

PRUDHOE BAY UNIT

**APPLICATION FOR EXPANSION
OF THE
PRUDHOE BAY UNIT**

**FINDINGS AND DECISION OF THE DIRECTOR
DIVISION OF OIL AND GAS
UNDER DELEGATION OF AUTHORITY
FROM THE COMMISSIONER
DEPARTMENT OF NATURAL RESOURCES
STATE OF ALASKA**

June 30, 2009

TABLE OF CONTENTS

I.	INTRODUCTION AND DECISION SUMMARY	1
II.	APPLICATION	1
III.	BACKGROUND	1
IV.	DISCUSSION OF DECISION CRITERIA	3
A.	Decision Criteria Considered Under 11 AAC 83.303(b)	4
1.	The Environmental Costs and Benefits of Unitized Exploration and Development	4
2.	Geological and Engineering Characteristics of the Reservoir and Prior Exploration Activities in the Proposed Expansion Area	4
3.	BPXA's Plans of Exploration and Development for the PBU Expansion Area	5
4.	The Economic Costs and Benefits to the State and Other Relevant Factors	6
B.	Decision Criteria considered under 11 AAC 83.303(a)	6
1.	Promote Conservation of All Natural Resources	6
2.	The Prevention of Economic and Physical Waste	7
3.	The Protection of All Parties in Interest, Including the State.....	7
V.	FINDINGS AND DECISION	7
A.	The Conservation of All Natural Resources.....	7
B.	The Prevention of Economic and Physical Waste.....	8
C.	Provide for the Protection of All Parties, Including the State	8

I. INTRODUCTION AND DECISION SUMMARY

BP Exploration (Alaska) Inc. (BPXA), as Operator of the Prudhoe Bay Unit (PBU) and on behalf of itself and the other PBU Working Interest Owners (WIOs), Chevron U.S.A. Inc. (Chevron), ConocoPhillips Alaska, Inc. (CPAI), and ExxonMobil Alaska Production Inc. (EM), submitted an Application to Enlarge the Prudhoe Bay Unit Area and Contract the Northstar Unit Area (Application) to the Alaska Department of Natural Resources (DNR) Division of Oil and Gas (Division). BPXA submitted confidential and public information as part of the Application, which meets the requirements for a complete application under 11 AAC 83.306. The Division gave notice under 11 AAC 83.311 of the Application. The period for public comment closed effective May 18, 2009. No comments were received.

By letter dated June 25, 2009, BPXA withdrew its request to contract the Northstar Unit Area to include that portion of ADL 312809 in the PBU and submitted a revised lease map of the proposed expanded PBU.

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 expansion of the PBU 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. I approve the expansion of the PBU in accordance with the criteria under 11 AAC 83.303 and conditioned by the terms of this Decision.

II. APPLICATION

BPXA submitted the Application on March 16, 2009, and paid the \$500.00 filing fee, in accordance with 11 AAC 83.306 and 11 AAC 05.010(a)(10)(E). The Application includes a location map of the PBU Expansion Area, a lease map of the expanded PBU, a description of the PBU Expansion area, non-objection from owner of Northstar Unit ADL 312809, and confidential data in support of the Application. BPXA provided additional technical information on March 31, 2009 and April 6, 2009. The Division deemed the Application complete.

Public Notice of the Application was published in the *Anchorage Daily News* on April 12, 2009, and in the *Arctic Sounder* on April 16, 2009. Copies of the Application and the public notice were provided to interested parties under 11 AAC 83.311. These parties included, among others, the North Slope Borough, Arctic Slope Regional Corporation, Arctic Slope Native Association, the Alaska Department of Environmental Conservation, the Alaska Department of Fish and Game, and the Alaska Oil and Gas Conservation Commission (AOGCC). The notice was also published on the State of Alaska Public Notice website and the Division's website. The public notices invited interested parties and members of the public to submit comments by May 18, 2009. The Division received no comments.

III. BACKGROUND

The existing PBU is located on the North Slope of Alaska and currently encompasses all or part of 111 State of Alaska Oil and Gas Leases and approximately 247,477.10 acres. BPXA proposes to include portions of seven leases and enlarge the PBU by approximately 7,239 acres. 1,320 acres are portions of three leases partially within the existing PBU and held by production under Section 9.2 of the Prudhoe Bay Unit Agreement (Tract 4, ADL 34625; Tract 5, ADL 34626; and Tract 6, ADL 34627). The remaining 5,919 acres consist of portions of four leases that are not currently held by either the Northstar Unit or the PBU – ADLs 389945, 389946, 390314, and 391381.

