

KUPARUK RIVER UNIT

APPROVAL OF THE SECOND AMENDMENT TO THE KUPARUK
RIVER 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

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I. INTRODUCTION AND DECISION SUMMARY

On June 5, 2008 the State of Alaska (State), Department of Natural Resources (DNR), Division of Oil and Gas (Division) received a request from ConocoPhillips Alaska, Inc. (CPAI) as Kuparuk River Unit (KRU) Operator, for approval of a Second Amendment (2nd Amendment) to the Kuparuk River Unit Agreement (KRUA). The 2nd Amendment would add Section 3.9 to the KRUA, supporting non-KRU development.

Pioneer Natural Resources, Inc. (Pioneer), as the designated Oooguruk Unit (OU) Operator, elected not to construct processing facilities, but instead successfully negotiated a facility sharing agreement with the KRU Working Interest Owners (WIOs) for the use of vertical support members, flowline transportation, and processing services at the KRU processing facility. The 2nd Amendment would allow processing of OU production at existing KRU facilities, and provide fuel, gas, water, and other services in support of non-KRU development and would be revocable on one year's notice from the Commissioner of the DNR.

Pursuant to 11 AAC 83.385 and Section 18.1 of the KRUA, the amendment was approved by the Division by letter dated June 5, 2008. The Alaska Oil and Gas Conservation Commission (AOGCC) approved commingling of OU and KRU production in Conservation Order Nos. 596 and 597.

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. This approval constitutes the written findings and decision required under 11 AAC 83.303 and is fully appealable.

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 KRU. The Commissioner of DNR (Commissioner) reviews modifications to unit agreements under 11 AAC 83.301 ~ 11 AAC 83.395. 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 of Unitized Exploration or Development.

Pioneer designed the development of the reservoirs within the OU to minimize the amount of surface impact from the facilities necessary for development through utilization of a compact drill site and existing KRU infrastructure including the use of

existing vertical support members for flowlines, processing facilities, flowline transportation, and delivery and return of gas and water. Specifically providing for KRU to provide development support services to other units fosters the efficient disposition of processing byproducts, gas, and water, which are in turn used by other units to support and enhance production.

Development at Oooguruk will promote efficient development of the State's resources, while minimizing impacts to the region's cultural, biological, and environmental resources. Such impacts would be significantly greater if the OU WIOs constructed a standalone and essentially duplicative processing facility, instead of using existing infrastructure.

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 approval of the KRU, OU, and other units and participating areas receiving development support services from the KRU. 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 operations.

3. Plans of Exploration and Development

The Division has previously considered and approved the plans of development of the KRU and the OU, as well as other units receiving non-KRU development support services. Approval of the 2nd Amendment relates to production from existing, approved participating areas and unit tract operations.

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

Approval of the 2nd Amendment allows associated field development to maximize the physical and economic recovery of hydrocarbons from productive reservoirs and will provide economic benefits to the State because maximum hydrocarbon recovery will enhance the State's long-term royalty and tax revenue stream. Any additional administrative burdens associated with the approval of the 2nd Amendment are far outweighed by the additional royalty and tax benefits derived from increased production volumes.

Pioneer negotiated the confidential Production Processing Services Agreement (PPSA) with the WIOs of the KRU. However, the KRUA does not allow use of KRU facilities by a third party. It also does not address KRU providing development support services to other units on the North Slope. According to CPAI, the PPSA specifically requires approval of an amendment to the KRUA to allow processing of OU production and to provide development support services to OU. The KRU facility also provides development support services to other units, for the most part, water for waterflood operations which enhance oil recovery. Specifically allowing these services to other

units enables and encourages the KRU to continue to provide the services, which benefits the State.

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

1. Promote the Conservation of All Natural Resources

Processing OU production through the existing KRU facilities will reduce the environmental impact which would be caused if the OU WIOs were to build additional, essentially duplicative, processing facilities. Providing development support services to OU and other North Slope operators through the KRU facilities reduces the environmental impact which would result if those operators built their own facilities. Development support services provided by existing facilities helps to maximize hydrocarbon recovery and minimize negative impacts on all other natural resources.

2. The Prevention of Economic and Physical Waste

Approval of the 2nd Amendment enables facility sharing opportunities and may allow economically marginal hydrocarbon accumulations to be developed. It advances production and sales of the State's hydrocarbon resources, while minimizing impacts to the region's cultural and environmental resources. Approval of the 2nd Amendment allows KRU to provide access to existing facilities and infrastructure and prevents economic and physical waste. Providing development support services for enhanced recovery in other units optimizes the use of gas and water on the North Slope.

