

KUPARUK RIVER UNIT

APPROVAL OF THE THIRD 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

TABLE OF CONTENTS

I.	INTRODUCTION, BACKGROUND, AND DECISION SUMMARY	Page 3
II.	DISCUSSION OF DECISION CRITERIA	Page 3
A.	Decision Criteria Considered Under 11 AAC 83.303(b)	
1.	The Environmental Costs and Benefits of Unitized Exploration and Development	
2.	Geologic and Engineering Characteristics	
3.	Plan of Development	
4.	The Economic Costs and Benefits to the State and Other Relevant Factors	
B.	Decision Criteria Considered Under 11 AAC 83.303(a)	
1.	Promote the Conservation of All Natural Resources	
2.	The Prevention of Economic and Physical Waste	
3.	The Protection of All Parties of Interest, Including the State	
III.	FINDINGS AND DECISION	Page 6
IV.	ATTACHMENTS	Page 7
1.	Request for Approval of the Third Amendment to the Kuparuk River Unit Agreement	
2.	March 31, 2009, letter approving the Third Amendment to the Kuparuk River Unit Agreement	

I. INTRODUCTION AND DECISION SUMMARY

The State of Alaska, Department of Natural Resources (DNR), Division of Oil and Gas (Division) requested that the Kuparuk River Unit (KRU) Working Interest Owners (KRU WIOs) amend the Kuparuk River Unit Agreement (KRU Agreement) to provide for a 90 day notice period for the State to take its royalty in kind. Section 7.7 of the currently approved KRU Agreement provides for a 180 day notice.

By letter dated March 3, 2009, attached, ConocoPhillips Alaska, Inc. (CPAI), as Operator of the KRU, submitted the requested revised language for Section 7.7 of the KRU Agreement.

The amendment was approved by the Division by letter dated March 31, 2009 under 11 AAC 83.385 and Section 18.1 of the KRUA. 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 3rd 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.

II. DISCUSSION OF DECISION CRITERIA

AS 38.05.180(p) gives DNR the authority to approve an oil and gas unit. DNR approved the KRU effective December 1, 1981. The Commissioner of DNR (Commissioner) reviews unit agreement modifications under 11 AAC 83.385, subject to the criteria specified in 11 AAC 83.303. 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

The 3rd Amendment does nothing more than revise the notice period for royalty-in-kind to change the royalty accounting functions and therefore has no environmental impact.

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

Approval of the 3rd Amendment as no impact on the Division's prior consideration of the geologic and engineering characteristics of the participating areas and unit tract operations. Although approval of the 3rd Amendment relates to production from existing,

approved participating areas and unit tract operations, it has no impact on the existing, approved participating areas and unit tract operations because it does nothing more than revise the notice period for royalty-in-kind to change the royalty accounting functions. The Division has previously considered the geologic and engineering characteristics and development activities in its approvals of the KRU and KRU participating areas.

3. Plans of Exploration and Development

Approval of the 3rd Amendment relates to production from existing, approved participating areas and unit tract operations, it has no impact on the existing, approved participating areas and unit tract operations because it does nothing more than revise the notice period for royalty-in-kind to change the royalty accounting functions. The Division has previously considered and approved the plans of development for the KRU.

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

The State may take its royalty in kind rather than in money if the taking in kind would be in the best interest of the State. Royalties must be taken in kind unless the commissioner determines that taking in money (value) would be in the best interest of the State. AS 38.05.182.

During the calendar year of 2008, the State took RIK oil from five units on the North Slope: Prudhoe Bay, Kuparuk River, Milne Point, Colville River, and Duck Island. Kuparuk, Duck Island, and Milne Point unit agreements specify a 180 day nomination period. Colville River and Prudhoe Bay require 90 day RIK notice. Similar amendments to the Duck Island and Milne Point unit agreements are under consideration. Approval of the 3rd Amendment to the KRU Agreement will promote greater efficiency with regard to evaluation of all North Slope units for RIK nomination by allowing the Division to evaluate all units simultaneously, instead of piecemeal nomination at different times from different units.

