 below. The Working Interest Owners shall agree on the Proposed Final Unit Tract Participations before the Unit Operator submits them to MMS and DNR for approval.

The Joint Team wants to minimize uncertainties regarding the methodologies that BPXA uses to determine the various reservoir parameters applied in the Northstar reservoir model. Therefore, the Joint Team requests periodic meetings with members of the BPXA subsurface team over the next three years to define the methodologies that BPXA will use to develop the Final Unit Tract Participations. Periodic staff level meetings may enable the Joint Team to act more quickly to issue its recommendation to the Commissioner and the Regional Supervisor on BPXA's proposed final redetermination.

A 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 Thomas E. Irwin, 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@dnr.state.ak.us. This decision takes effect immediately. If no appeal is filed by the appeal deadline, this decision becomes a final administrative order and decision of the department on the 31st day after issuance. 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.

Sincerely,

Original signed by Mark D. Myers, Director

Mark D. Myers
Director

Attachments: Exhibit C, Northstar PA Interim Unit Tract Participations
Exhibit E, Northstar PA Allocation of Participating Area Expense

cc: Jeffrey Walker, MMS
Sarah H. Palin, AOGCC
Krissell Crandall, BPXA
John Garing, BPXA
James Stouffer, Royalty Accounting
James Cowan, Resource Evaluation
Richard Todd, Dept. of Law

Northstar Unit, Northstar Participating Area *

EXHIBIT C

Interim Unit Tract Participations

Effective June 1, 2003

Tract	Lease	Participating Area Legal Description **	Unit Tract Acreage	PA Tract Acreage	Royalty Rate	Tract %	BP %	Murphy %
TR-101	ADL 312798	The Tract 101 acreage being a portion of ADL 312798, lying within portions of Federal "Supplemental Official O.C.S. Block Diagrams" 470 and 514 as shown on the "Leasing and Nomination Map" for the Federal/ State Beaufort Sea Oil and Gas Lease Sale, dated 1/30/79, more particularly described as follows: Those submerged lands identified in OCS Block 470 approved 10/04/79, listed as State area, located landward of the 1979 Federal/ State offshore boundary three-mile arc lines, being within protracted Sections 30, N1/2, SE1/4 31, 32, and 33, T. 14N., R. 13E., and within portions of protracted Sections 4 and 5, T. 13N., R. 13E., Umiat Meridian, Alaska, containing 1,391.78 acres; Those submerged lands identified in OCS Block 514 approved 12/09/79, listed as state area, located landward of the 1979 Federal/ State offshore boundary three-mile arc lines, being within portions of protracted Sections 4, and N1/2, SE1/4 Section 5, T. 13N., R. 13E., Umiat Meridian, Alaska, containing 488.98 acres; This Tract 101 contains 1,880.76 acres more or less.	4,392.82	1,880.76	20% + Supplemental Royalty	2.887	100.00	0.00
TR-102	ADL 312799	The Tract 102 acreage being a portion of ADL 312799, lying within portions of Federal "Supplemental Official O.C.S. Block Diagrams" 471 and 515 as shown on the "Leasing and Nomination Map" for the Federal/ State Beaufort Sea Oil and Gas Lease Sale, dated 1/30/79, more particularly described as follows: Those submerged lands identified in OCS Block 471 approved 10/04/79, listed as State area, located landward of the 1979 Federal/State offshore boundary three-mile arc lines, being within protracted Sections 33, 34, and 35, T. 14N., R.13E., and within portions of protracted Sections 2, 3, and 4, T. 13N., R.13E., Umiat Meridian, Alaska, containing 671.97 acres; Those submerged lands identified in N1/2, N1/2S1/2 of OCS Block 515 approved 10/04/79, listed as state area, located landward of the 1979 Federal/State offshore boundary three-mile arc lines, being within protracted Sections 10 and 11, and portions of protracted Sections 2, 3, 4, 9, 12, 13, 14, and 15, T. 13N., R. 13E., Umiat Meridian, Alaska, containing 3,620.69 acres; This Tract 102 contains 4,292.66 acres more or less.	4,472.37	4,292.66	20% + Supplemental Royalty	66.437	100.00	0.00

Northstar Unit, Northstar Participating Area *
EXHIBIT C
Interim Unit Tract Participations
Effective June 1, 2003