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

The KRU WIOs have signed the PPSA, agreeing to provide production and processing services to OU by sharing the existing KRU processing capacity and infrastructure. Using the KRU infrastructure and facilities to provide development support services to other units enhances recovery from other units. The interests of all parties are promoted by optimizing production while preventing economic and physical waste.

Allowing third party facility access encourages new operators to develop North Slope hydrocarbon resources. The availability of a third party facility promotes competitive bidding at area wide lease sales because it enables more operators to consider development. Increased bidding competition benefits the State.

The 2nd Amendment includes a provision by which the State may revoke approval upon one year's notice to the KRU WIOs. This provision protects the State's interest by providing a mechanism to avoid unforeseeable, unintended consequences, while minimizing the possibility of imminent disruption to KRU development operations.

III. FINDINGS AND DECISION

A. The Conservation of All Natural Resources

1. The approval of the 2nd Amendment will conserve all natural resources, including hydrocarbons, gravel, sand, water, wetlands, and valuable habitat.
2. The approval will reduce the amount of land and fish and wildlife habitat that would otherwise be disrupted by construction of standalone facilities. This reduction in environmental impacts and preservation of subsistence access is in the public interest.

B. The Prevention of Economic and Physical Waste

1. Approval of the 2nd Amendment advances production and sales of the State's hydrocarbon resources, while minimizing impacts to the region's cultural and environmental resources.

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 KRU Agreement effective June 5, 2008.

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 Kugaruk River Unit Agreement
2. June 5, 2008, letter approving the Second Amendment to the Kugaruk River Unit Agreement

ATTACHMENT ONE

Request for Approval of the Second Amendment to the Kuparuk River Unit Agreement


Alaska, Inc.

RECEIVED

JUN 05 2008

DIVISION OF
OIL AND GAS

Helene E. Harding
Vice President
North Slope Operations &
Development, Alaska
P.O. Box 100360
Anchorage, AK 99510-0360
Phone 907.265.6513
Fax 907.263-4438

June 3, 2008

Mr. Kevin Banks, Acting Director
State of Alaska, Division of Oil & Gas
Department of Natural Resources
550 West 7th Avenue, Suite 1100
Anchorage, AK 99501-3560

Re: Second Amendment, Kuparuk River Unit Agreement

Dear Mr. Banks:

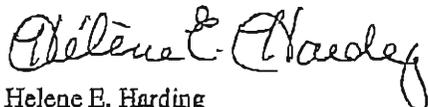
The working interest owners of the Kuparuk River Unit have executed the enclosed Second Amendment to the Kuparuk River Unit Agreement. This Second Amendment supports facility sharing on the North Slope, and is a condition precedent to processing Oooguruk Unit production in Kuparuk facilities under the Production Processing and Services Agreement among the working interest owners in the Oooguruk Unit and the Kuparuk River Unit.

ConocoPhillips Alaska, Inc., as operator of the Kuparuk River Unit and on behalf of the Kuparuk River Unit working interest owners, hereby applies for approval of this Second Amendment by or on behalf of the Department of Natural Resources Commissioner under Section 18.1 of the Kuparuk River Unit Agreement, and 11 AAC 83.385.

In anticipation of this application, ConocoPhillips, together with Pioneer Natural Resources Alaska, Inc., provided the Division of Oil and Gas confidential copies of the Production Processing and Services Agreement under cover of a letter dated April 1, 2008. By reference to that letter, we reiterate our request that the Division of Oil and Gas maintain the confidentiality of that commercial agreement provided in connection with this application under AS 38.05.035 and other law.

Since April, ConocoPhillips has worked with Temple Davidson of your staff to develop this Second Amendment, and we have appreciated her help. We trust that preliminary work will enable timely approval of the Second Amendment so that processing of Oooguruk Production in Kuparuk River Unit facilities can begin without delay.

Sincerely,



Helene E. Harding

Attachment - 1

cc KRU WIO Committee w/Attachment:

Bud Fackrell, BP Exploration (Alaska) Inc.

Glenn Fredrick, Chevron U.S.A. Inc. - Union Oil Company

Craig Haymes, ExxonMobil Production, Inc.

