

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL AND GAS

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July 31, 2001

VIA FACSIMILE (713) 656-9632

Bill Strawbridge
Reservoir Evaluation Manager
ExxonMobil Production Company
P.O. Box 2180
Houston, TX 77252-2180

RE: Pt. Thomson Unit Expansion/Contraction
Application Conditionally Approved

Dear Mr. Strawbridge:

On February 2, 2001, ExxonMobil Corporation (ExxonMobil), Unit Operator, applied to simultaneously expand and contract the Point Thomson Unit (PTU) to add all or portions of 16 state oil and gas leases while excluding all or portions of four other state oil and gas lease out of the PTU (the Application). ExxonMobil submitted the Application on behalf of itself, BP Exploration (Alaska), Inc., and Chevron U.S.A. Inc. (the Applicants).

The Department of Natural Resources (DNR) reviewed the statutes, oil and gas unitization regulations, the PTU Agreement, materials supplied by ExxonMobil in support of the application, and comments received during the thirty-day public comment period. Subsequent to the close of the public comment period and pursuant to regulation, DNR made a proposal to the Applicants under which expansion/contraction of the PTU would be granted, but on different terms than those proposed in the Application (DNR's Initial Proposal). The Applicants rejection of DNR's Initial Proposal led to further discussion and a series of counter proposals. The Applicants and DNR came to an agreement, and the Application is approved under the terms and conditions set out in Attachment 1 to this decision (the Agreement), provided that all working interest owners in the expansion and contraction acreage unequivocally agree to those terms in writing.

The Agreement is intended to protect the public interest, in part, by ensuring that the expansion areas will be adequately explored and brought into production within a reasonable time with a more appropriate royalty rate on the more valuable leases. If the Applicants fail to timely explore or bring the expansion areas into production, the Agreement requires that the expansion

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areas contract out of the unit and that the Applicants pay DNR for the lost opportunity to re-lease the expansion acreage.

The Application, with the conditions contained in the Agreement, meets the criteria in 11 AAC 83.303. Conditional approval of the Application is necessary and advisable in the public interest to conserve natural resources, avoid waste, and protect the interest of all interested persons including the state and the public. Because negotiations between DNR and the working interest owners continued through July 31, 2001, the date that many of the proposed expansion leases were due to expire, DNR is issuing this decision today to extend those lease terms under unitization, and will issue a complete evaluation of the Application and the Agreement after August 15, 2001.

Approval of the Application under the terms set forth in the Agreement is expressly conditioned on uniform written acceptance of the attached terms and conditions by all working interest owners in the expansion and contraction area leases within fifteen days of issuance of this decision. If all working interest owners in the expansion and contraction acreage do not unequivocally manifest their written agreement to those terms by August 15, 2001, the Application is denied, and the terms set forth in the Agreement are withdrawn and may not later be accepted. If all of the working interest owners timely agree to the terms and conditions set forth in the attached Agreement, this decision shall become effective as of 12:01 a.m. July 31, 2001, except that it will be effective on November 30, 1998 as it applies to ADL 372256, and on March 31, 2001 as it applies to ADL 375064.

On July 19, 2001, DNR received a draft Eighteenth Plan of Development for the PTU (18th POD). ExxonMobil must submit the final 18th POD for approval by August 15, 2001. Within thirty days after acceptance of the Agreement, the unit operator must submit revised Exhibits A and B to the PTU Agreement that reflect the revised legal descriptions and royalty rates of the leases in the approved unit area.

A person adversely affected by this decision may appeal this decision, in accordance with 11 AAC 02, to Pat Pourchot, Commissioner, Department of Natural Resources, 550 W. 7th Avenue, Suite 1400, Anchorage, Alaska 99501-3561. Any appeal must be received at the above address, or by fax to 1-907-269-8918, within 30 calendar days after the date of "delivery" of this decision, as defined in 11 AAC 02.040. A copy of 11 AAC 02 may be obtained from any regional information office of the Department of Natural Resources.

