

DUCK ISLAND UNIT

AMENDMENT NO.3 TO THE
DUCK ISLAND UNIT AGREEMENT

DECISION AND FINDINGS OF THE COMMISSIONER
ALASKA DEPARTMENT OF NATURAL RESOURCES

September 23, 1991

AGO 10163735

On June 26, 1991 BP Exploration (Alaska) Inc., Operator of the Duck Island Unit, submitted a proposed Amendment No. 3 to the Duck Island Unit Agreement for approval by the Commissioner, Alaska Department of Natural Resources. Amendment No. 3 proposes to amend Article 12 of the Duck Island Unit Agreement to read as follows:

12. ALLOCATION OF PRODUCTION AND COST. All unitized substances produced from each participating area established under this agreement, except any part thereof used in conformity with good operating practices within the unitized area for drilling, operating, camp and other production or development purposes, for repressuring or recycling in accordance with a plan of development approved by the Director, or unavoidably lost, shall be deemed to be produced on the basis prescribed in Exhibit C. If there is a separate division of interest or allocation formula among any of the parties holding an interest in the unit that is different from Exhibit C, the parties to the separate division of interest or allocation formula that has not been approved by the Director must submit a copy of that formula to the Director and a statement explaining the reasons for the different allocations. It is hereby agreed that production of unitized substances from a participating area shall be allocated as provided in Exhibit C of this agreement regardless of whether any wells are drilled on any particular part or tract of said participating area. [IF ANY GAS PRODUCED FROM ONE PARTICIPATING AREA IS USED FOR REPRESSURING OR RECYCLING PURPOSES IN ANOTHER PARTICIPATING AREA, THE FIRST GAS WITHDRAWN FROM SUCH LAST MENTIONED PARTICIPATING AREA FOR SALE DURING THE LIFE OF THIS AGREEMENT SHALL BE CONSIDERED TO BE THE GAS TRANSFERRED UNTIL AN AMOUNT EQUAL TO THAT TRANSFERRED SHALL BE SO PRODUCED FOR SALE AND SUCH GAS SHALL BE ALLOCATED TO THE PARTICIPATING AREA FROM WHICH INITIALLY PRODUCED AS CONSTITUTED AT THE TIME OF SUCH FINAL PRODUCTION.] The Unit Operator may inject gas from one participating area to another participating area for the purpose of repressuring or recycling. In the event that a working interest owner sells gas while gas from another participating area is used for repressuring or recycling and that working interest owner owns a share or percentage of the gas which has been transferred from one participating area to another participating area for the purpose of repressuring or recycling, then the working interest owner selling gas must sell its share or percentage of the gas which has been transferred from one

participating area to another participating area for the purpose of repressuring or recycling first. In the event that a working interest owner sells gas while gas from another participating area is used for repressuring or recycling and that working interest owner does not own a share or percentage of the gas which has been transferred from one participating area to another participating area for the purpose of repressuring or recycling, then the working interest owner selling gas has a right to sell gas from the participating area in which it is an owner.

Language to be added to the existing Unit Agreement is underlined; language to be deleted from the existing Unit Agreement is capitalized and enclosed in brackets. Other than the above amendment, the Duck Island Unit Agreement shall remain as written.

Prior to adoption of Amendment No.3, Article 12 of the Duck Island Unit Agreement requires that if gas is transferred from one participating area to another participating area within the unit for the purposes of repressuring or recycling, the first gas withdrawn for gas sales must be the transferred gas. There are two approved participating areas within the Duck Island Unit, the Endicott Participating Area and the Sag Delta North Participating Area. Unless Article 12 is amended, if Sag Delta North Participating Area gas is transferred to the Endicott Reservoir, the first gas withdrawn for sales would have to be the Sag Delta North gas.

Currently, there are no major gas sales from the Duck Island Unit. However, gas is sold from the unit for purposes of power generation to the Endicott Pipeline Company for shipment of liquid hydrocarbons to TAPS Pump Station #1. Prior to the formation and approval of the Sag Delta North Participating Area, each Duck Island Unit working interest owner was offered the opportunity to sell its share of Endicott gas for power generation sales to the pipeline.