As provided by Section 9.1 of the Prudhoe Bay Unit Agreement (PBU Agreement) BPXA proposes to include these tracts in the expansion area because they have been reasonably determined to have the potential to contain producible hydrocarbons in the Ivishak, Sag River or Kuparuk Reservoirs, portions of which are within the PBU.

The proposed expansion acreage is divided into three areas.

Expansion Area #1 contains portions of two leases directly north of the Point McIntyre Participating Area (PA).

ADL 389945 Township 13 North, Range 14 East, Umiat Meridian,
Section 26: S1/2, Protracted, All tide and submerged lands shoreward of the line fixed by coordinates found in Exhibit A of the Final Decree in U.S. v. Alaska, No. 84 Original
Section 35: Protracted, All tide and submerged lands, excluding State Oil and Gas Lease ADL 365548
Containing approximately 933 acres, more or less.

ADL 389946 Township 13 North, Range 14 East, Umiat Meridian,
Section 27: S1/2, NW1/4, Protracted, All tide and submerged lands underlying state waters as identified in Exhibit A of the Final Decree, U.S. v. Alaska, No. 84 Original
Section 28: Protracted, All tide and submerged lands, excluding State Oil and Gas Lease ADL 312809 (East of Eastern Boundary of OCS Block NR06-03 0560)
Section 33: Protracted, All tide and submerged lands, excluding State Oil and Gas Leases ADL 312809 and ADL 365548 (East of Eastern Boundary of OCS Block NR06-03 0560, North of Southern Boundary of NR06-03 0605)
Section 34: Protracted, All tide and submerged lands, excluding State Oil and Gas Lease ADL 365548
Containing approximately 1,855.5104 acres, more or less.

ADLs 389945 and 389946 were issued effective September 1, 2002, following the State Beaufort Sea Sale 2001, held on October 24, 2001. Lease form DOG 200004 reserves a 16.667 percent royalty share for the State.

Expansion Area #2 contains portions of two leases directly east of the Point McIntyre PA and north of the West Beach PA.

ADL 34626 Township 12 North, Range 15 East, Umiat Meridian,
Section 16: SW1/4
Section 21: NW1/4
Containing approximately 320 acres, more or less.

ADL 34627 Township 12 North, Range 15 East, Umiat Meridian,
Section 17: S1/2
Section 20: N1/2
Containing approximately 640 acres, more or less.

ADLs 34626 and 34627 were issued effective April 1, 1967 following State Lease Sale #18 on January 24, 1967. Lease form DL-1 Oct 1963 reserves a 12.5 percent royalty share for the State.

Expansion Area #3 contains portions of three leases directly east of the Combined Niakuk PA and north of the Raven PA.

ADL 34625 Township 12 North, Range 15 East, Umiat Meridian,
Section 13: SE1/4SW1/4, S1/2SE1/4
Section 24: NE1/4, E1/2SE1/4
Containing approximately 360 acres, more or less.

ADL 390314 Township 12 North, Range 16 East, Umiat Meridian,
Section 15: S1/2S1/2
Section 16: S1/2S1/2
Section 21: All
Section 22: All
Containing approximately 1,600 acres, more or less.

ADL 391381 Township 12 North, Range 16 East, Umiat Meridian,
Section 17: S1/2S1/2
Section 18: S1/2S1/2
Section 19: All
Section 20: All
Containing approximately 1,531 acres, more or less.

ADL 34625 was issued effective April 1, 1967 following State Lease Sale #18 on January 24, 1967. Lease form DL-1 Oct 1963 reserves a 12.5 percent royalty share for the State.

ADL 390314 was issued effective April 1, 2003 following State Beaufort Sea Sale 2002 held on October 24, 2002. Lease form DOG 200204 reserves a 16.667 percent royalty share for the State.

ADL 391381 will be issued in July 2009 as a result of the State Beaufort Sea Sale 2008 held on October 22, 2008. Lease form DOG 200604 will reserve a 16.667 percent royalty share for the State.

