

MILNE POINT UNIT
THIRD EXPANSION OF THE UNIT AREA
DEFERRAL OF CONTRACTION OF MILNE POINT UNIT AREA

DECISION AND FINDINGS OF THE COMMISSIONER
ALASKA DEPARTMENT OF NATURAL RESOURCES

MARCH 2, 1992

MILNE POINT UNIT

THIRD EXPANSION OF THE UNIT AREA DEFERRAL OF CONTRACTION OF MILNE POINT UNIT AREA

I. INTRODUCTION AND BACKGROUND

The Milne Point Unit is an oil and gas unit located on the Alaska North Slope immediately northwest of the Prudhoe Bay Unit, and to the northeast of the Kuparuk River Unit. It was approved by the Alaska Department of Natural Resources on October 29, 1979, effective retroactive to September 28, 1979.

The Milne Point Unit Agreement was modeled after the State of Alaska's Standard Unit Agreement form, which provides for operation of the leases within the unit area as a single entity without regard to lease boundaries and diverse ownership of the leases. The unit is operated in conformance with annual plans of development and operation approved by the Department of Natural Resources. Conoco Inc. on its own behalf and on the behalf of two other Working Interest Owners, is the Unit Operator of the Milne Point Unit.

On August 19, 1981, the Department of Natural Resources approved the first expansion of the Milne Point Unit Area to include a total of all or portions of 11 State of Alaska leases. The expanded unit area after this first expansion comprised approximately 21,072 acres.

On December 8, 1983, a second expansion of the Milne Point Unit was approved by the Department to include all or portions of seven State of Alaska leases, approximately 14,672 acres. The unit area after this second expansion included a total of seventeen State of Alaska leases comprising approximately 35,744 acres. The second expansion of the Milne Point Unit was retroactively effective to June 1, 1983.

II. APPLICATION FOR THIRD EXPANSION OF MILNE POINT UNIT AREA

On October 22, 1991, Conoco Inc., the Unit Operator, on behalf of itself and four other Working Interest Owners, made an application for a third expansion of the Milne Point Unit Area. The third expansion proposes to add all or portions of seven leases comprising approximately 35,409 acres, for a total expanded Unit Area of 71,153 acres. The expansion area is situated in the Beaufort Sea, offshore and northwest of the current Milne Point Unit Area. The other Working Interest Owners include Amerada Hess

Milne Point Unit Expansion
March 2, 1992
Page 2

Corporation, Chevron U.S.A., Inc., Maxus Exploration Company, and OXY USA Inc.

All seven of the leases proposed to be included within the Milne Point Unit Area as a result of this third expansion are Net Profit Share leases acquired in the State of Alaska Oil and Gas Lease Sale No. 39 (May 17, 1983). Two of the leases, ADL 355016 (Tract 19) and ADL 355017 (Tract 15), provide for a 40 percent net profit share and 12.5 percent royalty to the state. The other five leases proposed in the unit expansion, ADL 355018 (Tract 16), ADL 355019 (Tract 20), ADL 355020 (Tract 21), ADL 355021 (Tract 18), and ADL 355022 (Tract 17), provide for a 30 percent net profit share and 12.5 percent royalty to the state. The Working Interest Owners of the leases proposed for expansion have committed their interest in these lands to the Milne Point Unit Agreement (as amended) and have ratified the Unit Agreement (as amended).

The proposed expansion of the Milne Point Unit Area would conform and modify certain provisions of the individual oil and gas leases to be added to the unit so that development of the area could be conducted on a unit-wide basis rather than on a lease-by-lease basis. Approval of the expansion would extend the joint, cooperative development of the unit area in conformance with approved Unit Plans of Development and Operation.

As part of the application to expand the Milne Point Unit Area, Conoco Inc. also requested a one year extension of the scheduled contraction date of the current Milne Point Unit, subject to the performance of the Exploration Plan submitted along with the unit expansion application. The scheduled unit contraction date is December 1, 1995. The requested deferral would coincide with the proposed term of the exploration plan for the expansion area, that is five years, and make the automatic contraction of the unit December 31, 1996.

Public notice of the proposed Third Expansion of the Milne Point Unit Area was published on December 13, 1991 in the Anchorage Daily News and in the Barrow Sun. Copies of the proposed expansions were also provided to interested parties in conformance with 11 AAC 83.311, as well as to 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.

During the 30 day public notice period allowed under 11 AAC 83.311, no comments were received by the division. However, a comment from the North Slope Borough was received after the 30 day public notice period. The North Slope Borough was concerned about zoning issues

in the proposed expansion area, but no objection was made to the expansion of the Milne Point Unit area at this time.

