



THE STATE
of **ALASKA**
GOVERNOR SEAN PARNELL

Department of Natural Resources

Division of Oil & Gas
Anchorage Office

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Anchorage, Alaska 99501-3560
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July 29, 2014

Scott Digert
Manager of Reservoir Management
BP Exploration (Alaska) Inc.
PO Box 196612
Anchorage, AK 99519-6612

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Re: Combined Niakuk Participating Area Contraction

Dear Mr. Digert:

INTRODUCTION

This is the decision of the Director of the Division of Oil and Gas (Division) of the Alaska Department of Natural Resources (DNR) removing Section 21 NE $\frac{1}{4}$, N $\frac{1}{2}$ SE $\frac{1}{4}$ of ADL 34626 in the Prudhoe Bay Unit (PBU) from the Combined Niakuk Participating Area (PA). This property is being removed from the PA for failure to meet drilling commitments.

FACTS

On December 21, 2007, the Division approved the application from BP Exploration (Alaska) Inc. (BPXA) combining the Niakuk and West Niakuk Participating Areas to form the Combined Niakuk PA (CNPA), effective January 1, 2008. The decision also added Section 21 NE $\frac{1}{4}$, N $\frac{1}{2}$ SE $\frac{1}{4}$ of ADL 34626 to the CNPA contingent upon drilling and testing a well penetrating the Kuparuk River sandstone by January 1, 2011. If this requirement was not met, Section 21 NE $\frac{1}{4}$, N $\frac{1}{2}$ SE $\frac{1}{4}$ of ADL 34626 would contract from the CNPA.

By letter dated September 13, 2010, the Division approved BPXA's May 28, 2010 request to extend the CNPA contraction date to June 30, 2014. This date coincided with the PBU Expansion Area #3 contraction date to allow the PBU working interest owners (WIO) to prioritize and schedule drilling from the Niakuk Pad.

As of June 30, 2014, BP has not satisfied the drilling and testing requirements noted above. BPXA has had more than six years to satisfy the PA requirement to drill and test a well penetrating the Kuparuk River sandstone. In accordance with the December 21, 2007 decision, Section 21 NE $\frac{1}{4}$, N $\frac{1}{2}$ SE $\frac{1}{4}$ of ADL 34626 is contracted from the CNPA for failure to meet the drilling and testing obligation. The contraction is effective June 30, 2014. ADL 34626 will neither expire nor be segregated because the lease is held by production allocated to the West Beach, Point McIntyre, and Combined Niakuk PAs.

DECISION CRITERIA

When considering a PA and unit contraction, the Division must consider the criteria in 11 AAC 83.303(a) and (b). Accordingly, the Division considered the public interest, conservation of natural resources, prevention of economic and physical waste, protection all interested parties including the state, environmental costs and benefits, geological and engineering characteristics or reservoirs or potential hydrocarbon accumulations, prior exploration activities, plans for exploration or development, economic costs and benefits to the state, and any other relevant factors, including mitigation measures. 11 AAC 83.303(a)-(b). It is not in the public interest to expand the CNPA to include Section 21 NE ¼, N ½ SE ¼ of ADL 34626 when BP has not shown the area is underlain by hydrocarbons or that the area will contribute to production.

DECISION

The contraction date was extended to provide additional time for the WIOs to coordinate drilling schedules at a constrained pad site. Six and a half years has passed since the designated area was included in the PA and drilling and testing have not occurred. Since BPXA did not meet its drilling obligation, it is in the state's interest to contract the area from the PA and to revise and correct the PA tract allocations at CNPA.

Section 21 NE ¼, N ½ SE ¼ of ADL 34626 is hereby contracted from the CNPA effective June 30, 2014. BP will provide the Division revised Exhibit C-5 and D-5 to the Prudhoe Bay Unit agreement within 60 days after receipt of this letter. The revised allocation of production for CNPA is subject to the Division's approval. The revised allocation of production for CNPA will result in a higher percentage of production allocated to lease areas (N ½ of ADL 34626 and 34625) where field costs may not be deducted from the state's share of royalty oil production.

APPEAL

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 Joe Balash, 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.

If you have questions regarding this decision, please contact Kyle Smith with the Division at (907) 269-8807, or via email at kyle.smith@alaska.gov.

Sincerely,



W.C. Barron
Director

cc: DOL

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 Manager, Reservoir Management
 BP Exploration (Alaska) Inc.
 900 East Benson Blvd.
 P.O. Box 196612
 Anchorage, Alaska 99519-6612

PS Form 3800, August 2006 See Reverse for Instructions

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1. Article Addressed to:

Scott Digert
 Manager, Reservoir Management
 BP Exploration (Alaska) Inc.
 900 East Benson Blvd.
 P.O. Box 196612
 Anchorage, Alaska 99519-6612

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