The ownership of all leases is aligned to PBU decimals:

BP Exploration (Alaska)	26.3605670 percent
ExxonMobil Alaska	36.4026870 percent
ConocoPhillips Alaska	36.0767460 percent
Chevron USA Inc	1.16000000 percent

IV. DISCUSSION OF DECISION CRITERIA

The Commissioner of the Department of Natural Resources (Commissioner) reviews applications related to units, including unit and PA expansions, under AS 38.05.180(p) and 11 AAC 83.303 – 11 AAC 83.395. By memorandum dated September 2, 2004, the Commissioner approved a revision of Department Order 003 and delegated this authority to the Director of the Division of Oil and Gas (Director). The Director will approve expansion of a unit to include all or part of an oil or gas reservoir, or all or part of a potential hydrocarbon accumulation if he finds that it will conserve the natural resources of all or part of an oil and gas pool and is necessary or advisable to protect the public interest.

The Division's review of the Application is based on the criteria set out in 11 AAC 83.303 (a) and (b). A discussion of the subsection (b) criteria, as it applies to this Application, is set out directly below, followed by a discussion of the subsection (a) criteria.

A. Decision Criteria Considered Under 11 AAC 83.303(b)

1. The Environmental Costs and Benefits of Unitized Exploration and Development

The approval of the PBU expansion has no direct environmental impact. Approval of the unit expansion is an administrative action, which, by itself, does not convey any authority to conduct any operations within the unit. Potential effects on the environment are analyzed when permits to conduct exploration or development in the unit area are reviewed. This Decision simply approves additional acreage for the unit.

Proposed development of the expansion acreage will be conducted from existing PBU infrastructure. Proposed drilling activity in the expansion areas will be conducted from existing well pads. No significant additional impacts to habitat or biological resources are anticipated because of the PBU expansion.

2. Geological and Engineering Characteristics of the Reservoir and Prior Exploration Activities in the Proposed Expansion Area

BPXA submitted confidential data in support of the Application. The data includes 3D PSDM (post stack depth migrated) seismic data, an interpreted strike and dip seismic line over each of the three proposed expansion areas, petrophysical well logs of key wells, subzone reservoir properties in key wells near the expansion areas, top and base Kugaruk River formation structure maps, top and base Sag River formation structure maps over the expansion areas, light oil column maps over the expansion areas, strike and dip structural cross sections through the three expansion areas, Pt McIntyre pressure data, and average petrophysical properties per subzone in select wells near the expansion areas. In addition, BPXA staff met with Division staff on two occasions to review and discuss confidential data.

The PBU was initially formed to produce Ivishak sandstone reserves. On June 1, 1977, Conservation Order 145 expanded the pool rules to include the Put River sandstone and the Ivishak shale. Since that time, numerous, smaller reservoirs overlying the Ivishak sandstone have been brought on production as separate PA's within the PBU. One of the early PA's was Point McIntyre. The producing formation in the Point McIntyre PA is the Kugaruk River formation. In the western area of the Point McIntyre PA, a portion of the Kalubik formation also produces oil. Expansion areas #1 and #2 are being requested in order to further develop the oil pool at Point McIntyre.

Depositionally, the Kugaruk River formation in the Point McIntyre PA is different than the transgressive, shelfal deposits of Kugaruk River formation located to the west at Kugaruk River Unit. The Point McIntyre Kugaruk contains thickened Kugaruk C reservoir sands that were deposited as sediment gravity flows in fault-bounded grabens on top of the irregular LCU erosional surface. Deposition thins to the east where it may also be truncated. Depositional quality is complex and sandstone quality is the primary concern in the expansion areas. There is uncertainty in the extent of the reservoir. Based on recent AOGCC public well production data, the northern tier of Point McIntyre wells indicate oil is present and still producible, albeit at low rates, to the north in expansion area #1 and to the east in expansion area #2. The Point McIntyre P2-45B well was completed in March 2008 and the bottom hole location lies immediately west of lease ADL 34626. Production from well P2-45B (approximately 248,000 barrels of oil through March 2009) suggests oil is likely being produced from this lease and therefore should be included in the PBU.

