

DUCK ISLAND UNIT

APPROVAL OF THE FOURTH AMENDMENT TO THE DUCK ISLAND
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

FEBRUARY 16, 2010

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 to Amend the Duck Island 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 Duck Island Unit (DIU) Working Interest Owners (WIOs) amend the Duck Island Unit Agreement (DIU Agreement) to provide for a 90-day notice period for the State to take its royalty-in-kind (Amendment). Section 14 of the DIU Agreement does not provide a notice period.

By letter dated December 21, 2009, attached, BP Exploration (Alaska) Inc. (BPXA), as Operator of the DIU, submitted the requested revised language for Section 14 of the DIU Agreement.

This Approval constitutes the written findings and decision required under 11 AAC 83.303. The Division finds that approval of the 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 oil and gas unit agreements. DNR approved the DIU Agreement effective August 21, 1978. Modifications to a unit agreement are subject to the approval of the Commissioner of DNR (Commissioner) under 11 AAC 83.385, considering 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 Amendment does nothing more than revise the notice period for taking royalty-in-kind and therefore has no environmental impact.

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

Approval of the Amendment has 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 Amendment relates to production from existing approved participating areas and unit tract operations, it has no impact on these existing areas and operations because it does nothing more than revise the notice period for taking

royalty-in-kind. The Division has previously considered the geologic and engineering characteristics and development activities in its approvals of the DIU and DIU participating areas.

3. Plans of Exploration and Development

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

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 would be in the best interest of the State. AS 38.05.182.

During the 2008 calendar year, the State took royalty-in-kind oil from five units on the North Slope: Prudhoe Bay, Kuparuk River, Milne Point, Colville River, and Duck Island. The DIU Agreement does not specify any nomination period. The Kuparuk River Unit and Milne Point Unit Agreements have been amended to specify a 90-day royalty-in-kind notice. These two units previously specified 180-day nomination periods. Approval of the Amendment will promote greater efficiency with regard to evaluation of these North Slope units for royalty-in-kind nominations by allowing the Division to evaluate units simultaneously instead of piecemeal nominations at different times from different units.

Volumes available for royalty-in-kind 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 that shut-in producing wells for a time. Assessment of available royalty-in-kind volumes 90 days in advance, rather than 180 days in advance, for example, 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 money.

Approval of the Amendment will provide administrative and economic benefits to the State. The majority of producing units operate under unit agreements that provide for a 90-day nomination periods. The administrative burden associated with royalty-in-kind nominations will be lessened if all unit agreements provide for the same nomination period. The State will benefit from more current information and a consistent schedule for royalty-in-kind nominations.

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 Amendment has no impact on the current status of the DIU 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 Amendment prevents economic waste by minimizing the administrative burden associated with the nomination process and optimizes selection of the royalty-in-kind source. The Amendment has no impact on physical waste.

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

The DIU WIOs have ratified the Amendment. This decision is appealable under 11 AAC 02. The State initiated the adoption of the 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 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 Amendment optimizes the State's royalty-in-kind 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 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 4th Amendment to the DIU Agreement effective January 1, 2010.

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

2-16-2010

Date

IV. ATTACHMENTS

1. Request for Approval to Amend the Duck Island Unit Agreement

ATTACHMENT ONE

Request for Approval to Amend the Duck Island Unit Agreement



David J. Szabo

Head of Resource Management
Alaska Consolidated Team (ACT)



BP Exploration (Alaska) Inc.
900 East Benson Boulevard
PO Box 196612
Anchorage, AK 99519-6612
(907) 564-5111

DEC 23 2009

December 21, 2009

STATE OF ALASKA
DIVISION OF OIL & GAS

Phone: (907) 564-4788
Fax: (907) 564-4440
Email: SzaboDJ@bp.com
Web: www.bp.com

Mr. Kevin Banks, Acting Director
Division of Oil & Gas
State of Alaska, Dept. of Natural Resources
550 West 7th Avenue, Suite 800
Anchorage, AK 99501

