

MILNE POINT UNIT

**APPROVAL OF THE SECOND AMENDMENT TO THE MILNE POINT
UNIT AGREEMENT**

Findings and Decision of the Director
of the Division of Oil and Gas,
Under Delegation of Authority
from the Commissioner of the State of Alaska
Department of Natural Resources

APRIL 29, 2009

TABLE OF CONTENTS

I.	INTRODUCTION, BACKGROUND, AND DECISION SUMMARY	Page 3
II.	DISCUSSION OF DECISION CRITERIA	Page 3
A.	Decision Criteria Considered Under 11 AAC 83.303(b)	
1.	The Environmental Costs and Benefits of Unitized Exploration and Development	
2.	Geologic and Engineering Characteristics	
3.	Plan of Development	
4.	The Economic Costs and Benefits to the State and Other Relevant Factors	
B.	Decision Criteria Considered Under 11 AAC 83.303(a)	
1.	Promote the Conservation of All Natural Resources	
2.	The Prevention of Economic and Physical Waste	
3.	The Protection of All Parties of Interest, Including the State	
III.	FINDINGS AND DECISION	Page 5
IV.	ATTACHMENTS	Page 6
1.	Request for Approval of the Second Amendment to the Milne Point Unit Agreement.	
2.	2 nd Amendment to the Milne Point Unit Agreement	

I. INTRODUCTION AND DECISION SUMMARY

The State of Alaska, Department of Natural Resources (DNR), Division of Oil and Gas (Division) requested that the Milne Point Unit (MPU) Working Interest Owners (MPU WIOs) amend the Milne Point Unit Agreement (MPU Agreement) to provide for a 90 day notice period for the State to take its royalty-in-kind. Paragraph 18 (h) 3 of the currently approved MPU Agreement provides for a 180 day notice.

By letter dated April 16, 2009, attached, BP Exploration (Alaska) Inc. (BPXA), as Operator of the MPU, submitted the requested revised language for Paragraph 18 (h) 3 of the MPU Agreement.

The amendment was approved by the Division by letter dated April 17, 2009 under 11 AAC 83.385 and Paragraph 18 of the MPUA. This Approval constitutes the written findings and decision required under 11 AAC 83.303 and is fully appealable. The Division finds that approval of the 2nd Amendment promotes conservation of all natural resources, promotes the prevention of economic and physical waste, and provides for the protection of all parties of interest, including the State. DNR approves the amendment in accordance with the criteria under 11 AAC 83.303.

II. DISCUSSION OF DECISION CRITERIA

AS 38.05.180(p) gives DNR the authority to approve an oil and gas unit. DNR has previously approved the Milne Point Unit. The Commissioner of DNR (Commissioner) reviews unit agreement modifications under 11 AAC 83.385, subject to the criteria specified in 11 AAC 83.303. By memorandum dated September 30, 1999, the Commissioner approved a revision of Department Order 003 and delegated this authority to the Division Director.

A. Decision Criteria considered under 11 AAC 83.303(b)

1. The Environmental Costs and Benefits

The 2nd Amendment does nothing more than revise the notice period for royalty-in-kind to change the royalty accounting functions and therefore has no environmental impact.

2. Geologic and Engineering Characteristics and Prior Exploration and Development Activities

Approval of the 2nd Amendment has no impact on the Division's prior consideration of the geologic and engineering characteristics of the participating areas and unit tract operations. Although approval of the 2nd Amendment relates to production from existing, approved participating areas and unit tract operations, it has no impact on the existing, approved participating areas and unit tract operations because it does nothing more than

revise the notice period for royalty-in-kind to change the royalty accounting functions. The Division has previously considered the geologic and engineering characteristics and development activities in its approvals of the MPU and MPU participating areas.

3. Plans of Exploration and Development

Approval of the 2nd Amendment relates to production from existing, approved participating areas and unit tract operations, it has no impact on the existing, approved participating areas and unit tract operations because it does nothing more than revise the notice period for royalty-in-kind to change the royalty accounting functions. The Division has previously considered and approved the plans of development for the MPU.

