

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL AND GAS

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CERTIFIED MAIL
RETURN RECEIPT REQUESTED

February 8, 2005

Gil Beuhler
West End Satellite Team Manager
BP Exploration (Alaska), Inc.
900 East Benson Blvd.
P.O. Box 196612
Anchorage, AK 99519-6612

RE: Preliminary Approval
Application to Expand the Prudhoe Bay Unit and the Aurora Participating Area

Dear Mr. Beuhler:

On March 25, 2004, BP Exploration (Alaska) Inc. (BPXA), as a Working Interest Owner (WIO) and Unit Operator of the Prudhoe Bay Unit (PBU), and on behalf of Chevron U.S.A. Inc., ConocoPhillips Alaska, Inc., ExxonMobil Alaska Production Inc. and Forest Oil Corporation, submitted an application to the Department of Natural Resources, Division of Oil and Gas, (Division) to expand the PBU and the Aurora Participating Area (APA) (Application). The proposed PBU expansion area included approximately 1,120 acres within two leases, and the proposed APA expansion area included approximately 2,240 acres within seven leases.

Following discussions between the WIOs and the Division, BPXA revised the Application. The revisions are reflected in three Attachments to this decision. Attachment 1 is a map of the revised PBU and APA expansion areas. The revised PBU expansion area (the map's crosshatched areas) includes approximately 1,040 acres within two leases—ADLs 28256 and 390080. The expanded PBU will include a total of all or part of 110 leases and approximately 248,677 acres. The current APA includes portions of seven leases for a total of approximately 7,520 acres. The revised APA expansion area (the map's crosshatched and green-colored areas) includes all or portions of nine leases and approximately 10,480 acres. Attachment 2 is a revised APA tract allocation schedule. And, Attachment 3 memorializes a conceptual agreement between the Division and the WIOs on the makeup of the expansion areas and BPXA's work commitments in the expansion areas.

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

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In addition to the agreement on expansion areas and work commitments, the Division and WIOs also agreed, that the 1980 Prudhoe Bay Royalty Settlement Agreement (RSA), and therefore a field cost deduction, will apply to 1) all production allocated to the APA expansion areas within the PBU at the time of the Application (the green-colored areas set out in Attachment 1); and 2) all production allocated to Section 22 of ADL 28256 (PBU Tract 11) and ADL 390080 (PBU Tract 118) because these lands were within the PBU on the effective date of the RSA. However, the RSA will not apply to Sections 15 and 16 of ADL 28256 (PBU Tract 11) because these lands were not within the PBU on the effective date of the RSA.

Furthermore, because BPXA timely drilled and completed the S-119 well as a production well, and commenced production on December 30, 2004, 20.832 percent of the production allocated to ADL 28256 (PBU Tract 11), or 5.308 percent of the total APA production, is not subject to a field cost deduction under the RSA. This calculation represents production from the S-119 Area within Sections 15 and 16 of PBU Tract 11, as set out in Attachment 1. Similarly, if BPXA timely drills and completes the S-111 well, then 33.334 percent of the production allocated to ADL 28256 (PBU Tract 11), or 8.493 percent of the total APA production, will not be subject to a field cost deduction under the RSA. This calculation represents production from the S-119 Area as described above and the S-111 Area within Sections 15 and 16 of PBU Tract 11, as set out in Attachment 1.