Volumes available for RIK nominations from each unit fluctuate throughout the year. Volumes may increase due to new development and enhanced recovery projects or improved well performance, and may decrease due to field decline rates or facilities maintenance programs which shut in of producing wells for a time. Assessment of available RIK volumes at 90 days in advance rather than 180 days in advance allows the State to conduct the nomination selections with more current production information. When all units have a 90 day notice period, the State will have the ability to more accurately analyze the value of taking in kind versus taking in value.

Approval of the 3rd Amendment will provide administrative and economic benefits to the State. The majority of producing units operate under unit agreements which provide for a 90 day nomination period. The administrative burden of RIK nominations will be less

if all unit agreements provide for the same RIK nomination period. The State will benefit from more current information and a consistent schedule for RIK nomination.

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 each unit and participating area. The 3rd Amendment has no impact on the current status of the KRU under this criterion.

2. The Prevention of Economic and Physical Waste

The Division considered the prevention of economic and physical waste during the approval of each unit and participating area. Approval of the 3rd Amendment prevents economic waste by minimizing the administrative burden of the State's RIK nomination process and optimizing selection of the source of RIK. The 3rd Amendment has no impact on physical waste.

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

The KRU WIO's have ratified the 3rd Amendment to the KRU Agreement. This decision provides for appeal under 11 AAC 02.040(c) and (d). The State initiated the adoption of the 3rd Amendment to better protect its interest in having accurate information upon which to base its royalty-in-kind decisions.

III. FINDINGS AND DECISION

A. The Conservation of All Natural Resources

1. The approval of the 3rd Amendment has no impact on the Division's previous findings regarding conservation of all natural resources, including hydrocarbons, gravel, sand, water, wetlands, and valuable habitat.

B. The Prevention of Economic and Physical Waste

1. Approval of the 3rd Amendment optimizes the State's RIK nomination process and has no impact on the Division's previous findings regarding prevention of physical waste.

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

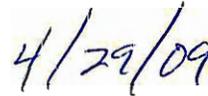
1. The 3rd Amendment adequately and equitably protects the public interest, and is in the State's best interest.

For the reasons discussed in this Findings and Decision, I hereby approve the 3rd Amendment to the KRU Agreement effective April 29, 2009.

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



Date

IV. ATTACHMENTS

1. Third Amendment to the Kuparuk River Unit Agreement
2. March 31, 2009, letter approving the Third Amendment to the Kuparuk River Unit Agreement

ATTACHMENT ONE

Third Amendment to the Kuparuk River Unit Agreement



Paul K. Wharton
Staff Landman

P.O. Box 100360 – Suite ATO 1482
Anchorage, Alaska 99510-0360
Phone (907) 263-4078
Fax (907) 263-4888
Paul.K.Wharton@conocophillips.com

March 3, 2009

Via Hand Delivery:

Tom Irwin, Commissioner
Alaska Department of Natural Resources
Office of the Commissioner
550 W. 7th Avenue, Suite 1400
Anchorage, Alaska 99501

RECEIVED

MAR 03 2009

**DIVISION OF
OIL AND GAS**

3rd Amendment to the Kuparuk River Unit Agreement

Dear Commissioner:

Herewith is the 3rd Amendment to the Kuparuk River Unit Agreement executed by all of the Kuparuk River Unit Working Interest Owners. This amendment will become effective upon your approval thereof.

Very truly yours,


Paul K. Wharton
Staff Landman

cc: Helene E. Harding
Courtney Jines
D.J. Dunham (Don), BP Exploration (Alaska) Inc.
G.C. Frederick (Glenn), Chevron U.S.A. Inc. – Union Oil Company of California
C. A. Haymes (Craig), ExxonMobil Alaska Production Inc.
Kevin Banks, Acting Director, Division of Oil and Gas

**THIRD AMENDMENT TO
THE KUPARUK RIVER UNIT AGREEMENT**

This Third Amendment to the Kuparuk River Unit Agreement ("Third Amendment") is entered into by and among the Working Interest Owners of the Kuparuk River Unit, effective as of the date approved by the Commissioner, Department of Natural Resources.

WHEREAS, the Kuparuk River Unit Working Interest Owners have been requested by the State of Alaska Department of Natural Resources to amend the Kuparuk River Unit Agreement to provide for a 90 day notice period for the State to take its royalty in kind; and

WHEREAS, each Kuparuk River Unit Working Interest Owner has agreed in its individual royalty settlement agreement with the State of Alaska to support such an amendment.

