

PRUDHOE BAY UNIT

APPROVAL OF THE FIRST EXPANSION OF THE ORION PARTICIPATING AREA

FINDINGS AND DECISION OF THE DIRECTOR

DIVISION OF OIL AND GAS

UNDER DELEGATION OF AUTHORITY FROM THE COMMISSIONER

DEPARTMENT OF NATURAL RESOURCES

STATE OF ALASKA

September 13, 2010

TABLE OF CONTENTS

I.	DECISION SUMMARY.....	3
II.	INTRODUCTION AND BACKGROUND.....	3
III.	REQUEST FOR FINAL APPROVAL OF THE ORION PA EXPANSION.....	4
IV.	DISCUSSION OF DECISION CRITERIA.....	4
A.	Decision Criteria considered under 11 AAC 83.303(b).....	4
1.	Environmental costs and benefits of unitized exploration and development	
2.	Geologic and engineering characteristics of, and prior exploration activities in, the proposed expanded participating area	
3.	Applicant’s plan for development of the Orion Participating Area	
4.	Economic costs and benefits to the State and other relevant factors	
B.	Decision Criteria Considered under 11 AAC 83.303(a).....	6
1.	Promote the conservation of all natural resources	
2.	Promote the prevention of economic and physical waste	
3.	Provide for the protection of all parties	
V.	FINDINGS AND DECISION.....	7
VI.	ATTACHMENTS.....	8
1.	Lease Map of Expanded Orion PA/PBU	
2.	Amended Orion Participations and Tract Allocations after L-223i	
3.	Request for the Expansion of the Prudhoe Bay Unit and Orion Participating Area	

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FIRST EXPANSION OF THE ORION PARTICIPATING AREA

I. DECISION SUMMARY

On June 17, 2010, BP Exploration (Alaska) Inc. (BPXA), as Operator of the Prudhoe Bay Unit (PBU), on behalf of itself and the other PBU Working Interest Owners (WIOs), Chevron U.S.A. Inc. (Chevron), ConocoPhillips Alaska, Inc. (ConocoPhillips), and ExxonMobil Alaska Production Inc. (ExxonMobil), requested final approval of the PBU expansion and approval of the first expansion of the Orion Participating Area (Orion PA) (Request).

For the reasons set out in this Findings and Decision, the Division approves the first expansion of the Orion PA. The Division approved the PBU expansion in its February 18, 2009 Findings and Decision. See Attachment 1, Lease Map of Expanded OPA/PBU. The Orion PA is expanded to include ADL 390067 because the acreage is “reasonably estimated through use of geological, geophysical, or engineering data to be capable of producing or contributing to production of hydrocarbons in paying quantities.” 11 AAC 83.351(c). The Division also approves the tract participation and allocation schedule for the expanded Orion PA, submitted by BPXA with its request. See Attachment 2, Amended Orion Participations and Tract Allocations after L-223i (Request, Attachment 3).

II. INTRODUCTION AND BACKGROUND

On May 21, 2004, BPXA, on behalf of itself and the other PBU WIOs, submitted an Application for Enlargement of the Prudhoe Bay Unit and Expansion of the Orion Participating Area to the Division. On June 10, 2004, the Division requested additional information under 11 AAC 83.306. BPXA did not respond to this request and the Division did not process the application.

On August 5, 2008, BPXA submitted an updated Application to Expand the Orion PA and the PBU to include lease ADL 390067 (Application). On February 18, 2009, the Division approved the expansion of the PBU, but did not approve the Orion PA. If BPXA did not spud a well within lease ADL 390067 by September 1, 2009, the unit expansion area would automatically contract out of the PBU. The portion of lease ADL 390067 not committed to the unit was severed and the lease segregated. In a May 18, 2009 letter, the Division extended the spud deadline and the automatic contraction deadline to October 15, 2009. BPXA spudded well L-223i on October 1, 2009 and the well was completed on October 27, 2009 according to the Alaska Oil and Gas Conservation Commission records.

Because there was insufficient data to establish whether the acreage was capable of producing or contributing to production of hydrocarbons in paying quantities, the Division deferred the decision to

expand the Orion PA until all data from the proposed L-223i well was submitted to the Division for analysis. Thus, the remaining issue from the Division's February 18, 2009 decision is whether to approve the expansion of the Orion PA and the Participations and Tract Allocations.