BP has reasonably demonstrated by means of confidential data and discussions with DNR that Expansion Areas #1 and #2 include potential producible hydrocarbons in the Kuparuk Reservoir and should be included in the PBU. The Unit expansion will allow for further evaluation of the Kuparuk River formation.

Expansion Area #3 is comprised of approximately 3,491 acres located north of the Raven PA which is within the current Prudhoe Bay Unit boundary. The expansion acreage covers portions of leases ADL 390314, 391381 and 34625. ADL 34625 is currently held by production. Non confidential well data in the expansion area includes the Niakuk 41A well and Sag Delta #8 well.

The targets in expansion area #3 are the Kuparuk River formation and the Permo-Triassic reservoirs. The Permo-Triassic stratigraphy reflects an overall transgressive succession from fluvio-deltaic Ivishak sandstones, conglomerates, siltstones and shales, to the Shublik formation which is comprised of muddy carbonates, mudstones and limestones which transition to shelfal, marine transgressive deposits of the Sag River Formation. The Ivishak Sandstone of the Sadlerochit Group was deposited in a multistoried fluvial fan-delta system. The Ivishak Sandstone is the primary reservoir at the Prudhoe Bay oil field and continues to be a target in numerous, small accumulations north the of Prudhoe Bounding Fault. Unconformably overlying the Ivishak sandstone is the Shublik formation. The Shublik represents deposits of a shallow marine carbonate platform. It is conformably overlain by the Sag River formation. The Sag River formation represents stacked, aggradational to transgressive deposits of several very fine to fine grained glauconitic, quartz-rich sandstones deposited in a shelfal environment.

The Sag Delta #8 well which lies within the expansion area tested oil from the Kuparuk River formation and the Sag River formation. The Ivishak sandstone and Lisburne formation tested water at this location. Production test #5 in the Sag River formation from 10,034'nd to 10,066'nd flowed at a stabilized rate of 351 barrels of oil per day on a 20/64" choke. A pressure build up test indicated permeability of 22 millidarcies. Production tests 5A, 5B and 5C were conducted after an acid treatment of the above perforation interval. Test 5C flowed 221 barrels of oil per day with a 40% water cut that eventually cleaned up to 1% water cut. Production test 7 in the lower Kuparuk River formation from 9,980'nd to 10,010'nd produced 99% water. Test 6 in the upper Kuparuk River formation from 9,772'nd to 9,808'nd was run at two different chokes yielding 1,120 barrels of oil per day on a 20/64ths inch choke and 1,846 barrels of oil per day on a 90/64ths inch choke. A pressure build up test indicated permeability around 170 millidarcies. Test 6A added perforations to those tested above from 9,852'nd to 9,872'nd. Additional water was recovered when both perforation intervals were tested together.

The geological, geophysical, and engineering data submitted by the BPXA in support of the Application, justifies the expansion of the PBU to include the acreage in all three expansion areas.

3. BPXA's Plans of Exploration and Development for the PBU Expansion Area

All three proposed PBU expansion areas will be subject to the annual Greater Point McIntyre Area Plans of Development. The current plan of development (POD) for this area expires on September 30, 2009. The terms of this Decision, and the conditions under which the State will approve the expansion, require that BPXA commit specific leases in the expansion area to participating areas within certain timeframes. Any acreage not committed to a PA within the stated timeframe, will automatically contract from the PBU. BPXA has agreed to and commits to the following:

Expansion Area #1 –drill a well within three years of the effective date of this unit expansion and include leases ADLs 389945, and 389946 in a PA within five years of the effective date of this unit expansion.

Expansion Area #2 –include leases ADLs 34626 and 34627 in a PA within one year of the effective date of this unit expansion.

Expansion Area #3 – drill and include leases ADLs 34625, 390314, and 391381 in a PA within five years of the effective date of this unit.

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

Approval of the Application under the conditions set out in this Decision, which requires commitments to form participating areas, will result in both short term and long term economic benefits to the State. The assessment of the leases' hydrocarbon potential will create jobs in the short term. If the WIOs begin production from the expansion area, the State will earn royalty and taxes. Expansion of the PBU to include these tracts will enable timely appraisal and development of the Point McIntyre Reservoir by the facility sharing of existing PBU facilities, and allow for appraisal drilling through Tract Operations. Expanding the unit boundary will afford the WIOs an opportunity to drill unit wells through existing facilities, minimize the surface impacts, and promote efficient evaluation and development of the State's resources.

