

**FRANK H. MURKOWSKI,
GOVERNOR**

**DEPARTMENT OF NATURAL RESOURCE
DIVISION OF OIL AND GAS**

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CERTIFIED MAIL
RETURN RECEIPT REQUESTED

May 16, 2003

R. L. Skillern, Landman - Alaska
BP Exploration (Alaska) Inc.
PO BOX 196612
Anchorage, AK 99519-6612

RE: Slugger Unit Terminated
Eleven Leases Surrendered
Drilling Extension Charge Due

Dear Mr. Skillern:

On March 30, 2001, the Division of Oil and Gas (the Division) approved the formation of the Slugger Unit with BP Exploration (Alaska) Inc. (BPXA) as the Slugger Unit Operator. The Division approved the Initial Plan of Exploration (POE) on May 2, 2001, which required BPXA to drill two wells in the Slugger Unit within three-years. BPXA and the other working interest owners, Chevron U.S.A., Inc. and Phillips (Alaska) Inc. (now ConocoPhillips Alaska, Inc.), committed to drill the first Slugger Unit well by May 15, 2003.

The working interest owners did not drill the Slugger Unit well, placing the unit in default for failure to fulfill the drilling commitment in the POE. Paragraph 2c of the POE provides for automatic termination of the Slugger Unit and payment of a \$430,000 drilling extension charge for failure to fulfill the May 15, 2003 drilling commitment.

The working interest owners expressly waived the extension provisions of 11 AAC 83.140 and Article 15.2 of the Slugger Unit Agreement for all leases within the Slugger Unit whose primary terms have expired, and the notice and hearing provisions of 11 AAC 83.374 applicable to default and termination of the Slugger Unit for failure to drill the Slugger Unit well.

Paragraph 9 of the POE states, "If the Slugger Unit terminates for failure to fulfill any of the commitments in this Plan of Exploration, the Working Interest Owners will automatically surrender all leases within the Slugger Unit whose primary terms have expired, effective the day the Unit terminates. ..." The primary term of the following eleven leases expired before the May 15, 2003 termination of the Slugger Unit: ADL 375033, ADL 375034, ADL 375036, ADL 375052, ADL 375053, ADL 375054, ADL 375055, ADL 375059, ADL 385126, ADL 385129, and ADL 385144.

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

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The three remaining Slugger Unit leases are within their primary term, and they will continue in effect under the terms and conditions of the unit agreement, leases, and regulations. The Division issued oil and gas leases ADL 382035 and ADL 382056 effective August 1, 1993, with a ten-year primary term. Under 11 AAC 83.140 and Article 15.2 of the Slugger Unit Agreement, each lease committed to the Slugger Unit Agreement on the day that the unit terminates shall remain in force for an extension period of ninety days, and thereafter will be maintained only in accordance with State law and the lease.

Therefore, ADL 382035 and ADL 382056 will continue in force until August 15, 2003. The Slugger Unit Agreement does not hold in abeyance the obligation to pay rentals during the extension period. Annual rental of \$708.48 for each lease, prorated for the period August 1 through August 15, 2003, is due on or before August 1, 2003. Oil and gas lease ADL 389656, issued effective December 1, 2001, with a seven-year primary term, will expire on November 30, 2008, unless extended by State law and the lease.

Under the express terms of the POE, the Slugger Unit Agreement terminated and the working interest owners surrendered eleven of the Slugger Unit leases effective May 15, 2003, and payment of \$430,000 is due the State of Alaska by June 1, 2003.

A person affected by this decision may appeal it, in accordance with 11 AAC 02. Any appeal must be received within 20 calendar days after the date of "issuance" of this decision, as defined in 11 AAC 02.040 (c) and (d), and may be mailed or delivered to Thomas E. Irwin, Commissioner, Department of Natural Resources, 550 W. 7th Avenue, Suite 1400, Anchorage, Alaska 99501; faxed to 1-907-269-8918; or sent by electronic mail to dnr_appeals@dnr.state.ak.us. This decision takes effect immediately. If no appeal is filed by the appeal deadline, this decision becomes a final administrative order and decision of the department on the 31st day after issuance. An eligible person must first appeal this decision in accordance with 11 AAC 02 before appealing this decision to Superior Court. A copy of 11 AAC 02 may be obtained from any regional information office of the Department of Natural Resources.

Sincerely,

Signed by Mark D. Myers, Director

Mark D. Myers
Director

cc: Jim Cowan, Resource Evaluation
Richard Todd, Department of Law