Sincerely,

*Original signed by Bonnie Robson, Deputy Director
under delegation of authority for*

Mark D. Myers
Director

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Attachment 1, Agreement Resolving All Pending Point Thomson Unit Expansion/Contraction
Matters And Proceedings

Attachment 2, Map of the Proposed PTU Expansion/Contraction Area

MM:cdl

cc: Pat Pourchot, DNR Commissioner
Richard Todd, Department of Law
John L. Davis, TotalFinaElf
Bob Gage, Murphy Exploration & Production Company
Richard Wagner

Attachment 1

AGREEMENT RESOLVING ALL PENDING POINT THOMSON UNIT EXPANSION/CONTRACTION MATTERS AND PROCEEDINGS

Contraction Approved

Four leases or portions of leases were proposed for contraction out of the PTU in 2001 Application for Expansion and Contraction of the Point Thomson Unit (the Application). DNR accepts the contraction of the following areas out of the PTU:

- ADL 47565, All
- ADL 28384, that portion within T. 9N, R. 23E, U.M., Section 28, unsurveyed, SW1/4; Section 33, unsurveyed, all;
- ADL 28385, that portion within T. 9N, R. 23E, U.M., Section 29, unsurveyed, S1/2; Section 30, unsurveyed, S1/2; Section 31, unsurveyed, all; Section 32, unsurveyed, all;
- ADL 343109, that portion within T. 10N, R. 24E, U.M., Section 10, protracted S1/2S1/2, lying easterly of 146° 00'00" West Longitude; Section 11, protracted S1/2S1/2; Section 12, protracted SW1/4SW1/4; Section 13, protracted all; Section 14 protracted all; Section 15, protracted, all lying easterly of 146° 00'00" West Longitude; Section 22, protracted, N1/2 lying easterly of 146° 00'00" West Longitude; Section 23, protracted, N1/2; Section 24, protracted, N1/2.

ADL 28384, ADL 28385, and ADL 343109 will be segregated; the Working Interest Owners will immediately surrender the non-unitized portions of the leases; and the non-unitized portions of the leases are now available for the state to offer in the next areawide oil and gas lease sale.

Expansion Acreage

DNR identified seven Expansion Areas and one Work Commitment Area, described in Paragraph #10 below, currently outside of the PTU. There is a high probability that the Expansion Areas contain hydrocarbon resources, while the Work Commitment Area may or may not be underlain by oil and gas reserves. Therefore, DNR will not impose specific drilling commitments for each Expansion Area, but DNR does require the Working Interest Owners to drill a delineation well in the Work Commitment Area and seven development wells within the revised PTU as a condition for expanding the unit area. Inclusion of the acreage within the seven Expansion Areas plus the one Work Commitment Area (Expansion Acreage) in the PTU will be conditioned as follows:

1. On or before June 15, 2003, the Working Interest Owners may elect to contract all of the Expansion Acreage out of the PTU, pay the State of Alaska \$8,000,000 to compensate for the unrealized bonus payments during the period that the acreage was

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withheld from leasing (Extension Charge), and be released from the remaining obligations imposed herein. The Extension Charge will be due on July 1, 2003.