The Third Expansion of the Milne Point Unit Area is proposed to be effective as of 12:01 a.m. January 1, 1992.

III. GEOLOGICAL AND ENGINEERING CHARACTERISTICS, PRIOR EXPLORATION ACTIVITIES AND EXPLORATION ACTIVITIES PROPOSED FOR THE EXPANSION AREA

Staff members of the Division of Oil and Gas met with Conoco, the Milne Point Unit Operator, to discuss confidential and nonconfidential information in support of the application for expansion of the Milne Point Unit Area. Conoco presented a geological narrative, a structure contour map, net pay contour maps, and a stratigraphic cross-section supporting the proposition that potentially productive intervals in the proposed expansion area correlate directly to the productive intervals within the current Milne Point Unit. In addition, Conoco conducted a 2-D seismic program over portions of the expansion area in the early 1980's, and a 3-D program over portions of the expansion area in 1990. No wells have been drilled to date in the expansion area.

As part of the expansion application, Conoco submitted a plan of exploration for the evaluation of all the acreage within the proposed expanded area. An outline of the plan stipulates the following:

- 1) 1992 - drill the NW Milne No.1 well from a gravel island on ADL 355018 (Tract 16) to a bottomhole location on ADL 355021 (Tract 18).
- 2) 1993 - perform a shallow water seismic survey on ADL 355016 (Tract 19), ADL 355021 (Tract 18), and ADL 355022 (Tract 17).
- 3) 1994 - drill a second exploratory well from the gravel island to a bottomhole location within the expanded area.
- 4) 1995 - expand the gravel island and drill a third exploratory well to a bottomhole location within the expanded area.
- 5) 1996 - drill a reservoir evaluation well, and drill a fourth exploratory well to test ADL 355019 (Tract 20) and ADL 355020 (Tract 21). The bottomhole location of the fourth exploratory well is to be within one of these two tracts.

IV. DISCUSSION OF DECISION CRITERIA

In accordance with the applicable regulations (11 AAC 83.301 - 11 AAC 83.395), the Commissioner will approve an expansion of an existing oil and gas unit if the Commissioner finds that such expansion is necessary or advisable to protect the public interest. In determining whether a proposed expansion is in the public interest, the Commissioner will consider the following criteria: (1) the conservation of all natural resources; (2) the prevention of economic and physical waste; and (3) 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 of unitized exploration and development; (2) the geological and engineering characteristics of the potential hydrocarbon accumulation or reservoir proposed for unitization; (3) prior exploration activities in the proposed unit area; (4) the applicant's plans for exploration or development of the proposed unit 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. A discussion of these criteria and considerations follows.

(A) The Conservation of All Natural Resources. Unitization of reservoirs is generally recognized as a prudent means of conservation. By unitizing the proposed expansion area, exploration and delineation activities can be optimized and surface impacts can be reduced. Inclusion of the seven leases within the Milne Point Unit provides the most practical method for maximizing oil and gas recovery from the expansion area, while at the same time minimizing negative impacts on other resources.

By including the seven leases under the terms and conditions of the Milne Point Unit Agreement, conservation of both surface and subsurface resources through the unitized (rather than the lease-by-lease) development of the prospective reservoir(s) will be promoted. Although the extent of any oil and gas which may be contained in the prospective reservoir(s) has not been determined, the Milne Point Unit Agreement will promote the goals of accelerating oil and gas exploration and maximizing recovery from the leases should a commercial discovery of hydrocarbon reserves be made.

(B) The Prevention of Economic and Physical Waste. Assuring proper allocation of hydrocarbons to each affected lease is

only one concern in resource allocation, as economic and physical waste can still occur if equitable cost sharing formulas and well integrated exploration and development plans for the affected area do not exist. Both of these components are necessary to ensure that physical and economic recovery from all reservoirs included within the unit boundaries are maximized.

The benefits of unitization are especially applicable to marginally economic areas, particularly the periphery of reservoirs. In such areas, added reserves that would not be producible economically on their own are often gained through unitized development. Capital savings as a result of not duplicating facilities and consolidating reservoir evaluation and management allows less profitable areas of a reservoir to be tested, developed, and produced, and pressure maintenance and secondary and tertiary recovery operations applied on a reservoir-wide basis.

In the proposed expansion, the state believes that prevention of economic waste will be effected by accelerated development and production of the projected hydrocarbon reserves if the affected tracts are committed to the Milne Point Unit. The operation of the expanded areas as part of the Milne Point Unit will, therefore, significantly enhance the probability of early production from this area.