Field cost deductions provided for under the 1980 RSA do not apply to production from the expansion acreage, except for that portion of ADL 34627 described as T12N-R15E-UM, Section 20: N1/2; that portion of ADL 34626 described as T12N-R15E-UM, Section 21: NW1/4; and that portion of ADL 34625 described as T12N-R15E-UM, Section 24: NE1/4, E1/2SE1/4, as these lands were included in the PBU on the effective date of the RSA.

Field costs may not be deducted from the State's royalty share of production from any of the expansion acreage in ADL389945, ADL 389946, ADL 391381 or ADL 390314. Similarly, field costs may not be deducted from the State's royalty share of production from that portion of ADL 34627 described as T12N-R15E-UM, Section 17: S1/2; that portion of ADL 34626 described as T12N-R15E-UM, Section 16: SW1/4; and that portion of ADL 34625 described as T12N-R15E-UM, Section 13: SE1/4SW1/4, S1/2SE1/4.

The portion of ADL 389945 not committed to the unit is severed and the lease segregated. As provided by 11 AAC 83.373 and Section 9.4 of the PBU Agreement, the segregated portion of ADL 389945 is assigned new ADL 391467, effective July 1, 2009, with a two-year extension of the lease term.

The portion of ADL 389946 not committed to the unit is severed and the lease segregated. As provided by 11 AAC 83.373 and Section 9.4 of the PBU Agreement, the segregated portion of ADL 389946 is assigned new ADL 391468, effective July 1, 2009, with a two-year extension of the lease term.

The portion of ADL 390314 not committed to the unit is severed and the lease segregated. As provided by 11 AAC 83.373 and Section 9.4 of the PBU Agreement, the segregated portion of ADL 390314 is assigned new ADL 391469, effective July 1, 2009, with a two-year extension of the lease term.

The portion of ADL 391381 not committed to the unit is severed and the lease segregated. As provided by 11 AAC 83.373 and Section 9.4 of the PBU Agreement, the segregated portion of ADL 391381 is assigned new ADL 391470, effective July 1, 2009.

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

1. Promote Conservation of All Natural Resources

The unitization of oil and gas leases overlying a reservoir is a well accepted means of hydrocarbon conservation. Unitization is the most efficient method for maximizing oil and gas recovery, while

minimizing negative impacts on other resources. Unitization allows the unit operator to explore the area as if it were one lease. Expansion of the PBU will promote the conservation of both surface and subsurface resources through unitized rather than lease-by-lease development. The PBU expansion promotes efficient evaluation and development of the state's resources, yet minimizes impacts to the area's cultural, biological, and environmental resources because additional production can be accommodated without additional infrastructure. The PBU expansion will provide a comprehensive plan for development through existing unit infrastructure.

2. The Prevention of Economic and Physical Waste

Including the expansion leases in the PBU will prevent economic and physical waste because the unit operator must have a coordinated exploration plan, and if a discovery is made, a comprehensive reservoir depletion plan. Unitization prevents economic and physical waste by eliminating redundant expenditures for a given level of production, and by avoiding loss of ultimate recovery with the adoption of a unified reservoir management plan.

Unitized operations improve development of reservoirs beneath leases that may have variable or unknown productivity. Marginally economic reserves, which otherwise would not be produced on a lease-by-lease basis, can be produced through unitized operations in combination with more productive leases. Access to existing unit facilities and infrastructure lowers capital costs, promotes optimal reservoir management and prevents economic and physical waste. In combination, these factors allow less profitable areas of a reservoir to be developed and produced in the interest of all parties, including the State.

Reducing costs and environmental impacts through unitized operations will expedite development of any reserves discovered and will promote greater ultimate recovery of any oil and gas from the unit area. This will increase and extend the State's income stream from production taxes and royalties.

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

Approval of the Application along with the agreed-to terms and conditions set out in this Decision, promotes the State's economic interests because exploration will likely occur earlier than without unit expansion. Unit expansion allows the acreage to be operated under a single Agreement. Diligent exploration under a single approved unit plan without the complications of competing operators is in the State's best interest. It advances evaluation of the State's petroleum resources, while minimizing impacts to the region's cultural and environmental resources.