III. REQUEST FOR FINAL APPROVAL OF THE ORION PA EXPANSION

On June 17, 2010, BPXA requested final approval of the expansions, stating that it had fulfilled the drilling and data submittal commitments of the February 18, 2009 Findings and Decision. The Request included a Lease Map of the Orion PA/PBU and a (Replacement)-Amended Orion Participations and Tract Allocations after L-223i. Attachments 2 and 3, respectively. Injector well L-223i is the only well in the proposed expansion area. The well will support oil production from the proposed hexa-lateral well L-203 within the Schrader Bluff Nb, OBa, OBc and OBd sands, capturing moveable hydrocarbons outside of the existing Orion PA.

IV. DISCUSSION OF DECISION CRITERIA

The Commissioner of the Department of Natural Resources (Commissioner) reviews applications to form, expand or contract participating areas under 11 AAC 83.303-11 AAC 83.395. By memorandum dated September 2, 2004, the Commissioner approved a revision of Department Order 003 and delegated this authority to the Division Director (Director). A participating area must be expanded to include acreage that is reasonably estimated through use of geological, geophysical, or engineering data to be capable of producing or contributing to production in paying quantities. 11 AAC 83.351(c).

“paying quantities”, defined by 11 AAC 83.395(4), means quantities sufficient to yield a return in excess of operating costs, even if drilling and equipment costs may never be repaid and the undertaking considered as a whole may ultimately result in a loss; quantities are insufficient to yield a return in excess of operating costs unless those quantities, not considering the costs of transportation and marketing, will produce sufficient revenue to induce a prudent operator to produce those quantities.”

The Division's review of BPXA's Request is based on the criteria set out in 11 AAC 83.303(a), (b) and (c). Subsection (c), paragraph (4) directs the Commissioner to consider the criteria in subsections (a) and (b) when evaluating an approval of a participating area. A discussion of the subsection (b) criteria, as they apply to the Request is set out directly below, followed by a discussion of the subsection (a) criteria.

A. Decision Criteria Considered Under 11 AAC 83.303(b)

1. Environmental costs and benefits of unitized exploration and development.

11 AAC 83.303(b)(1) requires the Commissioner to assess the environmental costs and benefits of the proposed Orion PA expansion. Approval of the Orion PA expansion has no direct environmental impact. This Decision is an administrative action and does not convey any authority to conduct any operations on the surface within the PBU. Potential effects on the environment are analyzed when permits to conduct

exploration or development in the unit are reviewed. This Decision simply approves additional acreage for an existing PA for which there is an approved plan of operations and development. Orion PA development will take place from existing Orion PA infrastructure. No significant additional impacts to habitat or biological resources are anticipated because of the Orion PA expansion.

2. Geologic and engineering characteristics of, and prior exploration activities in, the proposed expanded participating area.

BPXA submitted confidential data in support of its 2008 expansion Application. See Section III.A.2., February 18, 2009 Decision and Findings approving PBU expansion. BPXA submitted additional data in May 2010-post L-223i. That data included petrophysical analysis of the L-223i well logs, updated structure maps with fault files and L-223i well picks. The Division will hold these data confidential under AS 38.05.035(a)(8)(C) and 11 AAC 96.220.

The Division required BPXA to drill a well in the proposed expansion area on ADL 390067. BPXA completed injector L-223i on that lease in October, 2009. Prior to this, there were no wells on that lease. Additionally, all the pierce points in the Schrader Bluff Sands were at least a half mile south of this lease boundary. L-223i, a high sail, deviated well was drilled in order to target the northern, downdip reaches of the proposed Orion PA expansion area to address oil-water contact uncertainty. Well L-223i demonstrates the downdip extent of oil in several Schrader Bluff sandstones. Based on BPXA's confidential log analysis, which was confirmed by the Division log analysis, the Orion PA expansion is warranted. Completion intervals in this injector well include the Schrader Bluff NB, OA, OBa, OBc and OBd sands.

3. Applicant's plan for development of the Orion Participating Area.

On November 17, 2009, the Division approved the PBU Western Satellites 2010 Plan of Development (2010 POD), for the period January 1, 2010 through December 31, 2010. The 2010 POD for the Orion PA provides for:

- drilling the L-203 hexa-lateral producer;
- completing a production capacity expansion on the L-pad to accommodate well L-203, which will involve flowing 3 wells into 2 well lines;
- completing installation of a continuous methanol injection system on L-pad to improve uptime on wells with hydrate problems; and
- installing multi-phase meters on the L and V pads.

4. Economic costs and benefits to the State and other relevant factors.

The State will benefit from the Orion PA expansion with the activities planned under the 2010 POD; thereby, improving the maximum physical recovery of hydrocarbons from the Orion PA. Maximizing hydrocarbon production will enhance the State's long-term royalty and tax revenue. Approval of the Orion PA expansion and associated field development will provide economic benefits to the State.