(C) The Protection of All Parties in Interest, Including the state. One aim of unitization is the protection of the economic interests of all working interest owners of a common oil and gas reservoir. Unitization conserves natural resources and prevents economic waste by eliminating the many competing interests for delineation and operation of common reservoirs while retaining separate interests and accounts for equitable sharing of costs and benefits based on original ownership. By ratification of the Milne Point 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).

The expansion of the Milne Point Unit extends these benefits and protection to leases considered likely to be capable of contributing production from the Milne Point reservoirs. The state's economic interest is protected by maximizing any physical recovery of hydrocarbons that may exist in the expansion area. Maximizing hydrocarbon recovery in turn assures that the production-based revenue accruing to the state is also maximized. Accelerated development of the affected tracts will contribute to the economic well-being of

the state as a result of the time value of the revenues received, and the additional subsurface information obtained due to early development and production. Unitized operations within the expansion areas also minimize impacts to the area's cultural, biological, and environmental resources. Protection of the state's interest in the allocation of production and costs is discussed in Part VII of the Decision.

V. DISCUSSION OF CONSIDERATIONS

The following matters were considered in evaluating the criteria discussed in Part IV, above.

(A) The Environmental Costs and Benefits of Unitized Exploration or Development. The area encompassed by the proposed Milne Point Unit third expansion is habitat for a variety of fish, waterfowl, shorebirds and marine mammals. Oil and gas activity in the proposed unit expansion area may impact some habitat. The extent of this impact will depend on a number of variables, including the measures taken to mitigate the impact; the overall effectiveness of these measures; the availability of alternative habitat; and the ability of the fish and marine mammals to adapt to some displacement and changes in their habitat.

If ongoing measures (seasonal restrictions on specific activities in certain areas, required consolidation of facilities, regulation of waste disposal, etc.) are continued to minimize surface impacts, the anticipated oil and gas

development activity within the proposed expansion area is not likely to significantly impact bird, fish, and mammal populations. In any case, the impact of oil and gas related activity on habitat and subsistence activity will be less under the terms of the proposed Unit Agreement, including its exploration plan, than if the leases were to be developed and produced individually. Unitization will enable exploration, development and production of any hydrocarbons which may be discovered with relatively minimal surface impact.

The leases which are proposed to be unitized contain a number of stipulations designed to protect the environment. They address such issues as spill prevention control and countermeasure plans, site restoration, construction of pipelines, seasonal restrictions on operations, and avoidance of seismic hazards. Virtually all lease activities which may occur following unitization are subject to a coastal zone consistency determination, and must comply with the terms of

both the state and North Slope Borough coastal zone management plans.

Further, state unitization regulations require that no operations may be undertaken in a unit area before approval of a proposed plan of operation by the commissioner. A unit plan of operation submitted for approval must include a description of the operating procedures designed to prevent or minimize adverse effects on natural resources and other uses of the unit area and adjacent areas. Further, before undertaking operations within the current unit area and proposed expansion area, the unit operator must provide assurances for full payment of all damage sustained by the owner of the surface estate (as well as by the surface owner's lessees and permittees) by reason of entering the land. Finally, a unit plan of operations must include plans for rehabilitation of the affected unit area after completion of operations or phases of those operations.

(B) The Geological and Engineering Characteristics of the Reservoir. Pursuant to 11 AAC 83.356(a), a unit must encompass the minimum area required to include all or part of one or more oil or gas reservoirs, or all or part of one or more potential hydrocarbon accumulations. Geological and geophysical well data as well as geophysical (seismic) records were evaluated by the state to determine the appropriate boundaries for the proposed unit expansion area. These data included both confidential and non-confidential well logs, geological cross sections, structure contour maps, and net pay contour maps.

Based upon that review, the Department of Natural Resources determined that the seven leases are justified for inclusion within the unit under the terms of the applicable regulations governing formation and expansion of an oil and gas unit (11 AAC 83.301 - 11 AAC 83.395) and the terms and conditions under which the lands were leased from the State of Alaska.

The data provided by Conoco confirm a legitimate geological prospect which may be an extension of the trapping mechanism which led to the oil accumulation within the current boundary of the Milne Point Unit.

(C) Prior Exploration Activities Within the Proposed Expansion Area. Prior to acquisition of ADL 355017 and ADL 355018, Conoco conducted a 2-D seismic program over a portion of the proposed expansion area in 1981. A second phase of the seismic program was conducted in 1984. Furthermore, a 3-D

seismic survey was conducted over a portion of the proposed expansion area in 1990.