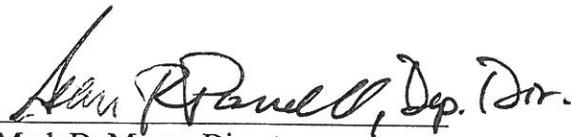
The Division deemed the revised Application complete on August 31, 2004, and arranged to begin public notice on September 9, 2004, in the *Anchorage Daily News* and *Arctic Sounder* under 11 AAC 83.311. Copies of the public notice were also provided to interested parties under that regulation. These parties included the North Slope Borough, Arctic Slope Regional Corporation, the Alaska Department of Environmental Conservation, the Alaska Department of Fish and Game, the Alaska Department of Natural Resources, Division of Land, and the Alaska Oil and Gas Conservation Commission. The public notices invited interested parties and members of the public to submit comments by October 11, 2004. The revised Application was properly noticed in the *Arctic Sounder* on September 9, 2004, but did not appear in the *Anchorage Daily News*. This omission was corrected on November 19, 2004, when the revised Application was published in the *Anchorage Daily News*. The thirty-day public comment period for the notice published in the *Anchorage Daily News* closed on December 20, 2004. The Division received no comments regarding the revised Application during the two thirty-day public comment periods.

The Division reviewed the statutes, regulations, Prudhoe Bay Unit Agreement, and the materials supplied by BPXA in support of the revised Application. The revised Application meets the criteria set out in 11 AAC 83.303. Approval of the revised Application is necessary and advisable to protect the public interest because it promotes the conservation of all natural resources, promotes the prevention of economic and physical waste, and provides for the protection of all parties, including the state.

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The Division is issuing this preliminary decision today to comply with the provisions of 11 AAC 83.316(a), which provides that the commissioner will issue a written decision on a unit expansion within 60 days after close of the public comment period. The Division will issue a final, appealable decision fully analyzing the criteria set out in 11 AAC 83.303 by April 15, 2005.

Article 5.4 of the PBU Agreement provides that a revision of a participating area will be effective on the first day of the month following approval by DNR or any other date agreed to by DNR and the Unit Operator, acting on behalf of the WIOs. The Division and BPXA have agreed that the effective date of this Seventh PBU expansion, First APA expansion, and the revised APA tract allocation schedule is October 1, 2004, which is the first day of the month in which ADL 390080 was set to expire under the March 15, 2004 Letter Agreement between BP Exploration (Alaska) Inc. (BPXA) and the Department of Natural Resources (DNR) regarding the severance of ADL 28255 and creation of ADL 390080.