**Second Amendment to
Kuparuk River Unit Agreement**

WHEREAS, the Kuparuk River Unit Agreement was entered into as of December 1, 1981, and has been amended once, effective March 1, 1985;

WHEREAS, the Working Interest Owners in the Kuparuk River Unit now wish to amend the Kuparuk River Unit Agreement to expressly authorize use of the Unit Area to process production from outside the Unit Area, and to support non-Kuparuk River Unit oil and gas development and related activities; and

WHEREAS, the Commissioner of the Alaska Department of Natural Resources, or the Commissioner's delegate ("the Commissioner"), wishes to approve this Second Amendment to the Kuparuk River Unit Agreement ("Second Amendment");

NOW, THEREFORE, it is agreed by the undersigned Working Interest Owners, and approved by the Commissioner in a separate document, that the Kuparuk River Unit Agreement is amended as follows:

1. Page 8, Article 3, is amended by adding a new section to read:

Section 3.9 Support for Non-Kuparuk River Unit Development. In addition to other uses authorized under the leases and this Agreement, the Working Interest Owners, and Unit Operator on their behalf, may use the Unit Area to: (1) gather, process, inject, store and dispose of oil and gas and associated substances produced from the Oooguruk Unit; and (2) provide fuel, gas, water, electrical power; and commercial services in support of non-Kuparuk River Unit oil and gas development and related activities, subject to the Commissioner's power to revoke authorization under this clause (2) by providing the KRU Operator one year's notice in writing of the specific activities for which authorization is revoked and the reason or reasons for the revocation. This section 3.9 does not relieve the Unit Operator of the obligation to obtain permits required by law or regulation.

2. The Kuparuk River Unit Agreement remains in full force and effect, modified by this Second Amendment only as expressly provided in the preceding paragraph 1.
3. Capitalized terms in this Second Amendment that are not defined herein have the same meaning given those terms in the Kuparuk River Unit Agreement.
4. This Second Amendment may be executed in several counterparts, all of which together shall constitute one original agreement.

5. After execution by all Kuparuk River Unit Working Interest Owners, this Second Amendment becomes effective upon approval by the Commissioner, and binds all parties to the Kuparuk River Unit Agreement, their successors and assigns.

IN WITNESS WHEREOF, the Kuparuk River Unit Working Interest Owners have executed this Second Amendment as of the date opposite their respective signatures.

Date: June 2, 2008

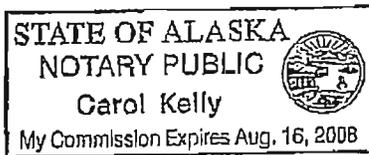
ConocoPhillips Alaska, Inc.

By: Helene E. Harding
Printed Name: HELENE E. HARDING J.K.G.
Title: V.P. N-SLOPE OPERATIONS AND DEVELOPMENT
Address: 100 G. STREET
ANCHORAGE, AK 99501-0360

STATE OF Alaska)
3RD) ss
Judicial District)

THIS IS TO CERTIFY that on this 2 day of June, 2008, before me, the undersigned, a Notary Public in and for the State of Alaska, duly commissioned and sworn, personally appeared HELENE E. HARDING to me known to be VICE PRESIDENT (title) of CONOCO PHILLIPS (corporation name), a corporation, the corporation which executed the above and foregoing instrument; and who on oath stated that he/she was duly authorized to execute said instrument, and who acknowledged to me that he/she signed the same freely and voluntarily on behalf of said corporation for the uses and purposes therein mentioned.

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



Carol Kelly
Notary Public, State of Alaska
My commission expires: Aug. 16, 2008

Date: June 3, 2008

BP Exploration (Alaska) Inc.

cc: By: Donald J. Dunham, III
Printed Name: Donald J. Dunham, III
Title: Attorney-in-Fact
Address: 900 E. Benson Blvd,
Anchorage, AK 99508

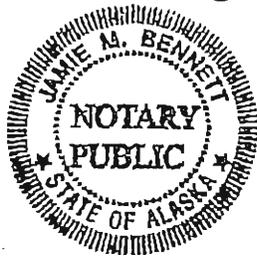
STATE OF Alaska)
3rd Judicial District) SS

THIS IS TO CERTIFY that on this 3 day of June, 2008, before me, the undersigned, a Notary Public in and for the State of Alaska, duly commissioned and sworn, personally appeared _____ to me known to be Attorney-in-Fact (title) of BP Exploration (Alaska) Inc. (corporation name), a corporation, the corporation which executed the above and foregoing instrument; and who on oath stated that he/she was duly authorized to execute said instrument, and who acknowledged to me that he/she signed the same freely and voluntarily on behalf of said corporation for the uses and purposes therein mentioned.