(D) The Applicant's Plans for Exploration or Development of the Proposed Unit Expansion Area. As part of the expansion application, Conoco submitted a plan of exploration for the evaluation of all the acreage within the proposed expansion area. The working interest owners have committed to drill four exploratory wells, acquire a shallow water seismic survey on ADLs 355021 and 355022, and drill a reservoir evaluation well (REW) within the expanded unit area during the five year term of the plan of exploration. The first well, NW Milne No. 1, will be a deviated hole drilled from an gravel island on ADL 355018 to an offshore bottomhole location in ADL 355021. Drilling of the well will commence sometime in February 1992, and drilling operations will be diligently pursued thereafter to reach the proposed total depth of the well. Construction of the offshore drillsite is underway at this time.

The second unit well, the third well and the fourth well are scheduled to be commenced in the first quarter of 1994, 1995, and 1996, respectively. The reservoir evaluation well is planned to be drilled to an, as yet, undetermined fault block somewhere in the expansion area during the 1995/1996 winter drilling season. During this 1995/1996 season, the fourth exploratory well is also planned on either ADL 355019 or ADL 355020 to test the northernmost limits of the lower Kuparuk oil accumulation. Completion of these exploratory activities as scheduled will satisfy the performance standards and diligence requirements to which the state and the Milne Point Unit Working Interest Owners have agreed as a condition for expanding the unit area. Should any of the exploratory activities in the exploration plan not be performed as scheduled, the exploration plan will be in default and the information gained from any wells drilled and/or seismic data acquired in the expansion area prior to that time will be used to determine, in the sole discretion of the Department, the appropriateness of retaining any of the expanded area acreage within the then current Milne Point Unit Area. These provisions insure that the lease extensions resulting from unitization pursuant to 11 AAC 83.336(a) continue only so long as the applicants proceed diligently with exploration and development.

(E) The Economic Costs and Benefits to the State and Other Relevant Factors. Approval of the third expansion of the Milne Point Unit Area will provide near-term economic benefits to the state through employment associated with the assessment of the hydrocarbon potential of the subject leases. In

addition, should a commercial discovery result, the state's long-term royalty and tax revenues will be enhanced, and private development capital will remain available for alternative oil and gas activity in the state.

The Working Interest Owners have provided technical data sufficient to clearly define the prospect under consideration, have committed their diverse lease interests to the Milne Point Unit and have agreed to conduct a plan of exploration which assures a timely sequence of drilling and development activities in order to evaluate and develop all the acreage within the proposed expansion area.

VI. DEFERRAL OF MILNE POINT UNIT CONTRACTION

Conoco has requested a one year deferral of the scheduled contraction date of the Milne Point Unit, subject to its continued compliance with the performance standards and conditions agreed to as a condition of this expansion. In requesting the deferral, Conoco has stated that the one year extension would allow it and the other unit owners time necessary to effectively explore the entire expansion area, continue development of the Kuparuk and Schrader Bluff Pools, and begin an exploratory and delineation program in the areas of potential contraction within the current Milne Point Unit.

According to 11 AAC 83.356(b), contraction can be delayed if the circumstances of a particular unit warrant the deferral. Postponement of contraction must be evaluated considering the provisions of 11 AAC 83.303. The criteria of that section are (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.

Analyzing the deferral application under these criteria, the delay of contraction for one year, subject to the continued adherence to the conditions and performance standards of the expansion area exploration plan under Section V.(D) above, is justified. Given the performance standards and diligence requirements imposed upon the expansion area exploration plan, a one year delay in the unit contraction to coincide with the five year term of the expansion area exploration plan would promote the delineation of all potential Milne Point Unit Area reserves, and expedite the production of those reserves.

Should Conoco and the other unit working interest owners fail to comply with the scheduled activities of the agreed to exploration plan, the unit contraction date would revert to the scheduled

December 1, 1995 date. Otherwise the contraction date is delayed until December 31, 1996.

VII. FURTHER AMENDMENT OF THE MILNE POINT UNIT AGREEMENT

The proposed expansion of the Milne Point unit will result in the inclusion of seven State of Alaska Net Profit Share leases within the unit boundaries. As a result, the Milne Point Unit Agreement must be modified pursuant to 11 AAC 83.385 to accommodate the terms and conditions of the Net Profit Share leases.