BPXA submitted a tract participation and allocation schedule for the individual tracts in the Orion PA (Attachment 2) as required under 11 AAC 83.351(c) and 11 AAC 83.371(a). BPXA’s schedule is based on additional information obtained from drilling results. The proposed tract allocation schedule distributes working interest equity among the lease tracts based on estimated oil in place. BPXA’s proposed tract allocation schedule is acceptable for allocating production and costs among the leases within the Orion PA.

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

1. Promote the conservation of all natural resources.

The expansion of participating areas within unit areas to develop hydrocarbon-bearing reservoirs is a well-accepted means of hydrocarbon conservation. The approval of the first expansion of the Orion PA will provide a comprehensive plan for developing the entire known Orion Reservoir. The Orion portion of the 2010 POD provides for an efficient, integrated approach to development of the Orion Reservoir. The Orion PA expansion conserves natural resources by increasing hydrocarbon production without substantially increasing the facilities required to accommodate the production. The expansion promotes efficient evaluation and development of the State’s resources, yet minimizes impacts to the area’s cultural, biological, and environmental resources. Producing hydrocarbons from the expanded Orion PA through the existing production and processing facilities will reduce the incremental environmental impact of the additional production.

2. Promote the prevention of economic and physical waste.

An equitable allocation of hydrocarbon shares among the WIOs discourages unnecessary surface development. Similarly, an equitable cost-sharing agreement promotes efficient development of reservoirs and common surface facilities.

The approval of the Orion PA expansion prevents economic and physical waste and promotes efficiency in the development of the leases. BPXA submitted tract allocation schedules that allocate costs and revenues equitably among the WIOs. Lease ADL 390067, with an effective date of September 1, 2002, has a royalty interest of 16.66667 percent; whereas, the rest of the leases within the Orion PA have a 12.5 percent royalty rate. Working interest ownership within the expanded Orion PA is aligned as follows:

BPXA	26.360567 percent
Chevron	1.16 percent
ConocoPhillips	36.076746 percent
ExxonMobil	36.402687 percent.

Expanding the Orion PA over the entire Orion Reservoir and using existing unit facilities and infrastructure prevents economic and physical waste.

3. Provide for the protection of all parties

The proposed expansion of the Orion PA protects the economic interests of the Orion WIOs as well as the royalty owner. The PA expansion promotes the State's interests because hydrocarbon recovery will be maximized and additional production-based revenue will be derived from the increased production. It promotes efficient evaluation and development of the State's resources, yet minimizes impacts to the area's cultural, biological, and environmental resources.

V. FINDINGS AND DECISION

Considering the facts discussed in this Decision and the administrative record, I hereby make findings and impose conditions as follows.

1. BPXA fulfilled its drilling commitment to spud a well on lease ADL 390067 no later than October 15, 2009, as required under the Director's February 18, 2009 Decision and Findings (as amended on May 18, 2009).
2. BPXA fulfilled its data submittal commitments, as required under the Director's February 18, 2009 Findings and Decision.
3. The available geological and engineering data demonstrate that the proposed expansion acreage is reasonably estimated to be capable of producing or contributing to production of hydrocarbons in paying quantities to justify the expansion of the Orion PA within the PBU. The Orion PA is expanded to include the following lands:

Orion PA Expansion Area

Tract 13, ADL 390067

T. 12N, R. 11E, UM

Section 14: S1/2S1/2

Section 23: All

Section 24: SW1/4, SW1/4NW1/4

Containing approximately 1,000 acres, more or less.

4. The expansion of the Orion PA promotes the conservation of natural resources, promotes the prevention of economic and physical waste, protects all parties of interest, and is necessary and advisable to protect the public interest.
5. The expansion of the Orion PA divides costs and allocates produced hydrocarbons in a manner currently acceptable to all affected WIOs. Under 11 AAC 83.351(c) and 11 AAC 83.371(a), the Division approves the allocations of production and costs for the tracts within the Orion PA, as submitted in Attachment 2.
6. Facility sharing, commingling of production, production allocation, metering, gas usage and NGL processing are subject to the same terms and conditions as approved by the Division in the

February 2, 2004, Findings and Decision for the Application for the Formation of the Orion Participating Area.

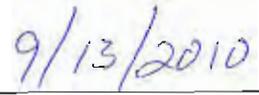
7. The 2010 POD for the Orion PA was approved by the Division in a decision dated November 17, 2009.
8. Article 5.4 of the PBU Agreement provides that a participating area will be effective on the first day of the calendar month following approval by DNR or any other date agreed to by DNR and the WIOs.

