

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL & GAS

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**CERTIFIED MAIL
RETURN RECEIPT REQUESTED**

May 12, 2009

Dave Szabo
Head of Resource Management
Alaska Consolidated Team
BP Exploration (Alaska) Inc.
900 East Benson Boulevard
PO Box 196612
Anchorage, Alaska 99519-6612

Subject: Milne Point Unit 28th Plan of Development
Milne Point Unit Schrader Bluff Participating Area Re-allocation
Milne Point Unit Plan of Exploration ADL 355021
Milne Point Unit Sag River Participating Area Contraction

Dear Mr. Szabo,

By letter dated December 9, 2008, the State of Alaska, Department of Natural Resources, Division of Oil and Gas (Division) approved the Milne Point Unit 28th Plan of Development (MPU 28th POD). As a part of that approval, the Division and BP Exploration (Alaska) Inc. (BPXA), as Unit Operator, developed a list of items and topics, summarized below, to be addressed during the MPU 28th POD plan year, January 1, 2009, through December 31, 2009.

1. Milne Point Unit Schrader Bluff Participating Area (MPU SBPA)
 - a. tract re-allocation factors
 - b. basis for future SBPA expansions
2. Plan of Exploration for portions of ADL 355021 outside the MPU boundary
3. MPU Sag River Participating Area (MPU SRPA)
 - a. Revised Exhibit B to Milne Point Unit Agreement (MPU Agreement) reflecting contraction of the SRPA effective December 31, 2008
4. Data request for field-wide maps and type logs
5. Request for current amendments to MPU Agreement and MPU Operating Agreement.

BPXA has responded to all of the Division's requests. The status of each item is described below.

"Develop, Conserve, and Enhance Natural Resources for Present and Future Alaskans."

1. Milne Point Unit Schrader Bluff Participating Area (MPU SBPA)

By letter dated November 23, 2005, the Division approved BPXA's application to contract the MPU and MPU SBPA and required BPXA to submit a revised tract participation schedule. By letter dated June 21, 2006, BPXA requested an extension to the submittal deadline in order that the revised schedule would reflect the results of BPXA studies to expand the MPU SBPA in the F and L pad areas. The Division approved several extensions to the submittal deadline by letters dated June 29, 2006, December 21, 2006, and December 31, 2007. The approval of the MPU 28th POD, dated December 9, 2008, stated:

BPXA submitted timely the proposed tract re-allocation factors for the SBPA. The basis for the re-allocation is the contraction of ADL 47432 and the drilling of the Liviano and Pesado wells. The Division and BPXA will continue discussion of the proposed factors and schedule a meeting to finalize those discussions on or before February 28, 2009.

The Division and BPXA met to discuss the submittal on February 18, 2009, and the Division notified BPXA that the proposed revised tract participation schedule was acceptable. On April 28, 2009, BPXA submitted the final tract participation schedule.

As required by 11 AAC 83.371(a) Allocation of production, and pursuant to Paragraph 11(c) of the Milne Point Unit Agreement (MPU Agreement), the Division approves the MPU SBPA tract participation schedule effective June 1, 2009, as Exhibit C to the MPU Agreement. Any future MPU SBPA Expansion decision will read that costs and revenues be allocated when wells are drilled.

2. Plan of Exploration for portions of ADL 355021 outside the MPU boundary

The approval of the MPU 26th POD, dated December 21, 2006, stated:

Any portion of ADL 355021 not committed to a PA by December 31, 2008, may be subject to contraction from the MPU unless included in an approved POE or POD, as appropriate. In the event of such a Unit contraction, tract and lease owners of ADL 355021 waive the extension provisions of 11 AAC 83.140 and the notice and hearing provisions of 11 AAC 83.374.

The approval of the MPU 28th POD stated:

BP has requested, and the Division agrees to, a submittal date of December 31, 2008, for a Plan of Exploration (POE) which addresses proposed activity within the portion of ADL 355021 outside of the MPU boundary. The Division will consider approval at that time under 11 AAC 83.341 and the criteria of 11 AAC 83.303.

BPXA submitted a proposed Plan of Exploration for ADL 355021 (MPU 355021 POE) which describes exploration activities for that portion of the lease which lies outside the MPU boundary: ADL 355021, Segment 1, U.M., T. 14N, R9E, Sections 11 -15, and portions of Sections 22 and 23. The entire lease is segmented vertically as follows:

ADL 355021

		Working Interest	
Segment 1:	Surface to 7,526 feet	BPXA	100%
Segment A:	7,526 feet to 9,507 feet	Eni Petroleum US, LLC (Eni)	100%
Segment B:	Below 9,507 feet	Eni	50%
		Herbaly Exploration, LLC	45%
		George Alan Joyce, Jr.	5%

This portion of ADL 355021 is bounded on the west by the Nikaitchuq Unit, operated by Eni, and on the south and east by the MPU, operated by BPXA. In 2004, Eni's predecessor, Kerr McGee Oil and Gas Corporation (KMG), then Operator of the adjacent Nikaitchuq Unit, drilled the Nikaitchuq #2, which encountered 7 feet of net pay in the Schrader Bluff OA S sand in Section 15 of ADL 355021, outside the MPU boundary. KMG drilled the well from an ice pad.