NOW, THEREFORE, the parties agree as follows:

1. Section 7.7 of the Kuparuk River Unit Agreement is amended to read as follows:

7.7 State's Taking Royalty in Kind. Notwithstanding any provision in the several State leases which may require the State to elect to take in kind all or none of its royalty oil and/or gas allocated under this Agreement to those leases, it is expressly agreed that upon 90 days advance written notice to Unit Operator the State may elect (nominate) to take in kind all or a specified percentage of its royalty oil and/or gas from the Unit Area. While the State is taking some or all of its royalty in kind, the amount taken in kind may be decreased by not more than 2,500 barrels from the then current nomination upon 30 days advance written notice to Unit Operator. The State may make only one decrease in nomination during the 90-day notice period. For the purposes of this Article, the "then current nomination" shall be the amount of royalty oil actually taken in kind by the State, in barrels, on the day immediately prior to the date of the State's notice to decrease such amounts. All royalty taken in kind by the State shall be deducted from the royalty oil and/or gas which, during the particular accounting period, otherwise would have been allocated under the provisions of this Agreement to the several Working Interest Owners for settlement, in the same proportions as the total royalty oil and/or gas would have been so allocated in the absence of the taking in kind by the State.

2. All other provisions and terms of the Kuparuk River Unit Agreement remain in effect, unchanged.

3. This Third Amendment may be executed in several counterparts, each of which so executed shall be deemed to be an original, and the execution of such counterparts shall have the same effect as if all the parties had signed the same instrument.

4. Pursuant to Section 18.1 of the Kuparuk River Unit Agreement, this Third Amendment to the Kuparuk River Unit Agreement is effective upon approval by each Kuparuk River Unit Working Interest Owner and the Commissioner, Department of Natural Resources, State of Alaska.

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

Date: October 16, 2008

ConocoPhillips Alaska, Inc.

By: Helene E. Harding
Printed Name: HELENE E. HARDING
Title: VP NORTH SLOPE OCS DEVL.
Address: _____

STATE OF Alaska)
3rd Judicial District) ss

THIS IS TO CERTIFY that on this 16 day of October, 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 VP, NORTH SLOPE CREATIONS (title) of CONOCOPHILLIPS ALASKA (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 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, 2012

Third Amendment to the Kuparuk River Unit Agreement

Date: 1/30/2009

BP Exploration (Alaska) Inc.

By: [Signature]
Printed Name: Donald W. Dunham, III
Title: Attorney-in-Fact
Address: 900 E. Benson Blvd
Anchorage, AK 99508

AK
198
198

STATE OF Alaska)
3rd District) ss

THIS IS TO CERTIFY that on this 30 day of January, 2009, before me, the undersigned, a Notary Public in and for the State of Alaska, duly commissioned and sworn, personally appeared Donald W. Dunham to me known to be Attorney-in-Fact (title) of BP Exploration Alaska (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: 10/18/2012

Date: _____

Union Oil Company of California

By: _____
Printed Name: _____
Title: _____
Address: _____

STATE OF _____)
_____) ss
_____)

THIS IS TO CERTIFY that on this ___ day of _____, 2008, before me, the undersigned, a Notary Public in and for the State of _____, duly commissioned and sworn, personally appeared _____ to me known to be

Third Amendment to the Kuparuk River Unit Agreement

Date: _____

BP Exploration (Alaska) Inc.

By: _____

Printed Name: _____

Title: _____

Address: _____

STATE OF _____)
) ss
)

THIS IS TO CERTIFY that on this ___ day of _____, 2008, before me, the undersigned, a Notary Public in and for the State of _____, duly commissioned and sworn, personally appeared _____ to me known to be _____ (title) of _____ (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.

Notary Public, State of _____

My commission expires: _____

Date: January 30, 2009

Union Oil Company of California

By: [Signature]

Printed Name: Glen Fredrick

Title: KRU Unit Representative

Address: _____

STATE OF ALASKA)
3rd Judicial District) ss

THIS IS TO CERTIFY that on this 30th day of January, 2009, before me, the undersigned, a Notary Public in and for the State of Alaska, duly commissioned and sworn, personally appeared Glen Fredrick to me known to be

Third Amendment to the Kuparuk River Unit Agreement

_____ (title) of _____ (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.

Notary Public, State of _____
My commission expires: _____

Date: 11-26-2008

ExxonMobil Alaska Production Inc.