The approval of this third expansion of the Milne Point Unit, therefore, is conditioned upon submittal by the Milne Point Working Interest Owners and approval by the state of an amendment to the Milne Point Unit Agreement which will accommodate the inclusion of the Net Profit Share leases in the Milne Point Unit Area to the satisfaction of the state. Such an amendment must be submitted and approved prior to any expansion of the Milne Point Unit Kuparuk Participating Area to encompass any Net Profit Share lease, creation of a new participating area in the expansion area, or before any hydrocarbon production may be allocated to such a lease. In any event, such amendment must be submitted and approved no later than eighteen (18) months following the effective date of this Decision. In the event such an amendment is not approved within eighteen months, all leases in the expansion area will be contracted out of the Milne Point Unit Area, effective as of July 1, 1993.

Similar amendments were required and made to the Duck Island and Kuparuk River Unit Agreements to accommodate inclusion of Net Profit Share leases in these units. Attachment 2 to this Decision sets out the amendments made to the Duck Island Unit Agreement in 1982 - 1983 to accommodate Net Profit Share Leases. The state will require that similar amendments be made to the Milne Point Unit Agreement.

VIII. FINDINGS AND DECISION

Considering the facts discussed in this document and the administrative record, I find:

1. An opportunity for public comment on the Third Expansion of the Milne Point Unit application was provided in compliance with the public notice requirements of 11 AAC 83.311.

2. Approval of the Third Expansion Milne Point Unit Agreement, predicated upon the performance of the plan of exploration submitted with it, is advisable to protect the public interest, and is in the state's best interest. Lessees' ratification of the Unit Agreement will ensure a fair and equitable return to the state from any production of hydrocarbons from the expanded unit area.
3. Based upon the geological, geophysical, and engineering data submitted to the state, the expansion of the Milne Point Unit to include the seven leases, ADLs 355016, 355017, 355018, 355019, 355020, 355021, and 355022, is proper and justified.

The Milne Point Unit Agreement provides for further expansions and contractions of the unit area in the future as warranted by additional information. Therefore, the public interest and the correlative rights of all parties affected by this expansion, including the state, are protected.

4. Within sixty (60) days of the Effective Date of the Unit Expansion, the Unit Operator, Conoco, shall submit to the state updated Exhibits "A" and "B" to the Milne Point Unit Agreement reflecting the approved expansion area.
5. The expansion of the Milne Point Unit meets the requirements of AS 38.05.180(p) and 11 AAC 83.303.
6. For the period which it encompasses, the applicant's plan of exploration for the expansion area provides for exploration and analysis of potential hydrocarbon zones in the expanded unit area, as well as for diligent development activities prior to ultimate production of hydrocarbons from the expanded unit area.
7. The plan of exploration for the expansion area meets the requirements of 11 AAC 83.303 and 11 AAC 83.341 if the following condition is incorporated into the submitted exploration plan:

The proposed exploratory activities with the time lines and dates are the performance standards and diligence requirements which the state and the Milne Point Unit Working Interest Owners agree form the basis for the expansion area. The expansion of the Milne Point Unit is conditioned upon Conoco's compliance with these specific performance

Milne Point Unit Expansion

March 2, 1992

Page 12

standards. Should any of the exploratory activities outlined in the exploration plan not be performed as scheduled, the exploration plan will be in default. The information gained from any wells drilled and/or seismic data acquired in the expansion area prior to that time will be used to determine the appropriateness of retaining any expansion area acreage within the then current Milne Point Unit Area.

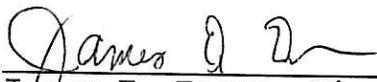
8. Pursuant to 11 AAC 83.341, an annual update to the plan of exploration which describes the status of projects and work completed, as well as any proposed or expected changes to the plan of exploration must be submitted to the state for its approval.
9. As a further condition of this expansion, the Milne Point Unit Agreement must be amended to accommodate the terms of the added Net Profit Share leases. Such amendment must be submitted to and approved by the state before any expansion of the Kuparuk Participating Area of the Milne Point Unit to include any Net Profit Share lease may be effected, any new participating area formed to include any leases in the expansion area, or any hydrocarbon production may be allocated to any Net Profit Share lease. However, in any event, such amendment must be submitted and approved within eighteen months of the effective date of this expansion.
10. The economic benefits to the state as a result of unitized development and production of the expanded Milne Point Unit Area outweigh the economic costs to the state in approving the proposed expansion.
11. Considering the provisions of 11 AAC 83.303, a delay of contraction of the unit area at this time is warranted by the circumstances of this Unit. The unit contraction is delayed until December 31, 1996.
12. Expansion of the Milne Point Unit Area to include the additional leases will provide for the increased conservation of all natural resources including hydrocarbons, gravel, sand, water, wetland, and other valuable habitat.
13. Expansion of the Milne Point Unit to include the additional leases will reduce the amount of surface lands and fish and wildlife habitat that would otherwise be

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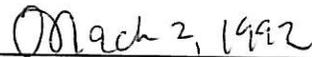
used if the area were to be explored and developed on a lease-by-lease basis. This reduction in the impact on the environment and on subsistence activity in the area is in the public interest.