RE: Duck Island Unit Agreement

Dear Mr. Banks:

BP, as Unit Operator of the Duck Island Unit (DIU), on behalf of its self and Working Interest Owners; Exxon Mobil Alaska Production Inc., Union Oil Company of California, Nana Regional Corporation, Doyon Limited, and ConocoPhillips Alaska Inc., hereby submit for approval by the Department of Natural Resources a fully executed original of an Amendment to the Duck Island Unit Agreement. Should you have any questions, concerning the submittal of the enclosed DIUA, contact the undersigned at (907) 564-4788.

Sincerely,

David J. Szabo

Attachment

Mr. Kevin Banks
Duck Island Unit Agreement
Page 2

Cc: Dale Pittman – Exxon Mobil Alaska Production Inc.
Glenn Fredrick – Union Oil Company of California
Jim Mendenhall – NANA Regional Corporation, Inc.
Toby Osborne – Doyon, Limited
Dan Kruse – ConocoPhillips Alaska, Inc.

AMENDMENT TO
THE DUCK ISLAND UNIT AGREEMENT

Pursuant to certain royalty settlement agreements between one or more of the working interest owners of the Duck Island Unit, the Department of Natural Resources, State of Alaska, has certain rights to take its royalty share of unitized substances from the Duck Island Unit in kind upon 90 days advance written notice to Unit Operator.

The State has requested that the Duck Island Unit working interest owners amend the Duck Island Unit Agreement in order to implement the terms of the royalty take in kind provisions in the royalty settlement agreements.

Therefore the parties agree:

1. Amendment of Unit Agreement. Section 14 of the Duck Island Unit Agreement is amended by adding the following paragraph to the end of the section:

Notwithstanding any provision in the leases or contracts relating to the unitized land, or any other provision contained in this Unit Agreement, if the State exercises its option to take in kind its royalty share of unitized substances, the State must exercise its option for the entire unit area so that the State's royalty in kind election applies on a prorata basis (based on ownership interests in the unit) to all production from the unit. The State shall give Unit Operator 90 days advance written notice of its election, specifying the percentage or volume of unitized substances that the State elects to take in kind. After taking has actually commenced, the State may increase or decrease the amount to be taken in kind from time to time in accordance with the procedures set forth in 11 AAC 03.015 as of August 2009. Elections to take in kind, or to increase or decrease takes, will be effective on the first day of the calendar month following the end of the applicable notice period.

2. Unit Agreement Remains in Effect. All other provisions of the Duck Island Unit Agreement, as amended, remain in effect.
3. Counterpart Execution. This amendment may be executed in multiple counterparts, each of which will constitute an original of this amendment, but all of which together will constitute but one and the same instrument.
4. Effective Date. This Amendment to the Duck Island Unit Agreement is effective upon execution by each of the Duck Island Unit working interest owners and approval by the Commissioner of the Department of Natural Resources of the State of Alaska.

Executed by the Duck Island Unit working interest owners on the dates indicated below.

Date: 12/16/2009.

BP EXPLORATION (ALASKA) INC.

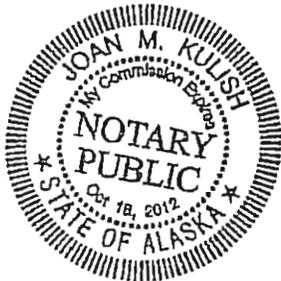
By: [Signature]
Name: TOM MARSHALL
Title: Attorney in Fact

STATE OF ALASKA

3RD JUDICIAL DISTRICT

The foregoing instrument was acknowledged before me this 16 day of December 2009, by Thomas V. Marshall, Attorney in Fact of BP EXPLORATION (ALASKA) INC., a Delaware corporation, on behalf of the corporation.