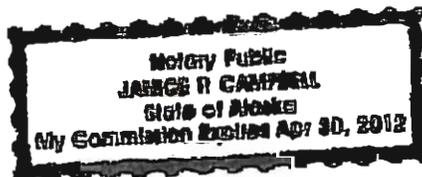
By: [Signature]
Printed Name: Greg G. Peters
Title: Operations Technical Manager
Address: 3301 P. Street Suite 400
Pr. George AK 99503

STATE OF Alaska)
) ss
Municipality of Anchorage)

THIS IS TO CERTIFY that on this 26 day of November, 2008, before me, the undersigned, a Notary Public in and for the State of Alaska, duly commissioned and sworn, personally appeared Greg G. Peters to me known to be Operations Technical Manager (title) 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.

Janice P. Campbell
Notary Public, State of Alaska
My commission expires: Apr. 30, 2012



ATTACHMENT TWO

March 31, 2009, letter approving the Third Amendment to the Kuparuk River Unit Agreement

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

SARAH PALIN, GOVERNOR

- P.O. BOX 111000
JUNEAU, ALASKA 99811-1000
PHONE: (907) 465-2400
FAX: (907) 465-3886
- 550 WEST 7TH AVENUE, SUITE 1400
ANCHORAGE, ALASKA 99501-3650
PHONE: (907) 269-8431
FAX: (907) 269-8918

March 31, 2009

Paul K. Wharton
Staff Landman
ConocoPhillips Alaska, Inc.
P.O. Box 100360 – Suite ATO 1482
Anchorage, Alaska 99501-0360

Subject: Third Amendment to the Kuparuk River Unit Agreement

Dear Mr. Wharton,

The State of Alaska, Department of Natural Resources (DNR), Division of Oil and Gas (Division) requested that the Kuparuk River Unit (KRU) Working Interest Owners (KRU WIOs) amend the Kuparuk River Unit Agreement (KRU Agreement) to provide for a 90 day notice period for the State to take its royalty in kind. Section 7.7 of the currently approved KRU Agreement provides for a 180 day notice.

By letter dated March 3, 2009, attached, ConocoPhillips Alaska, Inc. (CPAD), as Operator of the KRU, submitted the following revised language for Section 7.7 of the KRU Agreement:

Section 7.7 State's Taking Royalty in Kind. Notwithstanding any provision in the several State leases which may require the State to elect to take in kind all or none of its royalty oil and/or gas allocated under this Agreement to those leases, it is expressly agreed that upon 90 days advance written notice to Unit Operator the State may elect (nominate) to take in kind all or a specified percentage of its royalty oil and/or gas from the Unit Area. While the State is taking some or all of its royalty in kind, the amount taken in kind may be decreased by not more than 2,500 barrels from the then current nomination upon 30 days advance written notice to Unit Operator. The State may make only one decrease in nomination during the 90-day notice period. For the purposes of this Article, the "then current nomination" shall be the amount of royalty oil actually taken in kind by the State, in barrels, on the day immediately prior to the date of the State's notice to decrease such amounts. All royalty taken in kind by the State shall be deducted from the royalty oil and/or gas which, during the particular

Mr. Paul K. Wharton
March 31, 2009
Page 2 of 2

accounting period, otherwise would have been allocated under the provisions of this Agreement to the several Working Interest Owners for settlement, in the same proportions as the total royalty oil and/or gas would have been so allocated in the absence of the taking in kind by the State.

All other provisions and terms of the KRU Agreement remain in effect, unchanged.

Under Section 18.1 of the KRU Agreement, and 11 AAC 83.385, this amendment requires written approval by each KRU WIO and the Commissioner of the DNR. In order that the Division may immediately commence nomination of royalty in kind under the amended notice period, I approve the 3rd KRU Amendment effective March 31, 2009. A written finding under 11 AAC 83.303 (a) and (b) will follow.

Sincerely,

A handwritten signature in black ink, appearing to read 'T. Irwin', with a long horizontal flourish extending to the right.

Thomas E. Irwin
Commissioner