4. The Economic Costs and Benefits to the State and Other Relevant Factors

The State may take its royalty-in-kind rather than in money if the taking in kind would be in the best interest of the State. Royalties must be taken in kind unless the commissioner determines that taking in money (value) would be in the best interest of the State. AS 38.05.182.

During the calendar year of 2008, the State took RIK oil from five units on the North Slope: Prudhoe Bay, Kuparuk River, Milne Point, Colville River, and Duck Island. Kuparuk, Duck Island, and Milne Point unit agreements specify a 180 day nomination period. Colville River and Prudhoe Bay require 90 day RIK notice. Similar amendments to the Duck Island and Kuparuk River unit agreements are under consideration. Approval of the 2nd Amendment to the MPU Agreement will promote greater efficiency with regard to evaluation of all North Slope units for RIK nomination by allowing the Division to evaluate all units simultaneously instead of piecemeal nomination at different times from different units.

Volumes available for RIK nominations from each unit fluctuate throughout the year. Volumes may increase due to new development and enhanced recovery projects or improved well performance, and may decrease due to field decline rates or facilities maintenance programs which shut in producing wells for a time. Assessment of available RIK volumes at 90 days in advance rather than 180 days in advance allows the State to conduct the nomination selections with more current production information. When all units have a 90 day notice period, the State will have the ability to more accurately analyze the value of taking in kind versus taking in value.

Approval of the 2nd Amendment will provide administrative and economic benefits to the State. The majority of producing units operate under unit agreements which provide for a 90 day nomination period. The administrative burden of RIK nominations will be less if all unit agreements provide for the same RIK nomination period. The State will benefit from more current information and a consistent schedule for RIK nomination.

B. Decision Criteria Considered Under 11 AAC 83.303(a)

1. Promote the Conservation of All Natural Resources

The Division considered the promotion of the conservation of all natural resources during the approval of each unit and participating area. The 2nd Amendment has no impact on the current status of the MPU under this criterion.

2. The Prevention of Economic and Physical Waste

The Division considered the prevention of economic and physical waste during the approval of each unit and participating area. Approval of the 2nd Amendment prevents economic waste by minimizing the administrative burden of the State's RIK nomination process and optimizing selection of the source of RIK. The 2nd Amendment has no impact on physical waste.

3. The Protection of All Parties of Interest, Including the State

As required under the MPU Operating Agreement, the required WIO voting interests, 85 percent of the MPU WIO, have ratified the 2nd Amendment to the MPU Agreement. This decision provides for appeal under 11 AAC 02.040(c) and (d). The State initiated the adoption of the 2nd Amendment to better protect its interest in having accurate information upon which to base its royalty-in-kind decisions.

III. FINDINGS AND DECISION

A. The Conservation of All Natural Resources

1. The approval of the 2nd Amendment has no impact on the Division's previous findings regarding conservation of all natural resources, including hydrocarbons, gravel, sand, water, wetlands, and valuable habitat.

B. The Prevention of Economic and Physical Waste

1. Approval of the 2nd Amendment optimizes the State's RIK nomination process and has no impact on the Division's previous findings regarding prevention of physical waste.

C. The Protection of All Parties in Interest, Including the State

1. The 2nd Amendment adequately and equitably protects the public interest, and is in the State's best interest.

For the reasons discussed in this Findings and Decision, I hereby approve the 2nd Amendment to the MPU Agreement effective April 29, 2009.

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 Tom 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@alaska.gov. This decision takes effect immediately. 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.



Kevin R. Banks,
Director
Division of Oil and Gas

4-29-09

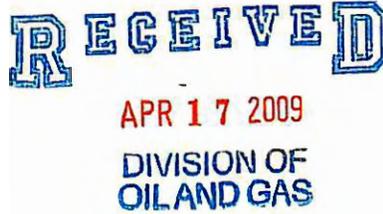
Date

IV. ATTACHMENTS

1. Request for Approval of the Second Amendment to the Milne Point Unit Agreement
2. Second Amendment to the Milne Point Unit Agreement.