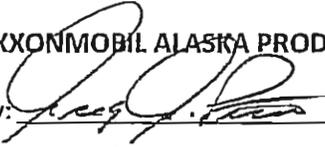
[Signature]
Notary Public, State of Alaska
My Commission Expires: 10/18/2012



Executed by the Duck Island Unit working interest owners on the dates indicated below.

Date: 9/17/09

EXXONMOBIL ALASKA PRODUCTION INC.

By: 

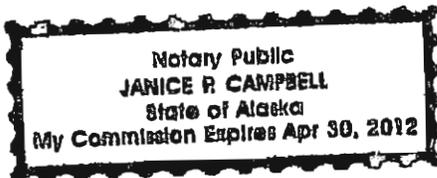
Name: Greg G. Peters

Title: Vice President

STATE OF ALASKA

3RD JUDICIAL DISTRICT

The foregoing instrument was acknowledged before me this 17th day of Sept., 2009,
by Greg G. Peters, Vice President, of EXXONMOBIL ALASKA PRODUCTION INC., a
Delaware corporation, on behalf of the corporation.



Janice P. Campbell
Notary Public, State of Alaska
My Commission Expires: 4-30-2012

Executed by the Duck Island Unit working interest owners on the dates indicated below.

UNION OIL COMPANY OF CALIFORNIA

Date: November 3, 2009

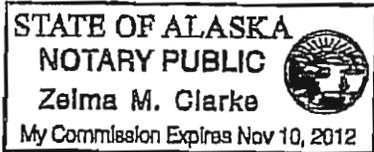
By: *Kevin A. Tabler*

Name: KEVIN A. TABLER

Title: Attorney In Fact

STATE OF ALASKA)
) ss.
3RD JUDICIAL DISTRICT)

The foregoing instrument was acknowledged before me this 3rd day of November, 2009, by Kevin A. Tabler, Attorney in Fact of Union Company of California, a California corporation, on behalf of the corporation.



Zeima M. Clarke
Notary Public, State of Alaska
My Commission Expires: 11/10/12

Executed by the Duck Island Unit working interest owners on the dates indicated below.

NANA Regional Corporation.

Date: 9/14/2009

By: Kevin E. Thomas

Name: KEVIN E. THOMAS

Title: CFO

STATE OF ALASKA

3RD JUDICIAL DISTRICT

The foregoing instrument was acknowledged before me this 14th day of Sept, 2009,
by Kevin Thomas, Vice President / CFO on
behalf of NANA Regional Corporation.



Angela R. Snyder
Notary Public, State of Alaska
My Commission Expires: Dec 03, 2009

Executed by the Duck Island Unit working interest owners on the dates indicated below.

Date: 12/10/09
By: Doyon, Limited
BP EXPLORATION (ALASKA) INC.
Name: Daniel Osborn
Title: SVP/CFD

STATE OF ALASKA

3RD JUDICIAL DISTRICT

The foregoing instrument was acknowledged before me this 10th day of December, 2009,
by Daniel S. Osborn, Senior Vice President of Doyon, Limited, an Alaska corporation,
on behalf of the corporation.

Jennifer Maguire

Notary Public, State of Alaska

My Commission Expires: 2/5/2013



Executed by the Duck Island Unit working interest owners on the dates indicated below.

CONOCOPHILLIPS ALASKA INC.

Date: 12/14/09

By: Dan Kruse JKG

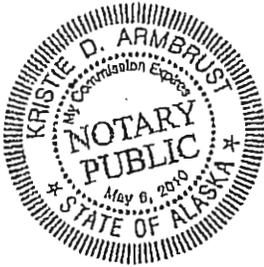
Name: DAN KRUSE

Title: Endicott WIO Rep.

STATE OF ALASKA

3RD JUDICIAL DISTRICT

The foregoing instrument was acknowledged before me this 14th day of December, 2009,
by Dan Kruse of ConocoPhillips Alaska Inc,
a Delaware corporation, on behalf of the corporation.



Kristie D. Armbrust

Notary Public, State of Alaska

My Commission Expires: 5/6/2010