

January 16, 1986

Conoco Inc.  
3201 "C" Street, Suite 200  
Anchorage, AK 99503

Attn: Mr. W. J. Hairford  
Division Operation Manager

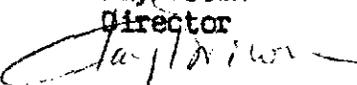
Subject: Milne Point Unit  
Fourth Revision of the Participating Area

Dear Mr. Hairford:

Pursuant to Conoco's letter of December 19, 1985, and my earlier letter of November 21, 1985 to Conoco, I hereby accept and approve the proposed Fourth Revision of the Kuparuk Reservoir Participating Area and Allocation of Production and Costs for the Milne Point Unit, as amended to delete Tracts 1 and 1A (ADLs 47432 and 319717) from the approved Participating Area. A copy of the approved Participating Area is attached. This revision to the Participating Area will be effective retroactive to October 1, 1985.

Sincerely,

Kay Brown  
Director

  
2727A

November 21, 1985.

Conoco Inc.  
3201 "C" Street, Suite 200  
Anchorage, AK 99503

Attn: Mr. John R. Kemp  
Manager of Alaskan Operations

Subject: Milne Point Unit; Fourth Revision of the Participating Area and Allocation of Production and Costs, Kuparuk Reservoir

Dear Mr. Kemp:

On October 31, 1985, Conoco Inc. requested a Fourth Revision of the approved Participating Area and Allocation of Production and Costs for the Milne Point Unit. Conoco's proposed revised Participating Area and Allocation of Production and Costs contains two tracts which do not have any production allocated to them.

The "Schedule of Unitized Lands" submitted by Conoco for the revised Participating Area, attached to this approval as Attachment 1, allocates no production or costs to Tracts 1 and 1A, and projects no recoverable reserves within the Participating Area underlying those Tracts (columns 5 and 4 of Attachment 1, respectively).

The State cannot approve participating areas containing lands to which hydrocarbons are not allocated. The regulation governing participating areas reads in pertinent part as follows:

11 AAC 83.351. PARTICIPATING AREA. (a) ... The participating area may include only the land reasonably known to be underlain by hydrocarbons and known or reasonably estimated through use of geological, geophysical, and engineering data to be capable of producing or contributing to production of hydrocarbons in paying quantities. ... A revised division of interest or formula allocating production and costs must be submitted under 11 AAC 83.371 at the time of expansion or contraction of a participating area.

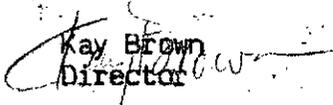
Conoco Inc.  
Milne Point Unit Revised Participating Area  
November 21, 1985  
Page 2

The State interprets this regulation to say that lands not underlain by hydrocarbons can only be included within a participating area if the working interest owners can show that the underlying reservoir cannot be produced without the use of those lands. Conoco has made no such showing for Tracts 1 and 1A of the Milne Point Unit.

Therefore, I cannot approve the proposed Fourth Revision of the Milne Point Unit Participating Area and Allocation of Production and Cost as submitted. Pursuant to 11 AAC 83.371(a), I hereby give Conoco 30 days from the date of this letter to show cause why Tracts 1 and 1A should not be eliminated from the revised Milne Point Unit Participating Area and Allocation of Production and Cost. Should no data be presented to the State by that date to justify inclusion of Tracts 1 and 1A within the Milne Point Unit Participating Area and the revised Allocation of Production and Cost, or should the State decide that the data submitted do not justify inclusion of the Tracts, the Participating Area and Allocation of Production and Costs will be as set out in Attachment 2 to this letter. Such Fourth Revision to the Milne Point Unit Participating Area and Allocation of Production and Costs will be retroactive to October 1, 1985.

If you have any questions on the foregoing, please contact Ms. Catherine Fortney of my staff at (907) 762-4198.