Tract	Lease	Participating Area Legal Description **	Unit Tract Acreage	PA Tract Acreage	Royalty Rate	Tract %	BP %	Murphy %
TR-103	ADL 312808	The Tract 103 acreage being a portion of ADL 312808, lying within portions of Federal "Supplemental Official O.C.S. Block Diagrams" 515 and 559 as shown on the "Leasing and Nomination Map" for the Federal/ State Beaufort Sea Oil and Gas Lease Sale, dated 1/30/79, more particularly described as follows: Those submerged lands identified in the S1/2S1/2 of OCS Block 515 approved 10/4/79, listed as state area, located landward of the 1979 Federal/State offshore boundary three-mile arc lines, being within portions of protracted Sections 13, 14, 23, and 24, T. 13N., R. 13E., Umiat Meridian, Alaska, containing 641.66 acres; Those submerged lands identified in OCS Block 559 approved 12/9/79, listed as State area, located landward of the 1979 Federal/State offshore boundary three-mile arc lines, being within portions of the protracted Section N1/2 23, and 24, T. 13N., R. 13E., Umiat Meridian, Alaska, containing 451.70 acres; This Tract 103 contains 1,093.36 acres more or less.	3,432.92	1,093.36	20% + Supplemental Royalty	2.026	100.00	0.00
TR-104	ADL 312809	The Tract 104 acreage being a portion of ADL 312809, lying within portions of Federal "Supplemental Official O.C.S. Block Diagrams" 516 and 560 as shown on the "Leasing and Nomination Map" for the Federal/ State Beaufort Sea Oil and Gas Lease Sale, dated 1/30/79, more particularly described as follows: Those submerged lands identified in OCS Block 516 approved 10/4/79, listed as State area, located landward of the 1979 Federal/ State offshore boundary three-mile arc lines, being within protracted Sections 12, 13, and a portion of 24, T. 13N., R.13E., and protracted Sections 17, 18, and portions of 19, and 20, T. 13N., R. 14E., Umiat Meridian, Alaska, containing 561.37 acres; Those submerged lands identified in OCS Block 560 approved 12/9/79, listed as state area, located landward of the 1979 Federal/ State offshore boundary three-mile arc lines, being within a portion of protracted Section 24, T. 13N., R. 13E., and portions of protracted Sections 19, 20, NW1/4 Section 29, N1/2 Section 30, T. 13N., R.14E., Umiat Meridian, Alaska, containing 2,011.47 acres; This Tract 104 contains 2,572.84 acres more or less.	5,301.38	2,572.84	20% + Supplemental Royalty	10.810	100.00	0.00
		STATE SUBTOTAL	17,599.49	9,839.62		82.160	82.16	0.00

Northstar Unit, Northstar Participating Area *

EXHIBIT C

Interim Unit Tract Participations

Effective June 1, 2003

Tract	Lease	Participating Area Legal Description **	Unit Tract Acreage	PA Tract Acreage	Royalty Rate	Tract %	BP %	Murphy %
TR-1	OCS-Y-0179	That portion of OCS-Y-0179 lying south of the line commencing at Easting, Northing UTM6 Meters, NAD27 435076.08, 7825840.36 and ending at Easting, Northing UTM6 Meters, NAD27 437600.00, 7824000.00, as shown on Exhibit D (dated 9/21/01).	2,251.99	1,669.00	Fixed Sliding Scale (minimum of 16.66667%)	3.342	100.00	0.00
TR-2	OCS-Y-0181	That portion of OCS-Y-0181 lying south of the line commencing at Easting, Northing UTM6 Meters, NAD27 437600.00, 7824000.00 and ending at Easting, Northing UTM6 Meters, NAD27 442400.00, 7820500.00, as shown on Exhibit D (dated 9/21/01).	5,242.65	3,167.00	Fixed Sliding Scale (minimum of 16.66667%)	14.228	90.00	10.00
TR-3	OCS-Y-1645	All of OCS-Y-1645	2,929.64	2,929.64	12.50%	0.270	100.00	0.00
		FEDERAL SUBTOTAL	10,424.28	7,765.64		17.840	16.42	1.42
		PARTICIPATING AREA TOTAL		17,605.26		100.000	98.58	1.42

* The Northstar Reservoir is defined as the accumulation of hydrocarbons in the Ivishak and Shublik "D" formations common to and correlating with the interval between 12,630 measured depth below rotary kelly bushing ("MDRkb") and 13,044 feet MDRkb in the Seal A-1 well.

** See Exhibit A for the legal description of each unit tract. The leases are described in terms of OCS blocks existing at the time of the relevant lease sale. The OCS blocks have since been renumbered.

BP BP Exploration (Alaska) Inc.
Murphy Murphy Exploration (Alaska), Inc.

Northstar Unit, Northstar Participating Area
EXHIBIT E
Allocation of Participating Area Expense
Effective June 1, 2003

Tract	Lease	Lease Ownership		Tract Participation %	Allocation by Owner	
		BP %	Murphy %		BP %	Murphy %
TR-101	ADL 312798	100	0	2.887	2.8870	-
TR-102	ADL 312799	100	0	66.437	66.4370	-
TR-103	ADL 312808	100	0	2.026	2.0260	-
TR-104	ADL 312809	100	0	10.810	10.8100	-
TR-1	OCS-Y-0179	100	0	3.342	3.3420	-
TR-2	OCS-Y-0181	90	10	14.228	12.8052	1.4228
TR-3	OCS-Y-1645	100	0	0.270	0.2700	-
			Total	100.000	98.5772	1.4228
BP	BP Exploration (Alaska) Inc.					
Murphy	Murphy Exploration (Alaska), Inc.					