V. FINDINGS AND DECISION

A. The Conservation of All Natural Resources

1. Including the expansion acreage in the PBU will conserve all natural resources, including hydrocarbons.
2. The unitized development and operation of the leases in this proposed expansion area will reduce the amount of land and fish and wildlife habitat that would otherwise be disrupted by individual lease development. This reduction in environmental impacts and preservation of subsistence access is in the public interest.
3. All unit development must proceed according to an approved plan of development. Additionally, before undertaking any specific operations, the Unit Operator must submit a unit plan of operations to the Division and other appropriate State and local agencies for review and approval.

The lessees may not commence any drilling or development operations until all agencies have granted the required permits. DNR may condition its approval of a unit plan of operations and other permits on performance of mitigation measures if necessary or appropriate.

B. The Prevention of Economic and Physical Waste

1. BPXA submitted geological, geophysical and engineering data to the Division in support of the Application. Division technical staff determined that the PBU expansion area encompasses all or part of one or more oil or gas reservoirs, or all or part of one or more potential hydrocarbon accumulations. The available geological, geophysical and engineering data justify including the proposed expansion acreage in the PBU.
2. Unitized operations reduce costs and environmental impacts, expedite development and promote greater ultimate recovery of any hydrocarbons. Unit expansion allows the unit operator to access existing unit facilities and infrastructure and prevent economic and physical waste.

C. Provide for the Protection of All Parties, Including the State

1. The expansion of the PBU is necessary and advisable to protect the public interest under AS 38.05.180(p) and 11 AAC 83.303.
2. The Division complied with the public notice requirements of 11 AAC 83.311.
3. The available geological and engineering data and development plans, justify an expansion of the PBU to include all or part of a potential hydrocarbon accumulation. Under the regulations governing formation and operation of oil and gas units (11 AAC 83.301 – 11 AAC 83.395), the terms and conditions under which these lands were leased from the State of Alaska, and the terms and conditions of this Decision, the following lands are added to and included in the PBU:

PBU Expansion Area #1

ADL 389945 Township 13 North, Range 14 East, Umiat Meridian,
Section 26: S1/2, Protracted, All tide and submerged lands shoreward of the line fixed by coordinates found in Exhibit A of the Final Decree in U.S. v. Alaska, No. 84 Original
Section 35: Protracted, All tide and submerged lands, excluding State Oil and Gas Lease
ADL 365548
Containing approximately 933 acres, more or less

ADL 389946 Township 13 North, Range 14 East, Umiat Meridian,
Section 27: S1/2, NW1/4, Protracted, All tide and submerged lands underlying state waters as identified in Exhibit A of the Final Decree, U.S. v. Alaska, No. 84 Original
Section 28: Protracted, All tide and submerged lands, excluding State Oil and Gas Lease
ADL 312809 (East of Eastern Boundary of OCS Block NR06-03 0560)
Section 33: Protracted, All tide and submerged lands, excluding State Oil and Gas Leases
ADL 312809 and ADL 365548 (East of Eastern Boundary of OCS Block NR06-03 0560,
North of Southern Boundary of NR06-03 0605)
Section 34: Protracted, All tide and submerged lands, excluding State Oil and Gas Lease
ADL 365548
Containing approximately 1,855.5104 acres, more or less

PBU Expansion Area #2

- ADL 34626 Township 12 North, Range 15 East, Umiat Meridian,
Section 16: SW1/4
Section 21: NW1/4
Containing approximately 320 acres, more or less
- ADL 34627 Township 12 North, Range 15 East, Umiat Meridian,
Section 17: S1/2
Section 20: N1/2
Containing approximately 640 acres, more or less

PBU Expansion Area #3

- ADL 34625 Township 12 North, Range 15 East, Umiat Meridian,
Section 13: SE1/4SW1/4, S1/2SE1/4
Section 24: NE1/4, E1/2SE1/4
Containing approximately 360 acres, more or less
- ADL 390314 Township 12 North, Range 16 East, Umiat Meridian,
Section 15: S1/2S1/2
Section 16: S1/2S1/2
Section 21: All
Section 22: All
Containing approximately 1,600 acres, more or less.
- ADL 391381 Township 12 North, Range 16 East, Umiat Meridian,
Section 17: S1/2S1/2
Section 18: S1/2S1/2
Section 19: All
Section 20: All
Containing approximately 1,531 acres, more or less

With the inclusion of these lands, the total area within the expanded PBU is approximately 254,716.6104 acres.