Sincerely,

  
Kay Brown  
Director

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MILNE POINT UNIT PARTICIPATING AREA  
 FOURTH REVISION  
 AS OF 12:01 A.M., OCTOBER 1, 1985

<u>Tract</u>	<u>ADL #</u>	<u>Legal Description</u>	<u>Acres</u>	<u>Royalty</u>	<u>Tract Participation</u>	<u>Working Interest</u>
2	47433	T13N, R10E, U.M.; Sec. 1: S/2; Secs. 2, 11, 12	2240	20.0%	8.72196	Conoco 67.624% Cities 14.000% Champlin 15.000% Reading & Bates 3.376%
3	47434	T13N, R10E, U.M.; Secs. 3, 4, 9, 10	2560	20.0%	29.71305	Conoco 70.342% Cities 12.250% Champlin 13.125% Reading & Bates 4.283%
4	25516	T13N, R10E, U.M.; Sec. 15	640	12.5%	2.90899	Chevron 100%
4A	315848	T13N, R10E, U.M.; Sec. 16: N/2, SE/4, NE/4 SW/4	520	12.5%	1.55662	Chevron 100%
5	47437	T13N, R10E, U.M.; Secs. 13, 14; Sec. 23: N/2, SE/4, E/2 SW/4; Sec. 24	2480	20.0%	34.24178	Conoco 67.729% Cities 14.000% Champlin 15.000% Reading & Bates 3.271%
6	47438	T13N, R11E, U.M.; Sec 18: W/2 W/2, NE/4 NW/4, NW/4 NE/4, E/2 SW/4, S/2 SE/4; Sec. 19; Sec. 20: SW/4, W/2 NW/4, SE/4 NW/4, W/2 SE/4, SE/4 SE/4	1424	20.0%	9.18185	Conoco 67.149% Cities 14.000% Champlin 15.000% Reading & Bates 3.851%

<u>Tract</u>	<u>ADL #</u>	<u>Legal Description</u>	<u>Acres</u>	<u>Royalty</u>	<u>Tract Participation</u>	<u>Working Interest</u>
9A	25518	T13N, R10E, U.M.; Sec. 25; Sec. 26: E/2 NE/4	720	12.5%	4.46494	Chevron 100.000%
10	25509	T13N, R10E, U.M.; Secs. 5, 6; Sec. 7: NE/4, E/2 NW/4, NW/4 NW/4, NE/4 SE/4; Sec. 8: N/2, SE/4, N/2 SW/4, SE/4 SW/4	2182	12.5%	9.21081	Chevron 100.000%
			12,766		100.00000	

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MILNE POINT UNIT

PROPOSED PARTICIPATING AREA  
OCTOBER 31, 1985

<u>Tract</u>	<u>ADL #</u>	<u>Proposed Tract Participation</u>
1	47432	0.00000
1A	319717	0.00000
2	47433	8.72196
3	47434	29.71305
4	25516	2.90899
4A	315848	1.55662
5	47437	34.24178
6	47438	9.18185
9A	25518	4.46494
<u>10</u>	<u>25509</u>	<u>9.21081</u>
		100.00000

APPROVED PARTICIPATING AREA  
RETROACTIVE TO OCTOBER 1, 1985

<u>Tract</u>	<u>ADL #</u>	<u>Approved Tract Participation</u>
2	47433	8.72196
3	47434	29.71305
4	25516	2.90899
4A	315848	1.55662
5	47437	34.24178
6	47438	9.18185
9A	25518	4.46494
<u>10</u>	<u>25509</u>	<u>9.21081</u>
		100.00000

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ATTACHMENT 2

MILNE POINT UNIT

PROJECTED PARTICIPATING AREA  
RETROACTIVE TO OCTOBER 1, 1985

<u>Tract</u>	<u>ADL #</u>	<u>Approved</u> <u>Tract Participation</u>
2	47433	8.72196
3	47434	29.71305
4	25516	2.90899
4A	315848	1.55662
5	47437	34.24178
6	47438	9.18185
9A	25518	4.46494
<u>10</u>	<u>25509</u>	<u>9.21081</u>
		100.00000

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ATTACHMENT 2

MILNE POINT UNIT

PROJECTED PARTICIPATING AREA  
RETROACTIVE TO OCTOBER 1, 1985

<u>Tract</u>	<u>ADL #</u>	Approved <u>Tract Participation</u>
2	47433	8.72196
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