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

Jamie M. Bennett
Notary Public, State of Alaska
My commission expires: _____

My Commission Expires
February 7, 2009



Date: 6/3/08

Union Oil Company of California

By: [Signature]

Printed Name: Kevin A. Tabler

Title: Attorney-in-Fact

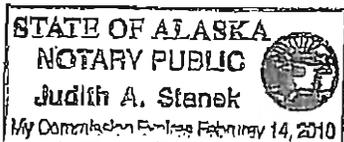
Address: P.O. Box 196247

Anchorage, AK 99519-6247

STATE OF Alaska)
) ss
Third Judicial District)

THIS IS TO CERTIFY that on this 3rd day of June, 2008, before me, the undersigned, a Notary Public in and for the State of Alaska, duly commissioned and sworn, personally appeared Kevin A. Tabler to me known to be Attorney-in-fact (title) of Union Oil Company of California (corporation name), a corporation, the corporation which executed the above (and) foregoing instrument; and who on oath stated that he/she was duly authorized to execute said instrument, and who acknowledged to me that he/she signed the same freely and voluntarily on behalf of said corporation for the uses and purposes therein mentioned.

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



[Signature]
Notary Public, State of: Alaska
My commission expires: 2-14-10

Date: 6/5/08

ExxonMobil Alaska Production Inc.

By: [Signature]
Printed Name: CRAG SUMMERS
Title: ALASKA REGIONAL MANAGER
Address: 3301 C Street, Suite 400
Anchorage, AK 99515

STATE OF Alaska)
) ss
)

THIS IS TO CERTIFY that on this 5 day of June, 2008, before me, the undersigned, a Notary Public in and for the State of Alaska, duly commissioned and sworn, personally appeared CRAG A. SUMMERS to me known to be ALASKA PRODUCTION MANAGER of ExxonMobil Alaska Production, Inc. (corporation name), a corporation, the corporation which executed the above and foregoing instrument; and who on oath stated that he/she was duly authorized to execute said instrument, and who acknowledged to me that he/she signed the same freely and voluntarily on behalf of said corporation for the uses and purposes therein mentioned.

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



[Signature]
Notary Public, State of Alaska
My commission expires: Dec 19, 2010

ATTACHMENT TWO

June 5, 2008, letter approving the Second Amendment to the Kuparuk River Unit Agreement

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL & GAS

SARAH PALIN, GOVERNOR

550 WEST 7TH AVENUE, SUITE 800
ANCHORAGE, ALASKA 99501-3560
PHONE: (907) 269-8800
FAX: (907) 269-8938

**CERTIFIED MAIL
RETURN RECEIPT REQUESTED**

June 5, 2008

Helene Harding
Vice President
North Slope Operations and Development, Alaska
ConocoPhillips Alaska, Inc.
P.O. Box 100360 – Suite ATO 1482
Anchorage, Alaska 99501-0360

Subject: Second Amendment to Kuparuk River Unit Agreement, Addition of Section 3.9
Support for Non-Kuparuk River Unit Development

Dear Ms. Harding,

On June 5, 2008, the State of Alaska Department of Natural Resources (DNR), Division of Oil and Gas (Division) received a request from ConocoPhillips Alaska, Inc. (CPAI) as Kuparuk River Unit (KRU) Operator for approval of a proposed Second Amendment to the Kuparuk River Unit Agreement (KRUA). According to ConocoPhillips, this Second Amendment supports facility sharing on the North Slope, and is a condition precedent to processing Oooguruk Unit production in Kuparuk facilities under the Production Processing and Services Agreement among the working interest owners in the Oooguruk Unit and the Kuparuk River Unit.

By delegation of the authority of the Commissioner of DNR to the Division Director, the 2nd Amendment to the KRUA, which adds the following Section 3.9 to the KRUA, is approved.

Section 3.9 Support for Non-Kuparuk River Unit Development.

In addition to other uses authorized under the leases and this Agreement, the Working Interest Owners, and Unit Operator on their behalf, may use the Unit Area to: (1) gather, process, inject, store and dispose of oil and gas and associated substances produced from the Oooguruk Unit; and (2) provide fuel, gas, water, electrical power, and commercial services in support of non-Kuparuk River Unit oil and gas development and related activities, subject to the Commissioner's power to revoke authorization under this clause (2) by providing the KRU Operator one year's notice in

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

writing of the specific activities for which authorization is revoked and the reason or reasons for the revocation. This section 3.9 does not relieve the Unit Operator of the obligation to obtain permits required by law or regulation.

If you have any questions regarding this decision, contact Temple Davidson with the Division at 907-269-8784.

Sincerely,

A large, stylized handwritten signature in black ink, appearing to read "Kevin R. Banks".

for

Kevin R. Banks
Acting Director

Cc: Richard Todd, DOL