2. The Working Interest Owners must complete drilling a well through the Thomson Sand interval within the Work Commitment Area by June 15, 2003, or the Work Commitment Area acreage will automatically contract out the PTU on that date. Drilling a new well or deepening the Red Dog #1 Well will fulfill the drilling commitment for the Work Commitment Area.
3. If the Working Interest Owners fail to complete drilling a well within the Work Commitment Area by June 15, 2003, the acreage automatically contracts out of the PTU, as specified in Paragraph #2 above, and the Working Interest Owners will pay the State of Alaska an amount to compensate for the unrealized bonus payments during the period that the acreage was withheld from leasing (Drilling Extension Charge). The Drilling Extension Charge in the amount of \$940,000 will be due on July 1, 2003.
4. Development drilling in the PTU must begin by June 15, 2006, or all of the Expansion Acreage will automatically contract out of the PTU effective that date, and the Working Interest Owners will pay the State of Alaska \$20,000,000 by July 1, 2006, to compensate for the unrealized bonus payments during the period that the Expansion Acreage was withheld from leasing.
5. The Working Interest Owners must complete the drilling of seven development wells in the PTU by June 15, 2008, or all of the Expansion Acreage will automatically contract out of the PTU effective that date, and the Working Interest Owners will pay the State of Alaska \$27,500,000 by July 1, 2008, to compensate for the unrealized bonus payments during the period that the Expansion Acreage was withheld from leasing.
6. A development well is defined as either a producer or injector drilled from a permanent drill site structure after the effective date of this decision that penetrates the Thomson Sand interval, and excludes the Work Commitment Area delineation well.
7. Production allocation factors must be assigned to leases in each Expansion Area and the Work Commitment Area under a participating area approved by DNR, by the date specified for each area in Paragraph #10 below, or the acreage in that expansion or work commitment area will automatically contract out of the PTU effective that date. If any portion of an expansion lease is included in an approved participating area, by the date specified, the entire lease will remain within the PTU. However, if no portion of an expansion lease is included in an approved participating area by the date specified, the entire lease will contract out of the PTU effective on such date.
8. Any Expansion Area or Work Commitment Area lease not having a portion of the lease included in an approved participating area by the date specified in Paragraph 10 below, contracts out the PTU, and the Working Interest Owners will pay the State of Alaska an amount to compensate for the unrealized bonus payments during the period that the

acreage was withheld from leasing (PA Extension Charge). The PA Extension Charge will be due on the first day of the month following the date that the acreage contracts out of the PTU. If only a portion of an Expansion Area or a portion of the Work Commitment Area is contracted out of the PTU, the Working Interest Owners will pay the State a prorated share of the PA Extension Charge based on the number of acres within the contracted area.

9. If following the drilling of a well in the Work Commitment Area, but prior to any automatic contraction, the Working Interest Owners contract and relinquish all or a portion of the Work Commitment Area by December 1, 2003, it will not be necessary to include the relinquished acreage in a participating area or pay the PA Extension Charge for that acreage in 2008.
10. If the Expansion Acreage were available for leasing in the next Areawide Lease Sale, DNR would impose a higher royalty rate on some of the acreage. Therefore, as a requirement for including Expansion Areas 1, 2, 3, 4, and 6 in the PTU, the royalty rates will be increased as shown in the table below.

The conditions specific to Expansion Areas #1 through #7 and the WCA are outlined below:

Expansion Area	PA Date	PA Extension Charge	Current Royalty Rate	Revised Royalty Rate
#1, Challenge Island	June 15, 2008	\$17,031,000	16.66667%	20%
#2, North of PTU	June 15, 2008	\$1,452,000	16.66667%	20%
#3, East of PTU	June 15, 2008	\$484,000	16.66667%	20%
#4, Sourdough Prospect	June 15, 2010	\$275,000	12.5%	16.66667%
#5, Lynx Prospect	June 15, 2010	\$28,000	12.5%	Unchanged
#6, North of #1 and #2	June 15, 2008	\$3,735,000	16.66667%	20%
#7, BS2000 Lease	June 15, 2008	None	16.66667%	Unchanged
Work Commitment Area	June 15, 2008	\$4,495,000	16.66667%	Unchanged
Total PA Extension Charge		\$27,500,000		

The Work Commitment Area and Expansion Areas are briefly described as follows:

Work Commitment Area, Red Dog

ADL 377012, All;
 ADL 377013, All; and
 ADL 377016, that portion within the lease of protracted T. 10N, R. 21E, U.M., Sections 11, E1/2, E1/2W1/2; 12, W1/2, W1/2E1/2; 13, W1/2, W1/2E1/2; 14, E1/2, E1/2W1/2; 23, E1/2, E1/2W1/2; and 24, W1/2, W1/2E1/2.

Expansion Area 1, Challenge Island

ADL 377017, All;

ADL 377015, that portion within protracted T. 11N, R. 21E, U.M., Sections 35 and 36; T. 11N, R. 22E, U.M. Sections 31 and 32; T. 10N, R. 21E, U.M. Sections 1 and 2; and T. 10N, R. 22E, U.M. Sections 5 and 6; and

ADL 377016, that portion within the lease in protracted T. 10N, R. 21E, U.M., Sections 12, E1/2E1/2; 13, E1/2E1/2; 24, E1/2E1/2; and that portion within the lease in protracted T. 10N, R. 22E, U.M., Sections 7, all; 8, W1/2W1/2; 17, W1/2W1/2; 18, all; 19, all; and 20, W1/2W1/2.