for 
Mark D. Myers, Director
Division of Oil and Gas

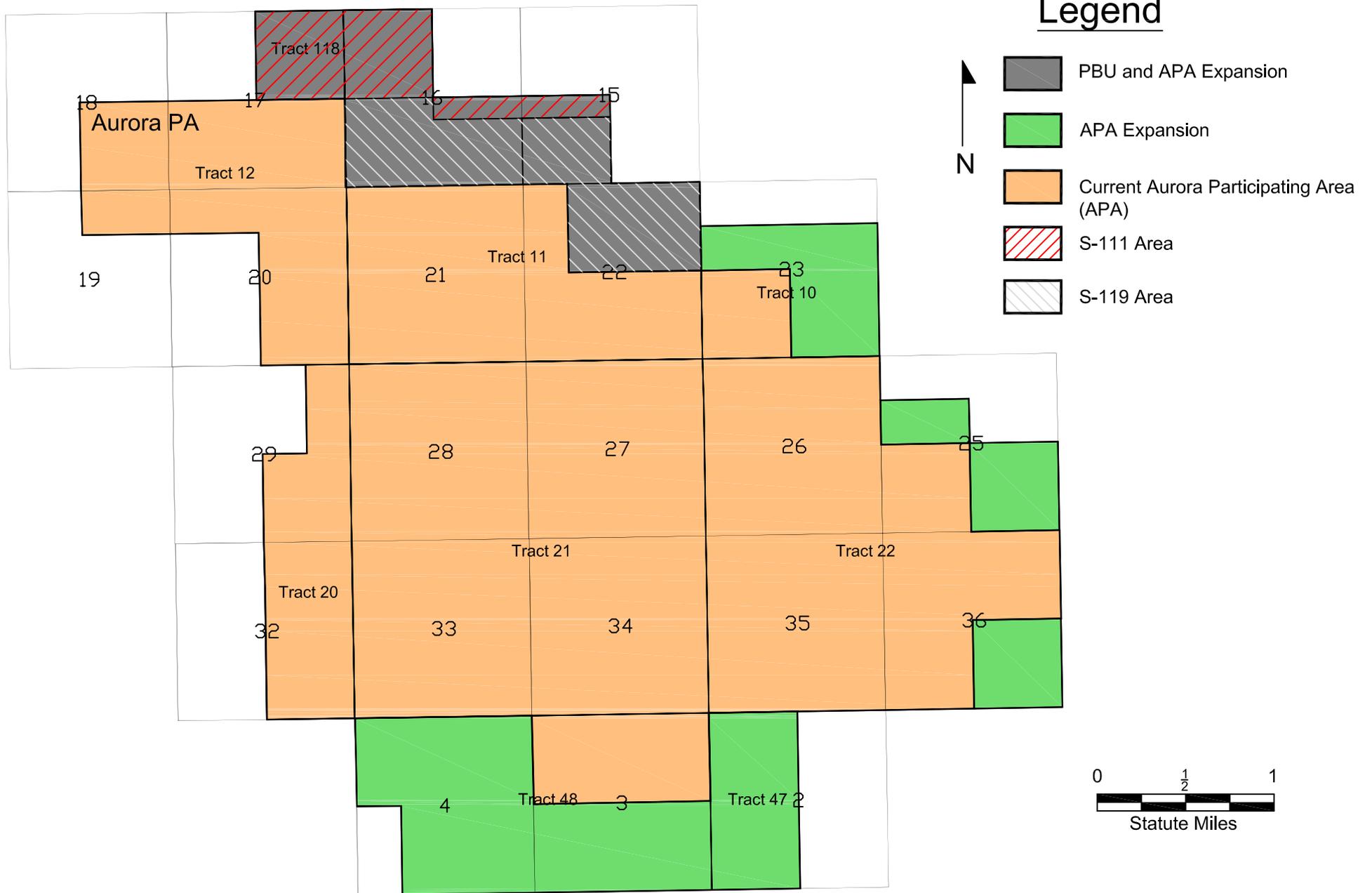
2/8/05
Date

Attachments: 1) Map of the PBU and APA Expansion Areas
2) APA Tract Participation Schedule
3) Conceptual Agreement regarding the March 25, 2004, PBU and APA Expansion Application

cc: AOGCC
Gary Gustafson, BPXA
Jeff Landry, ADOL

PBU_APA_Expansion_PreliminaryDecision_2.8.05

Prudhoe Bay Unit and Aurora Participating Area



**ATTACHMENT 2
TRACTS WITHIN THE APA AND AURORA TRACT PARTICIPATIONS**

Tract	Lease	Twnshp/Rng	Section	Acres	Royalty %	BPXA	Working Interest Ownership %				Tract Participation (%)
							CPAI	XOM	Chevron	Forest	
10	47448	12N-12E	Sec. 23: S2, S2NW4, S2NE4	480	12.5	26.355356	36.069385	36.395491	1.160000	0.019768	2.827
11	28256	12N-12E	Sec. 15: SW4 Sec. 16: S2, NW4 Sec. 21: All Sec. 22: All	1,920	12.5	26.355356	36.069385	36.395491	1.160000	0.019768	25.466
12	28255	12N-12E	Sec. 17: S2 Sec. 18: SE4 Sec. 19: N2NE4 Sec. 20: E2, N2NW4	960	12.5	26.355356	36.069385	36.395491	1.160000	0.019768	4.946
20	28259	12N-12E	Sec. 29: SE4, E2NE4 Sec. 32: E2	560	12.5	26.355356	36.069385	36.395491	1.160000	0.019768	2.772
21	28258	12N-12E	Sec. 27: All Sec. 28: All Sec. 33: All Sec. 34: All	2,560	12.5	26.355356	36.069385	36.395491	1.160000	0.019768	43.061
22	28257	12N-12E	Sec. 25: S2, S2NW4 Sec. 26: All Sec. 35: All Sec. 36: All	2,320	12.5	26.355356	36.069385	36.395491	1.160000	0.019768	19.406
47	28260	11N-12E	Sec. 2: W2	320	12.5	26.355356	36.069385	36.395491	1.160000	0.019768	0.084
48	28261	11N-12E	Sec. 3: All Sec. 4: E2, E2SW4, NW4	1,200	12.5	26.355356	36.069385	36.395491	1.160000	0.019768	0.614
118	390080	12N-12E	Sec. 17: NE4	160	12.5	26.355356	36.069385	36.395491	1.160000	0.019768	0.824
Total				10480							100.000