14. This Third Expansion of the Milne Point Unit Area will be effective, retroactive, as of 12:01 a.m. January 1, 1992.

For these reasons and subject to the conditions and limitations noted, I hereby approve the Third Expansion of the Milne Point Unit and the one year deferral of contraction of the Milne Point Unit Area.



James E. Eason, Director
Division of Oil and Gas



Date

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

Attachments: Milne Point Unit Third Expansion Leases

Amendment to the Duck Island Unit Agreement to
Accommodate the Inclusion of Net Profit Share Leases

Delegation of Authority from Commissioner to
Director, Division of Oil and Gas

Attachment 1

Leases approved for inclusion as part of the Third Expansion of the Milne Point Unit:

<u>Lease</u>	<u>Legal Description</u>
ADL 355017	<u>T14N, R10E, UM</u> Sections 27-29, 32-35: All
ADL 355018	<u>T14N, R10E, UM</u> Sections 30-31: All <u>T14N, R9E, UM</u> Sections 25-27, 34-36: All
ADL 355022	<u>T14N, R9E, UM</u> Sections 16-18, 20-21 28-29, 32-33: All
ADL 355021	<u>T14N, R9E, UM</u> Sections 11-15, 22-24: All
ADL 355016	<u>T14N, R10E, UM</u> Sections 15-22: All
ADL 355019	<u>T14N, R9E, UM</u> Sections 1-3, 10: All <u>T15N, R9E, UM</u> Sections 25-27, 34-36: All
³⁵⁵⁰²⁰ ADL 344020	<u>T14N, R9E, UM</u> Sections 4-9: All <u>T15N, R9E, UM</u> Sections 31-33: All

THIRD EXPANSION OF THE MILNE POINT UNIT AREA

ATTACHMENT 2

AGREEMENT TO AMEND THE
DUCK ISLAND UNIT AGREEMENT

The Duck Island Unit Working Interest Owners and the Department of Natural Resources, State of Alaska, hereby agree to amend the Duck Island Unit Agreement as follows*:

- (1) Revise the third paragraph of Article 2 by adding as the last sentence to this paragraph the following:

All references to the "Director" in this agreement and amendments to it shall be construed to refer to, and all authority and responsibility to administer the agreement and amendments to it shall be vested in, the Commissioner; however the Commissioner may delegate the authority and responsibility to administer the agreement and amendments to it to the Director of the Division of Oil and Gas or other official in the Department of Natural Resources.

- (2) Amend Article 7, starting with the third sentence, as follows:

Such unit operating agreement shall also provide the manner in which the working interest owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases, or other independent contracts, and such other rights and obligations as between Unit Operator and the working interest owners as may be agreed upon by Unit Operator and the working interest owners; however, no such unit operating agreement shall be deemed either to modify any of the terms and conditions of this unit agreement or to relieve the Unit Operator of any right or obligation established under this unit agreement [AND IN CASE OF ANY INCONSISTENCY OR CONFLICT BETWEEN THE UNIT AGREEMENT AND THE UNIT OPERATING AGREEMENT THIS UNIT AGREEMENT SHALL PREVAIL].

Any revision of the unit operating agreement must be submitted to the Director before it takes effect. The unit agreement shall control the respective rights and obligations of the Unit Operator, the working interest owners, the State of Alaska, and royalty interest owners other than the State of Alaska in case of conflict between the

* Wording to be added to the existing Duck Island Unit Agreement is underlined; wording to be deleted from the existing Duck Island Unit Agreement is capitalized and enclosed in brackets.

MILNE POINT UNIT - THIRD EXPANSION
ATTACHMENT 2

unit agreement and the unit operating agreement. Where conflicts exist solely between working interest owners, the unit operating agreement shall control.

Three (3) true copies of any unit operating agreement executed pursuant to this section shall be filed with the Director within ninety (90) days after the effective date of this unit agreement or such later date as may be agreed to by the parties hereto and the Commissioner. In the event copies of the unit operating agreement are not filed as hereinabove provided, this unit shall terminate.