Expansion Area 2, North of the PTU

ADL 377020, that portion within protracted T. 10N, R. 23E, U.M., Section 20 – 23.

Expansion Area 3, East of the PTU

ADL 372256, All.

Expansion Area 4, Sourdough Prospect

ADL 375064, that portion within T. 8N, R. 24E, U.M., Section 3, unsurveyed, all excluding ANWR; Section 4, unsurveyed, all; Section 9, unsurveyed, all excluding ANWR; Section 10, unsurveyed, all excluding ANWR;

Expansion Area 5, Lynx Prospect

ADL 382101, that portion within T. 9N, R. 22E, U.M., Sections 13 and 14.

Expansion Area 6, North of Expansion Areas #1 and #2

ADL 388425, All;

ADL 388426, All;

ADL 377015, that portion within protracted T. 10N, R. 22E, U.M., Sections 3 and 4, and T. 11N, R. 22E, U.M., Sections 33 – 35;

ADL 377020, that portion within protracted T. 10N, R. 23E, U.M., Sections 8 – 11 and 14 – 17.

Expansion Area 7, Lease issued in BS2000 Areawide Lease Sale

ADL 389716, that portion within protracted T. 9N, R. 25E, U.M., Section 5, W1/2, unsurveyed, all tide and submerged lands seaward of ANWR; Section 6, unsurveyed, all tide and submerged lands seaward of ANWR; that portion within protracted T. 10N, R. 25E, U.M., Section 30, protracted, W1/2; Section 31, protracted, all; Section 32, protracted, W1/2.

11. The Working Interest Owners waive the extension provision of 11 AAC 83.140 and acknowledge that the notice and hearing provisions of 11 AAC 83.374 shall not be applicable to leases contracted out of the PTU Area beyond their primary term, since the Working Interest Owners will automatically surrender the contracted leases, with surrender and lease expiration effective the day the leases contract out of the PTU and no default will occur. The Working Interest Owners further agree that they will not apply for consideration under 11 AAC 83.374 in this matter.
12. When a portion of a lease, but not the whole lease, is added to a unit, the lease is severed into two separate leases. Portions, but not all of, the following leases are being added to the PTU: ADLs 375064, 382101, and 389716. Upon unitization, these leases will be severed and the non-unitized portion of each lease will be treated as a separate and distinct lease having the same effective date and term as the original lease and may be maintained thereafter only in accordance with the terms and conditions of the original lease, statutes, and regulations. 11 AAC 83.373. Article 18(e) of the PTU Agreement will not apply to the non-unitized portions of the leases.
13. Additionally, the following leases will each be severed into two leases upon unitization: ADL 377015 (Expansion Areas 1 and 6), ADL 377016 (Expansion Area 1 and the Work Commitment Area), and ADL 377020 (Expansion Areas 2 and 6).
14. The PTU Working Interest Owners agree that the terms set forth here supersede any inconsistent provisions in the leases or the PTU Agreement for said Expansion Area or Work Commitment Area leases. The PTU Working Interest Owners waive the benefit of any inconsistent lease or unit agreement terms.
15. The Working Interest Owners may request and DNR may agree to extend any deadline provided herein. If DNR does not agree to extend a deadline, the deadline shall not be extended.
16. This agreement fully resolves the Application; Exxon's January 4, 1999, appeal to the DNR Commissioner of the Director's decision denying Exxon's application for expansion of the PTU to include ADL 372256 (Appeal Code OG113098); and Exxon's July 16, 1999, Request for Reconsideration of the Beaufort Sea 1999 Areawide Lease Sale Notice (Appeal Code CO071699BS 1999.035) to the satisfaction of all parties to the Application and proceedings. The Working Interest Owners agree not to appeal any aspect of the expansion requested in the Application but not included here. The Working Interest Owners agree that the 1999 expansion appeal and motion for reconsideration are closed. The Working Interest Owners also agree not to challenge or appeal any term of this agreement.