4. ADL 389945 is segregated as to lands committed to the PBU and as to lands not committed to the PBU. In accordance with 11 AAC 83.373 and paragraph 9.4 of the PBU Agreement, the uncommitted lands are severed from oil and gas lease ADL 389945 and assigned ADL 391467 effective July 1, 2009, with a two-year extension of the lease term.
5. ADL 389946 is segregated as to lands committed to the PBU and as to lands not committed to the PBU. In accordance with 11 AAC 83.373 and paragraph 9.4 of the PBU Agreement, the uncommitted lands are severed from oil and gas lease ADL 389946 and assigned ADL 391468 effective July 1, 2009, with a two-year extension of the lease term.
6. ADL 390314 is segregated as to lands committed to the PBU and as to lands not committed to the PBU. In accordance with 11 AAC 83.373 and paragraph 9.4 of the PBU Agreement, the

uncommitted lands are severed from oil and gas lease ADL 390314 and assigned ADL 391469 effective July 1, 2009, with a two-year extension of the lease term.

7. ADL 391381 is segregated as to lands committed to the PBU and as to lands not committed to the PBU. In accordance with 11 AAC 83.373 and paragraph 9.4 of the PBU Agreement, the uncommitted lands are severed from oil and gas lease ADL 391381 and assigned ADL 391470 effective July 1, 2009.
8. The leases ADLs 389945, and 389946 will automatically contract out of the PBU if a well has not been drilled in Expansion Area #1 within three years of the effective date of this unit expansion.
9. The leases or portions of the leases ADLs 389945, and 389946, not included in a PA within five years of the effective date of this unit expansion, will automatically contract out of the PBU
10. The leases or portions of the leases ADLs 34626 and 34627 not included in a PA within one year of the effective date of this unit expansion, will automatically contract out of the PBU.
11. The leases or portions of leases ADLs 34625, 390314, and 391381 not included in a PA within five years of the effective date of this unit expansion, will automatically contract out of the PBU..
12. Field cost deductions provided for under the 1980 RSA do not apply to production from the expansion acreage, except for that portion of ADL 34627 described as T12N-R15E-UM, Section 20: N1/2; that portion of ADL 34626 described as T12N-R15E-UM, Section 21: NW1/4; and that portion of ADL 34625 described as T12N-R15E-UM, Section 24: NE1/4, E1/2SE1/4, as these lands were included in the PBU on the effective date of the RSA.
13. Field costs may not be deducted from the State's royalty share of production from any of the expansion acreage in ADL ADL389945, ADL 389946, ADL 391381 or ADL 390314. Similarly, field costs may not be deducted from the State's royalty share of production from that portion of ADL 34627 described as T12N-R15E-UM, Section 17: S1/2; that portion of ADL 34626 described as T12N-R15E-UM, Section 16: SW1/4; and that portion of ADL 34625 described as T12N-R15E-UM, Section 13: SE1/4SW1/4, S1/2SE1/4. Field costs include, but are not limited to, expenses for separating, cleaning, dehydration, gathering, saltwater disposal, and preparing oil, gas, or associated substances for transportation off the unit area

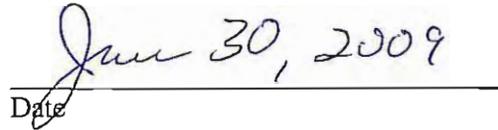
For the reasons discussed in this Findings and Decision, I approve the expansion subject to the conditions set out in this decision.

Under Article 9.1 of the PBU Agreement and BPXA's *Notice of Intent to Enlarge the Prudhoe Bay Unit to Encompass Expansion to the Orion Participating Area*, the effective date for the expansion decision is the first day of the calendar month following the date of the final approval by the Division. The expansion of the PBU is approved **effective July 1, 2009**. Within 30 days of the Division's issuance of ADL 391381, BPXA must submit revised Exhibits A and B to the PBU Agreement.

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 Irwin, Commissioner, DNR, 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



Date

Attachment 1: Map of PBU Enlargement Area