Adopting the proposed Amendment No. 3 will allow the unit operator to inject gas from one participating area within the Duck Island Unit into another participating area within the Duck Island Unit for the purpose of repressuring or recycling, and permit the sale of either participating area's gas separately or concurrently. The sale of either Sag Delta North gas and/or Endicott gas would be permitted separately or concurrently. However, if a Duck Island Unit working interest owner has a share of both Endicott and Sag

Delta North gas, it must sell its share of Sag Delta North gas first.

Amendments of a unit agreement must be evaluated under the criteria 11 AAC 83.303. Under 11 AAC 83.303, the Commissioner of the Department of Natural Resources will approve an amendment of a unit agreement if the commissioner finds that the amendment is necessary or advisable to protect the public interest. To find that a proposed amendment is necessary or advisable to protect the public interest, the commissioner must find that the amendment will: (1) promote the conservation of all 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.

In evaluating the above criteria, the commissioner will consider: (1) the environmental costs and benefits; (2) the geological and engineering characteristics of the potential hydrocarbon accumulation or reservoir(s) proposed for inclusion in the participating area; (3) prior exploration activities in the proposed participating area; (4) the applicant's plans for exploration or development of the proposed participating area; (5) the economic costs and benefits to the state; and (6) any other relevant factors (including mitigation measures) the commissioner determines necessary or advisable to protect the public interest.

The need to amend the Duck Island Unit Agreement is occasioned by the formation of the second participating area within the unit, the Sag Delta North Participating Area. One aim of the formation of participating areas within oil and gas units is the protection of the economic interests of all working owners of the reservoir(s) forming the participating area. By combining their respective interests and operating under the terms of the Unit Agreement and Unit Operating Agreement, each individual working interest owner is assured an equitable allocation of costs and revenues commensurate with the value of its lease(s). Given that the working interest ownership in the new participating area is not the same as that within the Endicott Participating Area, the proposed amendment will provide for a more equitable and flexible arrangement of gas sales from any lessee within the unit. Without the amendment, a lessee with an interest in the Endicott Participating Area, but not in the Sag Delta North Participating Area, could not sell its gas until all Sag Delta North gas had been recovered from the Endicott reservoir. The amendment, then increases the number of prospective sellers of gas, and hence, increases competition.

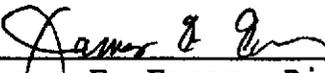
In reviewing the above criterion, only one of the six factors listed was considered relevant:

(5) The economic costs and benefits to the State.

Approval of the amendment promotes the ultimate physical recovery (through additional gas reinjection) and sale of hydrocarbons (hydrocarbon liquids and gas) from both participating areas within the Duck Island Unit, and thereby increases the production-based revenues accruing to the State.

In addition, since a working interest owner must sell its share of Sag Delta North gas first, the State's long-term royalty and net profit share are enhanced because over 93% of the production from the Sag Delta North Participating Area is from a net profit share lease, ADL 312828 (Tract 15), with a 20% royalty and 79.59% net profit rate.

Considering these facts, the administrative record, and the Decision and Findings of the Commissioner, Alaska Department of Natural Resources concerning the Formation of the Sag Delta North Participating Area, dated August 11, 1991, and under the authority vested in the Commissioner of the Department of Natural Resources by Title 38 of the Alaska Statutes, as amended, and the Alaska Administrative Code, I hereby approve the amendment to Article 12 of the Duck Island Unit Agreement, Amendment No. 3, effective this date.



James E. Eason, Director
Division of Oil and Gas

September 23, 1991
Date

For: Harold C. Heinze, Commissioner
Alaska Department of Natural Resources

Attachment: Delegation of Authority from Commissioner, Department of Natural Resources to Director, Division of Oil and Gas

amenddiu.txt

DELEGATION OF AUTHORITY

I hereby delegate my authority under Title 38 of the Alaska Statutes, as amended, and the Alaska Administrative Code, to the Director of the Division of Oil and Gas, James E. Eason, to approve revisions to Article 12 of the Duck Island Unit Agreement identified as Amendment No. 3 governing allocation of production and costs.



Harold C. Heinze, Commissioner
Department of Natural Resources

7/3/91
Date

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DIV. OF OIL & GAS

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