For the reasons discussed in this Findings and Decision, I hereby approve the First Expansion of the Orion PA and the tract participation schedule effective October 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, DNR, 550 W. 7th Avenue, Suite 1400, Anchorage, Alaska 99501; faxed to (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

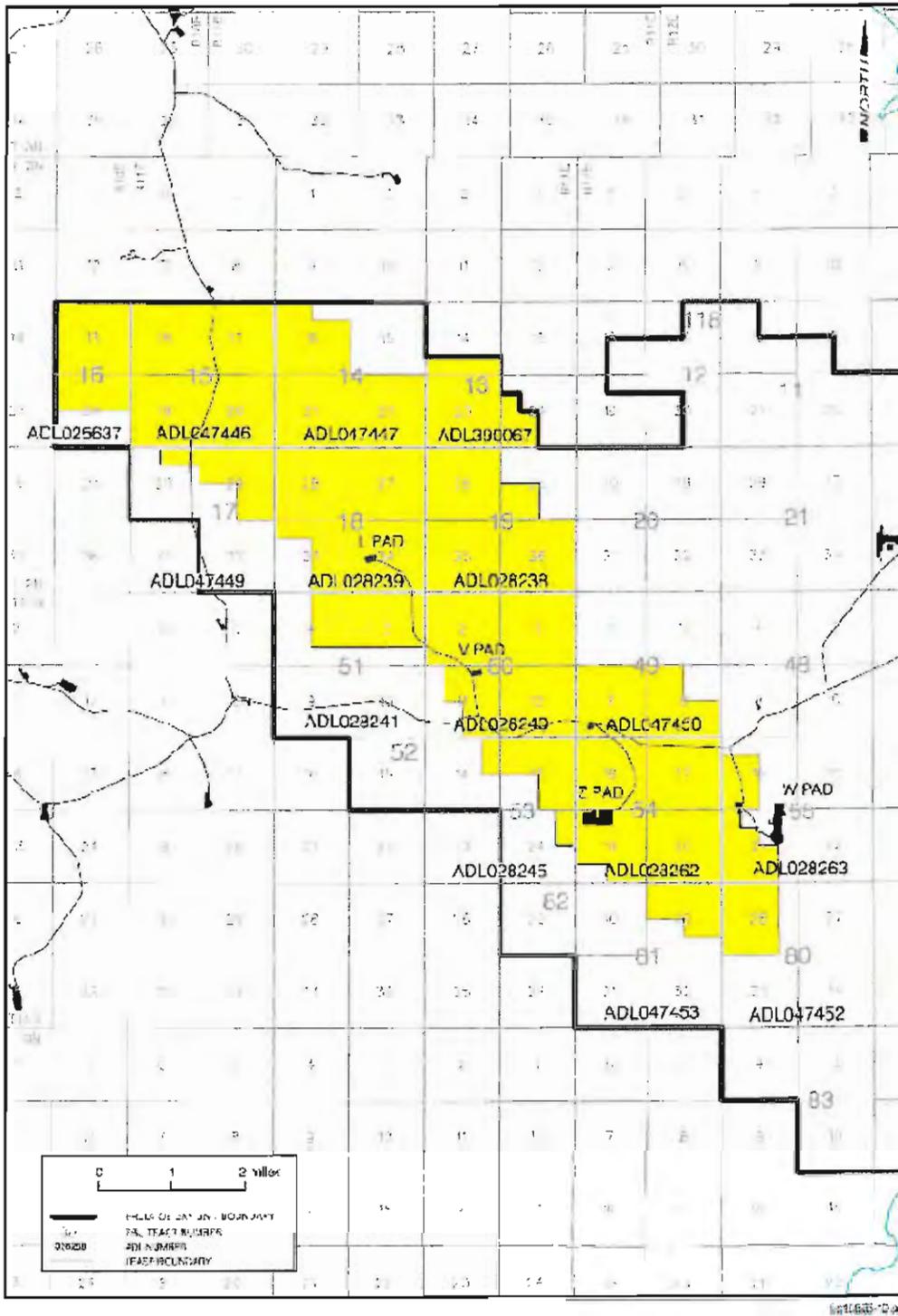


Date

VI. ATTACHMENTS

- 1) Lease Map of Expanded Orion PA/PBU
- 2) (Replacement) – Amended Orion Participations and Tract Allocations after L-223i
- 3) Request for the Expansion of the Prudhoe Bay Unit and Orion Participating Area

Attachment 1: Lease Map of Expanded OPA/PBU



Attachment 2 (Replacement) - Amended Orion Participations and Tract Allocations after L-223i

