

Eni Petroleum

1201 Louisiana, Suite 3500
Houston, Texas 77002
Phone: 713-393-6100
Fax: 713-393-6205



October 16, 2007

The Honorable Commissioner Tom Irwin
State of Alaska
Department of Natural Resources
550 W. 7th Avenue, Suite 1400
Anchorage, Alaska 99501

Re: Application for Royalty Modification/ Nikaitchuq Unit /Sate of Alaska Leases
ADL 388577, ADL 388574, ADL 388571, ADL 388572, ADL 388575, ADL388580,
ADL 388581, ADL 388583, ADL 388582, ADL 391283, ADL 390615 & ADL 390616

Dear Commissioner Irwin:

Eni US Operating Co. Inc. ("Eni") is Operator of the Nikaitchuq Unit on behalf of its affiliate Eni Petroleum US LLC, owner of 100% of the working interest in the Nikaitchuq Unit leases. Eni Petroleum US LLC in conjunction with Kerr-McGee Oil & Gas Corporation, as the previous Operator of the Nikaitchuq Unit, has drilled 3 exploratory and 5 appraisal wells in the Nikaitchuq Unit area depicted on Exhibit "A" attached hereto and made a part of this Application. Eni has conducted extensive reservoir evaluation, engineering studies, and economic analysis to determine if it is feasible to develop and produce the hydrocarbons discovered in the Schrader Bluff and Sag River formations within the Nikaitchuq Unit Area. Eni has, on a confidential basis, shared with various personnel within the Division of Oil and Gas, the results of such reservoir and engineering analysis, and economic studies related to the Nikaitchuq Unit Area.

Eni is working diligently to define a project that will allow the development of the State of Alaska's oil and gas resources in the Nikaitchuq Unit, located in Harrison Bay, North Slope of Alaska. The result of Eni's work is the discovery of potentially commercial reserves in the Schrader Bluff and Sag River formations; however, the economics of this offshore development project are marginal under the existing lease royalty terms in a lower oil price market place. The possible existence of the discovered hydrocarbons has long been known but has not been previously developed due to the substantial technical and economic risks associated with the development of this heavy, viscous oil, in an extremely severe offshore environment. The decision of Kerr-McGee Oil & Gas Corporation to discontinue its participation in this project is the most recent in a long history of companies electing not to move forward with this scale of development opportunity in Alaska.

In an effort to approve a development with acceptable risk, Eni hereby requests Royalty Modification for the Schrader Bluff OA sand reservoir and the Sag River reservoir on the State of Alaska Oil & Gas Leases as set forth on Exhibit "B" attached to and made a part of this Application. The State of Alaska is authorized under AS 38.05.180 (j) to reduce the royalty rate on State of Alaska oil and gas leases to as low as 5%. Eni believes that the Nikaitchuq Unit economics justify the granting of Royalty Modification to the full extent allowed under the statute in certain market conditions. Royalty Modification to protect against low commodity price for oil will provide a risk environment that is more conducive to the development of Nikaitchuq

resources by Eni. An example of a Royalty Modification decision that would accomplish this is attached as Exhibit "C".

As indicated above, Eni has previously provided the Division of Oil and Gas, on a confidential basis, detailed geologic, engineering, and economic analysis sufficient to establish the following:

- The oil field or pool underlying the subject leases has been sufficiently delineated
- The oil field or pool has not previously produced oil or gas for sale
- Oil production from the field or pool would not otherwise be economically feasible.

A summary of the data previously submitted, together with related exhibits which we request you consider in making your determination is listed on the attached Exhibit "D". Although preliminary copies have previously been submitted, this application is being sent without all the supporting documentation but such documentation will be sent in the immediate future, including maps showing the area of expected production for all sands. The work previously done by Kerr-McGee Oil & Gas Corporation for the Sag River reservoir is still valid and will be relied on by Eni in this application.

Eni believes that it has made a clear and convincing showing, through this application presentation and the previously submitted confidential information, that the proposed royalty modification for the Schrader Bluff OA sand reservoir and the Sag River reservoir will facilitate the development of the State of Alaska's resources that would otherwise not be developed and that it is in the best interest of the State of Alaska and meets the requirements of AS 38.05.180 (j).

Eni requests that the information previously provided on a confidential basis remain confidential to the extent permitted by law and regulation consistent with the requirements of this application and the related review process.

Eni hereby confirms its understanding that this application letter will release the DNR to spend money for consultants at Eni's expense up to the limit of \$150,000.00 as provided for under AS 38.05.180 (j) (7) (A).