R. L. Skillern
Senior Landman



BP Exploration (Alaska) Inc.
900 East Benson Boulevard
PO Box 196612
Anchorage, AK 99519-6612
(907) 564-5111

Phone: (907) 564-5567
Fax: (907) 564-4264
Email: SkilleRL@bp.com
Web: www.bp.com

April 16, 2009

Mr. Kevin Banks, Acting Director
Division of Oil & Gas
State of Alaska, Dept. of Natural Resources
550 West 7th Avenue, Suite 800
Anchorage, AK 99501

RE: Milne Point Unit Agreement

Dear Mr. Banks:

BP, as Unit Operator of the Milne Point Unit (MPU), on behalf of itself and Kerr-McGee Oil & Gas Corporation, hereby submits for approval by the Department of Natural Resources a fully executed original of an Amendment to the Milne Point Unit Agreement. Should you have any questions, concerning the submittal of the enclosed MPUOA, contact the undersigned at (907) 564-5567.

Sincerely,

R. L. Skillern

Enc:

cc: Milne Point File

RECEIVED

APR 17 2009

DIVISION OF
OIL AND GAS

AMENDMENT TO
THE MILNE POINT UNIT AGREEMENT

The working interest owners of the Milne Point Unit have received a request from the Department of Natural Resources, State of Alaska, to amend the Milne Point Unit Agreement in order to provide the State with certain rights to take its lease royalty in kind upon 90 days advance written notice.

The working interest owners of the Milne Point Unit have agreed to grant the State's request and amend the Unit Agreement, upon the terms contained in this Amendment.

Therefore the parties agree:

1. Amendment of Unit Agreement. Paragraph 18. (h) 3. of the Milne Point Unit Agreement is amended as follows (insertions in double underlined text and deletions in strikeout text):

3. Royalty in Kind.

- a. At the State's option, which may be exercised from time to time upon not less than ~~six (6) months~~ninety (90) days notice to Lessee, Lessee shall deliver all or a portion of the State's royalty oil, gas or associated substances produced from the leased area in kind. Delivery shall be on the leased area or at a place mutually agreed to by the State and Lessee, and shall be to the State or to any individual, firm or corporation designated by the State. Delivery of such royalty in kind shall continue from the period specified in the notice to Lessee.

- b. Royalty oil or gas delivered in kind shall be delivered in good and merchantable condition and be of pipeline quality. Royalty delivered in kind shall be free and clear of all lease expenses (and any portion of such expenses which is incurred away from the leased area), including but not limited to expenses for separation, cleaning, dehydration, gathering, salt water disposal, and preparing the oil, gas or associated substances for transportation off the leased area.

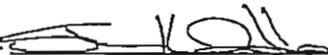
- c. After having given notice of its intention to take its royalty oil, gas or associated substances in kind, the State, at its option and upon ~~six (6) months~~ninety (90) days notice to Lessee, may elect to receive a different portion or none of its royalty in kind.

- d. Lessee shall furnish storage for royalty oil and natural gas liquids produced from the leased or unit area to the same extent that Lessee provides storage for Lessee's share of oil and natural gas liquids. Lessee shall not be liable for the loss or destruction of stored royalty oil and natural gas liquids from causes beyond lessee's reasonable control.

2. Unit Agreement Remains in Effect. All other provisions of the Milne Point Unit Agreement, as amended, remain in effect.

Kerr-McGee Oil & Gas Corporation

Date: April 7, 2009

By: 

Name: Steven K. Dodds

Title: Agent and Attorney-in-Fact

Address: 1201 Lake Robbins, The Woodlands, TX 77380

STATE OF TEXAS)
)ss.
COUNTY OF MONTGOMERY)

This certifies that on April 7, 2009, before me, a notary public in and for the State of Texas, duly commissioned and sworn, personally appeared Steven K. Dodds, known to me to be Agent and Attorney-in-Fact of Kerr-McGee Oil & Gas Corporation, a Delaware corporation, the person described in, and who executed the foregoing instrument, who then after being duly sworn according to law, acknowledged to me under oath that he executed same on behalf of the corporation freely and voluntarily for the uses and purposes therein mentioned.

WITNESS my hand and official seal the day and year in this certificate first above written.




Notary Public, State of Texas
My Commission Expires: April 19, 2012