

# STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL & GAS

SEAN PARNELL, GOVERNOR

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**CERTIFIED MAIL  
RETURN RECEIPT REQUESTED**

January 18, 2011

Mr. David J. Szabo  
Manager, Reservoir Management  
BP Exploration (Alaska) Inc.  
P.O. Box 196612  
Anchorage, AK 99519-6612

Mr. Gregory R. Vigil  
Executive Vice President  
Savant Alaska, LLC  
633 Seventeenth Street  
Suite 2170  
Denver, CO 80202

Re: Badami Unit Contraction Deferral

Dear Mr. Szabo and Mr Vigil:

In a November 17, 2010 letter, BP Exploration (Alaska) Inc. (BPXA), as Unit Operator on behalf of the Badami Unit (BU) Working Interest Owners, requested that the Director of the State of Alaska, Department of Natural Resources, Division of Oil and Gas, delay the contraction of lands from the BU, currently scheduled for February 15, 2011.

Under Section 11.2 of the Badami Unit Agreement, "Any lease, not part of which is included in a Participating Area on the tenth anniversary of the effective date of the initial Participating Area established under this Agreement, shall be excluded from the Unit Area and from this Agreement." As you are aware, the BU was originally scheduled to contract under this provision on August 1, 2008. On July 25, 2008, I agreed to defer that contraction, under 11 AAC 83.356(b), until November 15, 2010, contingent on the successful completion of the exploration and development contract with Savant Alaska, LLC, and the drilling commitments set out in the 7<sup>th</sup> Plan of Development.

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

On November 1, 2010, BPXA and Savant requested a one year deferral of automatic contraction (this request was modified to two years on November 17, 2010). On November 3, 2010, I agreed to defer contraction again, until February 15, 2011, in order to provided adequate time for the Division to meet with BPXA and Savant, and evaluate the information they provided.

Representatives of BPXA and Savant met with Division staff, provided confidential information, and have had numerous telephonic conferences with the Division.

I have considered the exploration and development history of the Badami Unit, the public and confidential data submitted with the Request, as well as BPXA and Savant's exploration plans for the area, and approve the deferral of contraction of the Badami Unit currently scheduled for February 15, 2011, until November 15, 2011, subject to the following conditions:

1. BPXA and Savant will provide the Division with a briefing on the results of its winter 2010-2011 exploration and development activities by September 1, 2011.
2. BPXA and Savant agree that, in the event that the Division determines on November 15, 2011 to contract the Badami Unit, but to an area greater than the leases comprising the Badami Sands Participating Area or any other approved participating area, all leases outside of the Badami Sands or any other participating area will be segregated by section line.

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

**1. The Environmental Costs and Benefits**

The approval of the Request has no environmental impact because deferring contraction will not produce any more environmental costs than the initial unit formation approval produced. Additional environmental benefits may occur because the deferred area could be drilled from existing drill sites and production processed at existing Badami Unit facilities.

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

The Division has previously considered the geologic and engineering characteristics and development activities in its approvals of the Badami Unit and Badami Sands Participating Area.

**3. Plans of Exploration and Development**

As part of its Development Plan, BPXA and Savant intend to produce the B1-18A well to determine the economic viability of the Badami Sands interval, and produce from the B1-38 and B1-36 wells. They will also re-analyze seismic data in the western unit area.

With the data obtained from this work, BPXA and Savant will be able to identify additional drilling prospects in the deferred area.

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

Conducting exploration and development of the deferred area under a unit plan of development will maximize recovery of hydrocarbons because the area will be developed as a single accumulation rather than on a lease-by-lease basis and will maximize revenue to the State. Additional subsurface data obtained by operations will allow for identification of further development opportunities and BPXA and Savant will share the data with the State. Approval of the Request will provide near-term economic benefits to the State by creating jobs associated with the continued exploration and development of the hydrocarbons within the deferred area.

#### **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 the Badami Unit and Badami Sands Participating Area. The approval of the contraction delay provides for the continued integrated exploration and development of the Badami Unit, minimizing additional environmental impacts by using existing production facilities. All production from the Badami Unit is processed at Badami Unit facilities. Continued exploration and development carried out under the Badami Unit Agreement minimizes impacts to the area's cultural, biological, subsistence and environmental resources.

##### **2. The Prevention of Economic and Physical Waste**

Exploration and development of multiple leases under an approved plan of development and unit agreement prevents economic and physical waste by committing diverse ownership interests to an integrated plan of recovery and depletion for a single hydrocarbon accumulation.

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

Maximizing recovery of hydrocarbons from the Badami Unit protects the State's interests. Continuing to include the deferred area within the Badami Unit, subject to the conditions outlined above, protects the State's interest in timely development of the Unit, while permitting continued exploration and development by the Unit Operator.

This Decision will become effective upon agreement by BP Exploration (Alaska) and Savant Alaska, LLC with the conditions set out above.

A person affected by this decision may appeal it, in accordance with 11 AAC 02. This decision takes effect immediately. 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 Daniel S. Sullivan, Commissioner, DNR, 550 W. 7<sup>th</sup> Avenue, Suite 1400, Anchorage,

Alaska 99501; faxed to 1-907-269-8918, or sent by electronic mail to [dnr.appeals@alaska.gov](mailto:dnr.appeals@alaska.gov). 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,



Kevin R. Banks  
Director

cc Larry Ostrovsky

BP Exploration (Alaska) agrees to the conditions set out above.

By \_\_\_\_\_

Savant Alaska, LLC agrees to the conditions set out above.

By \_\_\_\_\_