BPXA - BP Exploration Alaska Inc.
Chevron - Chevron U.S.A. Inc.
CPAI - ConocoPhillips Alaska, Inc.
XOM - ExxonMobil Alaska Production Inc.
Forest - Forest Oil Corporation

Attachment 3

Elements of the Conceptual Agreement regarding the March 2004 PBU/APA Expansion Application:

A.) The following lands are eliminated from the Application:

1. ADL 47450 (PBU Tract 49) Sec. 5: E/2NE/4, 80 acres.
2. ADL 28261 (PBU Tract 48) Sec. 9: NE/4 and N/2SE/4, 240 acres; Sec. 10: W/2NW/4 and NW/4SW/4, 120 acres.
3. ADL 28256 (PBU Tract 11) Sec. 15: S/2SE/4, 80 acres.

B.) The following Northern Expansion Area lands

ADL 390080: Sec. 17: NE/4;

ADL 28256 (PBU Tract 11): Sec. 16: S/2, NW/4; Sec. 15: SW/4; Sec. 22: NE/4, E/2NW/4;

are acceptable for inclusion into the PBU and Aurora Participating Area (APA), subject to certain terms and conditions:

1) BPXA to drill Well S-119 to the proposed location and provide well results to the Division by October 15, 2004. If S-119 is not drilled and the results not provided by October 15, 2004, then the Northern Expansion Area lands are automatically eliminated from the PBU and APA.

2) If Well S-119 is drilled and completed as a production or injection well by November 15, 2004, then the following Northern Expansion Area lands shall remain in the PBU and APA: ADL 28256 (PBU Tract 11): Sec. 16: SW/4, S/2SE/4, S/2N/2SE/4; Sec. 15: S/2SW/4, S/2N/2SW/4; Sec. 22: NE/4, E/2NW/4.

If Well S-119 is drilled, but not completed as a production or injection well by November 15, 2004, then the Northern Expansion Area lands are automatically eliminated from the PBU and APA. N.B. This implies that S-111 will not be drilled.

3) If S-111 is drilled and completed as a production or injection well within the following Northern Expansion Area lands: ADL 390080: Sec. 17: NE/4; ADL 28256 (PBU Tract 11): Sec. 16: S/2, NW/4; Sec. 15: SW/4; by June 30, 2005, then the following lands shall remain within the PBU and APA: ADL 390080: Sec. 17: NE/4; ADL 28256 (PBU Tract 11): Sec. 16: NW/4, N/2N/2SE/4; Sec. 15: N/2N/2SE/4.

4) If Well S-111 is not drilled, or is drilled, but not completed as a production or injection well by June 30, 2005, then ADL 390080: Sec. 17: NE/4; ADL 28256 (PBU Tract 11): Sec. 16: NW/4, N/2N/2SE/4; Sec. 15: N/2N/2SE/4 are automatically eliminated from the PBU and APA. N.B. This also implies that the specified lands are not capable of production or contributing to production in paying quantities.

In addition,

ADL 390080, Sec.17: NE/4 is not included in the 2004 NS Area wide O&G Lease Sale.

In the event of any lands being eliminated from the PBU and APA, the PBU WIOs agreed to waive the extension provisions of 11 AAC 83.140 and the notice and hearing provisions of 11 AAC 83.374 with respect to such eliminations/contractions.

This agreement sets no precedent for future actions by the parties.