Tract	Lease	T & R	Section: Description	Acres	Royalty	-----Tract Ownership %-----				Tract Participation %
						BPXA	CPAI	ExxonMobil	Chevron	
13	390067	12N-11E	Sec 14: S/2S/2 Sec 23: All Sec 24: SW/4, SW/4NW/4	1,000	16.66667	26.360567%	36.076746%	36.402687%	1.160000%	0.389%
14	047447	12N-11E	Sec 16: S/2,NW/4, S/2NE4 Sec 21: All Sec 22: All	1,840	12.5	26.360567%	36.076746%	36.402687%	1.160000%	7.214%
15	047446	12N-11E	Sec 17: All Sec 18: All Sec 19: All Sec 20: All	2,448	12.5	26.360567%	36.076746%	36.402687%	1.160000%	22.376%
16	025637	12N-10E	Sec 13: All Sec 24: N/2	960	12.5	26.360567%	36.076746%	36.402687%	1.160000%	9.985%
17	047449	12N-11E	Sec 29: N/2, SE/4 Sec 30: N/2NE/4	553.5	12.5	26.360567%	36.076746%	36.402687%	1.160000%	1.401%
18	028239	12N-11E	Sec 27: All Sec 28: All Sec 33: E/2, N/2NW/4 Sec 34: All	2,320	12.5	26.360567%	36.076746%	36.402687%	1.160000%	12.470%
19	028238	12N-11E	Sec 25: SW/4 Sec 26: All Sec 35: All Sec 36: All	2,080	12.5	26.360567%	36.076746%	36.402687%	1.160000%	10.962%
49	47450	11N-12E	Sec 7: All Sec 8: NW/4, S/2	1,076	12.5	26.360567%	36.076746%	36.402687%	1.160000%	1.793%
50	28240	11N-11E	Sec 1: All Sec 2: All Sec 11: E/2, E/2NW/4 Sec 12: All	2,320	12.5	26.360567%	36.076746%	36.402687%	1.160000%	16.023%
51	28241	11N-11E	Sec 3: N/2, N/2S/2 Sec 4: NE/4, N/2SE/4	720	12.5	26.360567%	36.076746%	36.402687%	1.160000%	1.921%
53	28245	11N-11E	Sec 13: N/2, SE/4 Sec 14: E/2NE/4 Sec 24: E/2NE/4	640	12.5	26.360567%	36.076746%	36.402687%	1.160000%	0.959%
54	28262	11N-12E	Sec 17: All Sec 18: All Sec 19: N/2, SE/4, N/2SW/4 Sec 20: All	2,480	12.5	26.360567%	36.076746%	36.402687%	1.160000%	12.092%
55	28263	11N-12E	Sec 16: SW/4, S/2NW/4 Sec 21: SW/4, S/2NW/4, NW/4NW/4, W/2SE/4	2,560	12.5	26.360567%	36.076746%	36.402687%	1.160000%	0.609%
89	47452	11N-12E	Sec 28: W/2, W/2E/2	480	12.5	26.360567%	36.076746%	36.402687%	1.160000%	0.378%
81	47453	11N-12E	Sec 29: N/2, N/2SE/4	400	12.5	26.360567%	36.076746%	36.402687%	1.160000%	1.388%

Total = 21,878 acres

BPXA = BP Exploration (Alaska), Inc.
ExxonMobil = ExxonMobil Alaska Production Inc.

CPAI = ConocoPhillips Alaska, Inc.
Chevron = Chevron U.S.A. Inc



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June 17, 2010

Mr. Kevin Banks, Acting Director
Division of Oil & Gas
Alaska Department of Natural Resources
530 W. 7th Avenue, Suite 800
Anchorage, Alaska 99501-3560

Subject: Expansion of the Prudhoe Bay Unit (PBU)
and Orion Participating Area (OPA)

Dear Mr. Banks:

Pursuant to your Findings and Decision of that certain Application for Expansion of the PBU and the OPA, dated February 18, 2009, BP Exploration (Alaska) Inc. (BPXA) as Operator of the PBU, on behalf of itself and the other PBU Working Interest Owners having fulfilled the drilling and the data submittal commitments, requests final approval of the expansion of the PBU and the OPA.

Please find enclosed revised Attachments 2 and 3 to the OPA. Attachment 2 is an updated map of the Expanded OPA/PBU and Attachment 3 is update to OPA Tract Allocations. Should you have any questions or need any further information, please contact me at (907) 564-5567.

Sincerely yours,

R. L. Skilleen
Landman- Alaska