Sincerely,



Roberto Dall'Omo
President & CEO



cc: Kevin Banks, Acting Director
State of Alaska Department of Natural Resources
Division of Oil and Gas
550 West Seventh Avenue, Suite 1100
Anchorage, Alaska 99501



Eni Petroleum

16 October 2007

**ALASKA
EXHIBIT "A"
ROYALTY MODIFICATION APPLICATION
EXPANDED NIKAITCHUQ OUTLINE**

14N/8E

388573
Tract 13

14N/9E

390433
Tract 1

389719
Tract 3

14N/10E

388579
Tract 6

13N/8E

388572
Tract 12

388571
Tract 11

388581
Tract 4

388580
Tract 5

TUVAQAQ
ST 1

388575
Tract 15

388574
Tract 14

388582
Tract 8

388583
Tract 7

388584
Tract 9

Pingok Is

Thetis Island
THETIS ISLAND 1

KIGUN 1

Spy Island

NIKAITCHUQ 3

NIKAITCHUQ 2

NIKAITCHUQ 1

OOOGURUKI

388578
Tract 17

391283
Tract 18

390616
Tract 10

390615
Tract 9

OLIKTOK
POINT I-2

OLIKTOK
POINT I-1

13N/9E

Oliktok Pt. Pad

13N/10E

0.375
1.5
Miles

Exhibit B
NIKAITCHUQ UNIT ROYALTY MODIFICATION APPLICATION

Unit Area

Nikaitchuuq Unit Tract Number	Lessor / Royalty Owner Lease Serial No.	Description of Utilized Lands	Utilized Acres	Royalty Rate	ORRI Owners	Overriding Royalty Interest	Working Interest Owners & Percentage Working Interest	Primary Expiration Date
4	388581	T14N., R.9 E., UMIAT MERIDIAN Sec: 5 Protracted, All tide and submerged lands Sec: 6 Protracted, All tide and submerged lands Sec: 7 Protracted, All tide and submerged lands Sec: 8 Protracted, All tide and submerged lands	640.0000	0.16667	William D. Armstrong Jesse V. Sommer Edgar Kerr Jeffrey A. Lyslo	2.8000% 0.0833% 0.0833% 0.0833%	Eni: 100%	31-Dec-2004
			609.0000					
			611.0000					
			640.0000					
			2500.0000		Patricia M. Reed Matthew X. Furn Stuart W. Gustafson Richard C. Geesaman total	0.0833% 0.0833% 0.0833% 3.3333%		
5	388580	T14N., R.9 E., UMIAT MERIDIAN Sec: 3 Protracted, All tide and submerged lands Sec: 4 Protracted, All tide and submerged lands Sec: 9 Protracted, All tide and submerged lands Sec: 10 Protracted, All tide and submerged lands	640.0000	0.16667	William D. Armstrong Jesse V. Sommer Edgar Kerr Jeffrey A. Lyslo	2.8000% 0.0833% 0.0833% 0.0833%	Eni: 100%	31-Dec-2004
			640.0000					
			640.0000					
			2560.0000					
					Patricia M. Reed Matthew X. Furn Stuart W. Gustafson Richard C. Geesaman total	0.0833% 0.0833% 0.0833% 3.3333%		
7	388583	T14N., R.9 E., UMIAT MERIDIAN Sec: 17 Unsurveyed, All tide and submerged lands Sec: 18 Unsurveyed, All tide and submerged lands Sec: 20 Protracted, All tide and submerged lands T14N., R.9 E., UMIAT MERIDIAN TRACT A	597.7600	0.16667	William D. Armstrong Jesse V. Sommer Edgar Kerr Jeffrey A. Lyslo	2.8000% 0.0833% 0.0833% 0.0833%	Eni: 100%	31-Dec-2004
			594.5200					
			640.0000					
			42.2400					
			29.4800		Matthew X. Furn Stuart W. Gustafson Richard C. Geesaman total	0.0833% 0.0333% 3.3333%		
8	388582	T14N., R.9 E., UMIAT MERIDIAN Sec: 16 Unsurveyed, All tide and submerged lands Sec: 21 Unsurveyed, All tide and submerged lands T14N., R.9 E., UMIAT MERIDIAN TRACT A	618.3700	0.16667	William D. Armstrong Jesse V. Sommer Edgar Kerr Jeffrey A. Lyslo	2.8000% 0.0833% 0.0833% 0.0833%	Eni: 100%	31-Dec-2004
			633.0800					
			21.6300					
			6.9200					
			1280.0000		Patricia M. Reed Matthew X. Furn Stuart W. Gustafson Richard C. Geesaman total	0.0833% 0.0833% 0.0333% 3.3333%		

9 390615 T14N., R.9 E., UMIAT MERIDIAN
 Sec: 28 Protracted, All
 Sec: 33 Protracted, All

640.0000	0.16667	GMT Exploration	0.13333	Eni: 100%	30-Jun-2012
640.0000		Wm D Armstrong	0.72797		
1280.0000		Jesse V Sommer	0.02167		
		Edgar Kerr	0.02167		
		Jeffery A Lyslo	0.02167		
		Patricia M Reed	0.02167		
		Matthew X Furn	0.02167		
		Stuart W Gustafson	0.02167		
		Chester E Paris	0.00867		
		total	0.99999		

10 390616 T14N., R.9 E., UMIAT MERIDIAN
 Sec: 29 Protracted, All
 Sec: 32 Protracted, All

640.0000	0.16667	GMT Exploration	0.13333	Eni: 100%	30-Jun-2012
640.0000		Wm D Armstrong	0.72797		
1280.0000		Jesse V Sommer	0.02167		
		Edgar Kerr	0.02167		
		Jeffery A Lyslo	0.02167		
		Patricia M Reed	0.02167		
		Matthew X Furn	0.02167		
		Stuart W Gustafson	0.02167		
		Chester E Paris	0.00867		
		total	0.99999		