(3) Amend Article 11 as follows:

11. PARTICIPATION AFTER DISCOVERY. At least ninety (90) days prior to commencement of production of unitized substances into a pipeline or other means of transportation to market, the Unit Operator shall submit for approval by the Director a schedule based on subdivisions of the public land survey or aliquot parts thereof of all unitized land then regarded as reasonably proved to be productive of unitized substances in paying quantities; all lands in said schedule on approval of the Director are to constitute a participating area, effective as of the date such production commences or the effective date of the unit agreement, whichever is later. The acreages of both state and non-state lands shall be based upon approved protraction diagrams or appropriate computations from the courses and distances shown on the last approved protraction diagram or public land survey as of the effective date of the initial participating area or computed with reference to the last approved protraction survey or grids. Said schedule, which will be attached as Exhibit C to this agreement, shall also:

(a) set forth the percentage of unitized substances to be allocated as provided in this agreement to each unitized tract with a royalty of other than one-eighth or net profit share lease tract in the participating area so established and shall govern the allocation of production for the sole purpose of calculating royalty and net profit payments [FROM AND AFTER THE DATE THE PARTICIPATING AREA BECOMES EFFECTIVE] for said tracts;

(b) set forth the percentage of costs to be allocated to each net profit share lease tract in the participating area so established and shall govern the allocation of costs for the sole purpose of calculating net profit payments for said tracts; and

(c) set forth the percentage of unitized substances and costs to be allocated to all other tracts.

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 [HEREIN] 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 so 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.

(5) Amend the first sentence of Article 18(f) as follows:

(f) Where some portion of a lease is included within the final participating area as provided in Paragraph 2(e) of this agreement, the following shall apply as to the area of the lease not so included: that area of lease land not so included in the final participating area shall be eliminated as in Paragraph 2(e) of this agreement and shall terminate after the expiration of 90 days unless annual rentals at the rate specified in the original lease shall have been paid within the said 90 days.

(6) Amend Article 20(c) as follows:

(c) a valuable discovery of unitized substances has been made or accepted on unitized land during said initial term or any extension thereof, in which event the agreement shall remain in effect for such term and so long as unitized substances can be produced in quantities sufficient to pay for the cost of producing same from wells on unitized land, [WITHIN ANY PARTICIPATING AREA ESTABLISHED HEREUNDER] and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as the unitized substances so discovered can be produced as aforesaid, or ...

(7) Amend the second paragraph of Article 21 as follows:

Powers in this section vested in the Director shall only be exercised after notice to Unit Operator and opportunity for hearing to be held not less than [FIFTEEN (15)] thirty (30) days from notice, and shall not be exercised in a manner that would (i)

MILNE POINT UNIT - THIRD EXPANSION
ATTACHMENT 2

Director, to be held as unearned money until a participating area is finally approved and then applied as earned or returned in accordance with a determination of the sum due as state royalty on the basis of such approved participating area.

Upon the request of the Unit Operator or working interest owners, the Director shall hold confidential as provided by law any engineering, geophysical, or geological data including but not limited to drilling logs, daily drilling reports or any other data of like or similar nature which may be requested or required by or provided to the Director for any purpose of this agreement.

Whenever it is determined, subject to the approval of the Director, that a well drilled under this agreement is not capable of production in paying quantities and inclusion of the land on which it is situated in a participating area is unwarranted, production from such well shall, for the purposes of settlement among all parties other than working interest owners, be allocated to the land on which the well is located so long as such land is not within a participating area established for the pool or deposit from which such production is obtained. Settlement for working interest benefits from such a well shall be made as provided in the unit operating agreement.

(4) Amend Article 12 as follows:

12. ALLOCATION OF PRODUCTION AND COSTS. 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 [EQUALLY ON AN ACREAGE BASIS FROM THE SEVERAL TRACTS OF UNITIZED LAND OF THE PARTICIPATING AREA ESTABLISHED FOR SUCH PRODUCTION AND, FOR THE PURPOSE OF DETERMINING ANY BENEFITS ACCRUING UNDER THIS AGREEMENT, EACH SUCH TRACT OF UNITIZED LAND SHALL HAVE ALLOCATED TO IT SUCH PERCENTAGE OF SAID PRODUCTION AS THE NUMBER OF ACRES OF SUCH TRACT INCLUDED IN SAID PARTICIPATING AREA BEARS TO THE TOTAL ACRES OF UNITIZED LAND IN SAID PARTICIPATING AREA, EXCEPT THAT ALLOCATION OF PRODUCTION HEREUNDER FOR PURPOSES OTHER THAN FOR SETTLEMENT OF THE ROYALTY, OVERRIDING ROYALTY, OR PAYMENT OUT OF PRODUCTION OBLIGATIONS OF THE RESPECTIVE WORKING INTEREST OWNERS, SHALL BE ON THE BASIS PRESCRIBED IN THE UNIT OPERATING AGREEMENT WHETHER IN CONFORMITY WITH THE BASIS OF ALLOCATION HEREIN SET FORTH OR OTHERWISE] 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