The MPU 355021 POE describes BPXA's plans to re-process and re-interpret existing 3D seismic to improve the characterization of the reservoir which may lie between the Nikaitchuq Unit and MPU boundaries in order to consider additional drilling. The Division and BPXA met on March 18, 2009 to further discuss BPXA's plans. To drill a well from either unit would require Extended Reach Drilling (ERD) techniques as the distance to the closest existing drillsite in either unit is at least 20,000 feet. ERD wells require highly specialized drilling rigs and drill pipe, as well as long range planning beyond the scope of a plan of exploration. The Division appreciates the candid discussion of possible near term approaches for exploration and long range conceptual considerations for development of this portion of ADL 355021.

Exploration and possible development of this acreage requires coordinated activities among multiple working interest owners and relies on technology only just now becoming available. This portion of ADL 355021 is not subject to a unit agreement, nor may it be severed without the concurrence of the working interest owners. To promote conservation of all natural resources, prevent economic and physical waste, and provide for protection of all parties, the Division anticipates that BPXA and the working interest owners of ADL 355021 will continue to work together to consider approaches which may lead to the exploration and development of this acreage as additional data and technology become available. The Division defers consideration of approval of the 355021 POE until submittal of the MPU 29th POD, on or before October 1, 2009.

3. MPU Sag River Participating Area Contraction (MPU SRPA)

As a part of the May 11, 2005 Decision approving the Formation of the Sag River Participating Area within the Milne Point Unit (Decision), BPXA and the Division agreed to a schedule of drilling commitments, as described in Section 3 of the Decision, "Applicant's Plan of Development for the SRPA". Failure to fulfill the drilling commitments would result in automatic contraction of undrilled acreage. As part of the MPU 26th POD submittal, BPXA requested, and the Division agreed, to amend the schedule by extending the drilling commitment dates specified in Section 3, parts 2, and 3, of the Decision. That schedule provided for the automatic contraction of the SRPA as follows:

Amended Section 3, Parts 2 and 3(c), Applicant's Plan of Development for the SRPA

2. The operator must drill, sidetrack, or recomplete
 - a. at least two SRPA wells by December 31, 2008
 - b. at least two additional SRPA Wells by December 31, 2009
 - c. additional SRPA Wells in the last six locations by December 31, 2011
3. c. For example, if there are only five SRPA wells on December 31, 2009, the SRPA will automatically contract on December 31, 2009, a new Exhibit B is due by March 1, 2010 and the new Exhibit B is effective on January 1, 2010.

When the Division approved the formation of the SRPA, the justification for the SRPA boundary relied upon geological, geophysical, engineering and economic data from two existing producers (F-33A and C-23) supported by one injector (F-73A) and BPXA's Plan of Development for the SRPA. The horizontal F-33A and the conventional C-23 had produced approximately 720,000 barrels of oil. As tract operations, production from the wells was allocated to two unit tracts, ADLs 47433, (Tract 2) and 47434 (Tract 3). The initial approved SRPA boundary included portions of five additional leases, each of which was also committed to the MPU Kugaruk River Participating Area (MPU KPA). By approving a relatively large area for the initial SRPA, the Division provided operational flexibility to BPXA, but protected the State's interest by developing a schedule of drilling commitments which, if unfulfilled, would result in the automatic contraction of the SRPA boundary.

As of December 31, 2008, BPXA had not drilled additional wells in the SRPA. The delay in development resulted in part from several events: a delay in the receipt of reprocessed seismic which delayed the defining of the SRPA drilling prospects, the need for facility upgrades to C Pad, (low solids water source and electrical capacity), to accommodate further Sag River development, and a shortage of engineering and facility resources due to the Safety and Operational Integrity programs associated with the shut-in of various sections of pipeline within BPXA's operating area.

The delayed pacing of the Sag River development resulted in the contraction of the SRPA effective December 1, 2008. BPXA timely submitted the revised Exhibit B reflecting the contracted SRPA on February 26, 2009. The Division has reviewed and approves the revised Exhibit B tract participation schedule for the MPU SRPA.

4. MPU 28th POD data submittals Request for field-wide maps and type logs.

The Division requested that BPXA submit incremental data from activities completed during the MPU 27th POD plan year to maintain the existing data set as they become available during the MPU 28th POD plan year. BPXA will submit these data as they become available during the MPU 28th POD plan year. The Division also requested that BPXA submit field-wide maps and type logs. BPXA has submitted the requested data and requested confidentiality pursuant to AS 38.05.035(8) and 11 AAC 82.810

5. Request for current amendments to MPU Agreement and MPU Operating Agreement.

BPXA is in the process of preparing electronic copies of the MPU Agreement, Operating Agreement, and amendments to both. BPXA will submit these under separate cover.

Please contact Temple Davidson with the Division at 907-269-8784 with any questions.

Sincerely,

A handwritten signature in blue ink, appearing to read "Kevin R. Banks", written over a horizontal line.

Kevin R. Banks
Director

Cc: Jeff Landry