11 388571 T14N., R.8 E., UMIAT MERIDIAN

Sec: 1 Protracted, All tide and submerged lands
 Sec: 2 Protracted, All tide and submerged lands within the
 computed territorial sea, listed as "State Acreage" on Alaska's
 seaward boundary diagram approved by the State on April 15,
 1996
 Sec: 11 Protracted, All tide and submerged lands
 Sec: 12 Protracted, All tide and submerged lands
 T15N., R.8 E., UMIAT MERIDIAN
 Sec: 35 Protracted, All tide and submerged lands within the
 computed territorial sea, listed as "State Acreage" on Alaska's
 seaward boundary diagram approved by the State on April 15,
 1996
 Sec: 36 Protracted, All tide and submerged lands within the
 computed territorial sea, listed as "State Acreage" on Alaska's
 seaward boundary diagram approved by the State on April 15,
 1996

640.0000	0.16667	ConocoPhillips	4.250%	Eni: 100%	31-Dec-2004
539.6300					
640.0000		total	4.250%		
640.0000					
24.0000					
282.7300					
2766.3600					

12 388572 T14N., R.8 E., UMIAT MERIDIAN

Sec: 3 Protracted, All tide and submerged lands within the
 computed territorial sea, listed as "State Acreage" on Alaska's
 seaward boundary diagram approved by the State on April 15,
 1996
 Sec: 4 Protracted, All tide and submerged lands within the
 computed territorial sea, listed as "State Acreage" on Alaska's
 seaward boundary diagram approved by the State on April 15,
 1996
 Sec: 9 Protracted, All tide and submerged lands
 Sec: 10 Protracted, All tide and submerged lands
 T15N., R.8 E., UMIAT MERIDIAN
 Sec: 33 Protracted, All tide and submerged lands within the
 computed territorial sea, listed as "State Acreage" on Alaska's
 seaward boundary diagram approved by the State on April 15,
 1996

170.9100	0.16667	ConocoPhillips	4.250%	Eni: 100%	31-Dec-2004
516.4100					
640.0000		total	4.250%		
640.0000					
0.9200					
1968.2400					

14 388574 T14N., R.8 E., UMIAT MERIDIAN
 Sec: 13 Protracted, All tide and submerged lands

640.0000	0.16667	ConocoPhillips	4.250%	Eni: 100%	31-Dec-2004
----------	---------	----------------	--------	-----------	-------------

Sec: 14 Protracted, All tide and submerged lands 640,0000
 Sec: 23 Protracted, All tide and submerged lands 640,0000
 1920,0000
 total 4,250%

15 388575 T14N., R8 E., UMIAT MERIDIAN
 Sec: 15 Protracted, All tide and submerged lands 640,0000
 Sec: 16 Protracted, All tide and submerged lands 640,0000
 Sec: 21 Protracted, All tide and submerged lands 640,0000
 Sec: 22 Protracted, All tide and submerged lands 640,0000
 2560,0000
 total 4,250%
 Eni: 100% 31-Dec-2004

16 388577 T14N., R8 E., UMIAT MERIDIAN
 Sec: 26 Protracted, All tide and submerged lands 640,0000
 Sec: 35 Protracted, All tide and submerged lands 640,0000
 1280,0000
 total 4,250%
 Eni: 100% 31-Dec-2004

18 391283 T14N., R8 E., UMIAT MERIDIAN Segment 2
 Sec: 24 Protracted, All 640,0000
 Sec: 25 Protracted, All 640,0000
 Sec: 36 Protracted, All 640,0000
 T14N., R9 E., UMIAT MERIDIAN Segment 2
 Sec: 19 Protracted, All 617,0000
 Sec: 30 Protracted, All 620,0000
 Sec: 31 Protracted, All 623,0000
 3780,0000
 total 8,178,112%
 Eni: 100% 31-May-1993
 ConocoPhillips 3,324%
 BP 2,357%
 Exxon 0,200%
 Unocal 0,297%

EXHIBIT "C"

Attached to and made a part of that Eni US Operating Co. Inc. Application for Royalty Modification dated October 16, 2007.

1. Nikaitchuq royalty modification mechanism implemented as follows:
 - (a) Original lease rates are 12.5% or 16.67% depending on the lease.
 - (b) 5% royalty rate shall be in effect when Alaska North Slope West Coast ("ANS WC") crude prices are below MMS OCS royalty relief price threshold for post August 2007 GOM leases.
 - (c) Sliding scale royalty will be in effect when crude oil prices for ANS WC are below the DNR Spring 2007 oil price forecast and above the MMS OCS royalty relief price threshold. Original lease royalty rates shall be in effect when ANS WC oil price is greater than the DNR Spring 2007 oil price forecast.

2. For the first ten years after royalty modification decision, if production is below 4,000 barrels of oil per day, full royalty relief rates of 5% shall be in effect for all leases regardless of oil price.