MILNE POINT UNIT - THIRD EXPANSION
ATTACHMENT 2

In the event the State of Alaska is the sole royalty owner of all tracts in the participating area, the portion of said schedule referenced in (a) and (b) above or any revision of said portion must be approved by the Director in writing before the allocation takes effect. In the event the State of Alaska is not the sole royalty owner of all tracts in the participating area, the allocation of unitized substances and/or costs or any revision thereto for all tracts in which the State of Alaska owns a royalty interest must be approved by the Director in writing before the allocation takes effect. The affected lessees shall submit to the Director relevant production, cost, geologic and engineering data for all tracts in the participating area to enable the Director to evaluate said schedule.

A separate participating area shall be established in like manner for each separate pool or deposit of unitized substances or for any group thereof produced as a single pool or zone, and any two or more participating areas so established may be combined into one with the consent of the owners of all working interests in the lands within the participating areas so to be combined, on approval of the Director. The participating area or areas so established shall be revised from time to time, subject to like approval, whenever such action appears proper as a result of further drilling operations or otherwise, to include additional land then regarded as reasonably proved to be productive in paying quantities, or to exclude land then regarded as reasonably proved not to be productive in paying quantities and the percentage of allocation shall also be revised accordingly. The effective date of any revision shall be the first of the month in which is obtained the knowledge or information on which such revision is predicated, provided, however, that a more appropriate effective date may be used if justified by the Unit Operator and approved by the Director. No land shall be excluded from a participating area on account of depletion of the unitized substances.

It is the intent of this section that a participating area shall represent the area known or reasonably estimated to be productive in paying quantities; but, regardless of any revision of the participating area, nothing herein contained shall be construed as requiring any retroactive adjustment for production obtained prior to the effective date of the revision of the participating area.

In the absence of agreement at any time between the Unit Operator and the Director as to the proper definition or redefinition of a participating area, or until a participating area has, or areas have, been established as provided herein, the portion of all payments affected thereby may be impounded in a manner mutually acceptable to the owners of working interests, except royalties due the State of Alaska, which shall be determined by the Director for state lands and the amount thereof deposited, as directed by the

MILNE POINT UNIT - THIRD EXPANSION
ATTACHMENT 2

require any increase in the rate of prospecting, development or production in excess of that required under good and diligent oil and gas engineering and production practices; or (ii) alter or modify the rates of production from the rates provided in the approved plan of development and operations then in effect or, in any case, curtail rates of production to an unreasonable extent, considering unit productive capacity, transportation facilities available, and conservation objectives; or (iii) prevent this agreement from serving its purpose of adequately protecting all parties in interest hereunder, subject to applicable conservation laws and regulations.

(8) Amend Article 30 as follows:

30. ALASKA RESIDENT HIRE: [ALL STATE OF ALASKA LEASES COMMITTED TO SAID AGREEMENT ARE HEREBY ALTERED TO REQUIRE THAT THE LESSEE AND UNIT OPERATOR SHALL COMPLY WITH ALL VALID AND APPLICABLE LAWS AND REGULATIONS WITH REGARD TO HIRE OF ALASKA RESIDENTS. QUALIFIED ALASKA RESIDENTS SHALL BE HIRED AS REQUIRED IN AS 38.40; LESSEE SHALL NOT DISCRIMINATE AGAINST ALASKA RESIDENTS AS PROHIBITED BY AS 38.40 AND OTHER APPLICABLE LAWS AND REGULATIONS OF THE STATE OF ALASKA.] The State of Alaska encourages, to the extent legally permissible, the Unit Operator and any working interest owner conducting operations under this agreement to hire Alaska residents to perform work done on the Unit Area to the extent they are available and qualified.

This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which shall constitute on and the same instrument.

Unit Operator
EXXON CORPORATION

Date: _____

EXXON CORPORATION

By: _____

(Title)

DELEGATION OF AUTHORITY

I hereby delegate to the Director of the Division of Oil and Gas my authority under 11 AAC 83.326 to require or accept nonstandard unit agreement language, as well as my authority under 11 AAC 83.356 to approve the expansion of the Milne Point Unit and delay contraction of the Milne Point Unit Area.

Dated: 2/6/92
Anchorage, Alaska



Harold C. Heinze, Commissioner
Alaska Department of Natural
Resources