

ALBANY SENATE LABOR COMPTROLLER FILES, 2000-2001

11953 SENATE RESOURCES

Evolution of the Joint Pipeline Office

- 1990: Gov. Cowper, DNR Commissioner Gorsuch order a coordinated pipeline oversight agency for TAPS and gasline construction. J. Brossia, State of Alaska; M. Menge, Federal Authorized Officer; Federal and State offices co-locate; Administrative Order 121 requires all State agencies with regulatory responsibilities to participate in the JPO.
- 1991: After Exxon Valdez, JPO participates in development of new oil spill contingency plans, coordinates multiple agency approvals; JPO adopts Incident Command System for spill responses
- 1992: Cooperative Corrosion Agreement expanded; Monitoring plan developed to ensure compliance with grant and lease stipulations, regulations, permit conditions.
- 1992: Nine billionth barrel of oil arrives at Valdez; First tier of three-tier Quality Assurance Manual delivered to JPO; Corrosion Task Force Formed through MOU
- 1993: JPO streamlines permit coordination with single point of contact; JPO forms three corrosion monitoring programs; State agencies and BLM consolidate into a single monitoring staff.
- 1994: Mirroring the JPO restructuring, focus shifts from reactive to proactive efforts with Alyeska; JPO Quality Group formed; Oversight of deficiency corrections; JPO receives "Hammer Award" for reinventing government; Agreement to support the State/Federal JPO signed by 6 state and 5 federal agency heads, forming JPO Executive Council

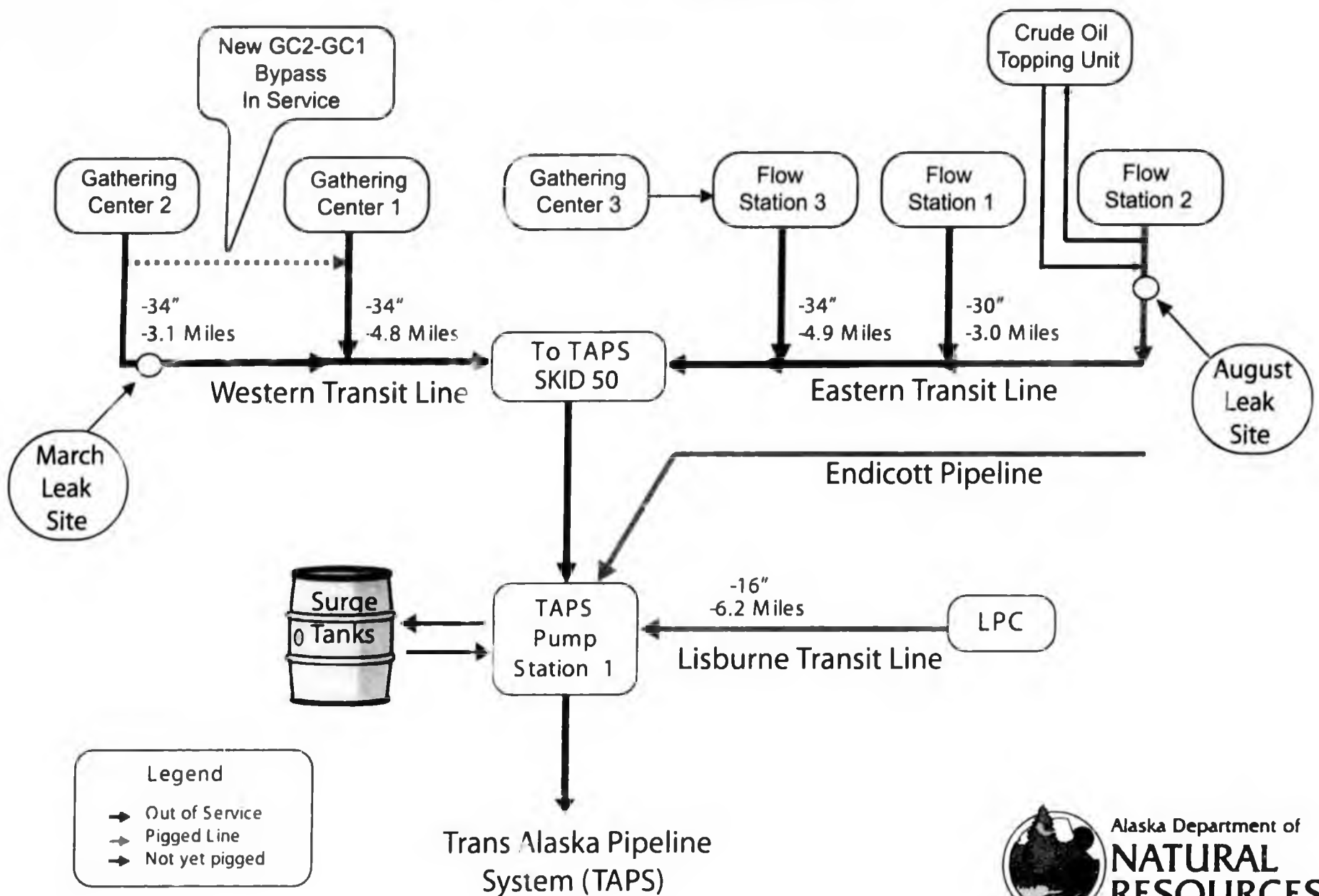
Evolution of the Joint Pipeline Office

- 1994: Ten billionth barrel of oil arrives at Valdez
- 1995: JPO Comprehensive Monitoring Program developed and implemented; Eleven billionth barrel of oil arrives at Valdez
- 1996: JPO's first CMP report released; implementation of Alyeska's Quality Program approved; Nine CMP reports planned
- 1997: Over 130 surveillance reports and eight assessments completed under the CMP; TAPS throughput falls below 1.3 million bbls/day; Field offices established in Fairbanks and Valdez; TAPS turns 20.
- 1998: CMP reports 2 through 5 released, addressing various Alyeska programs
- 1999: Renewal of State and Federal Rights-of-Way begins – They expire in 2005; Compliance database developed and tested; SPCO develops Comprehensive Monitoring Program for North Slope pipelines; CMP reports 6 and 7 released.
- 2000: Second assessment of Alyeska's Risk Management Program released; new state regulations adopted establish a process for renewal of pipeline rights-of-way

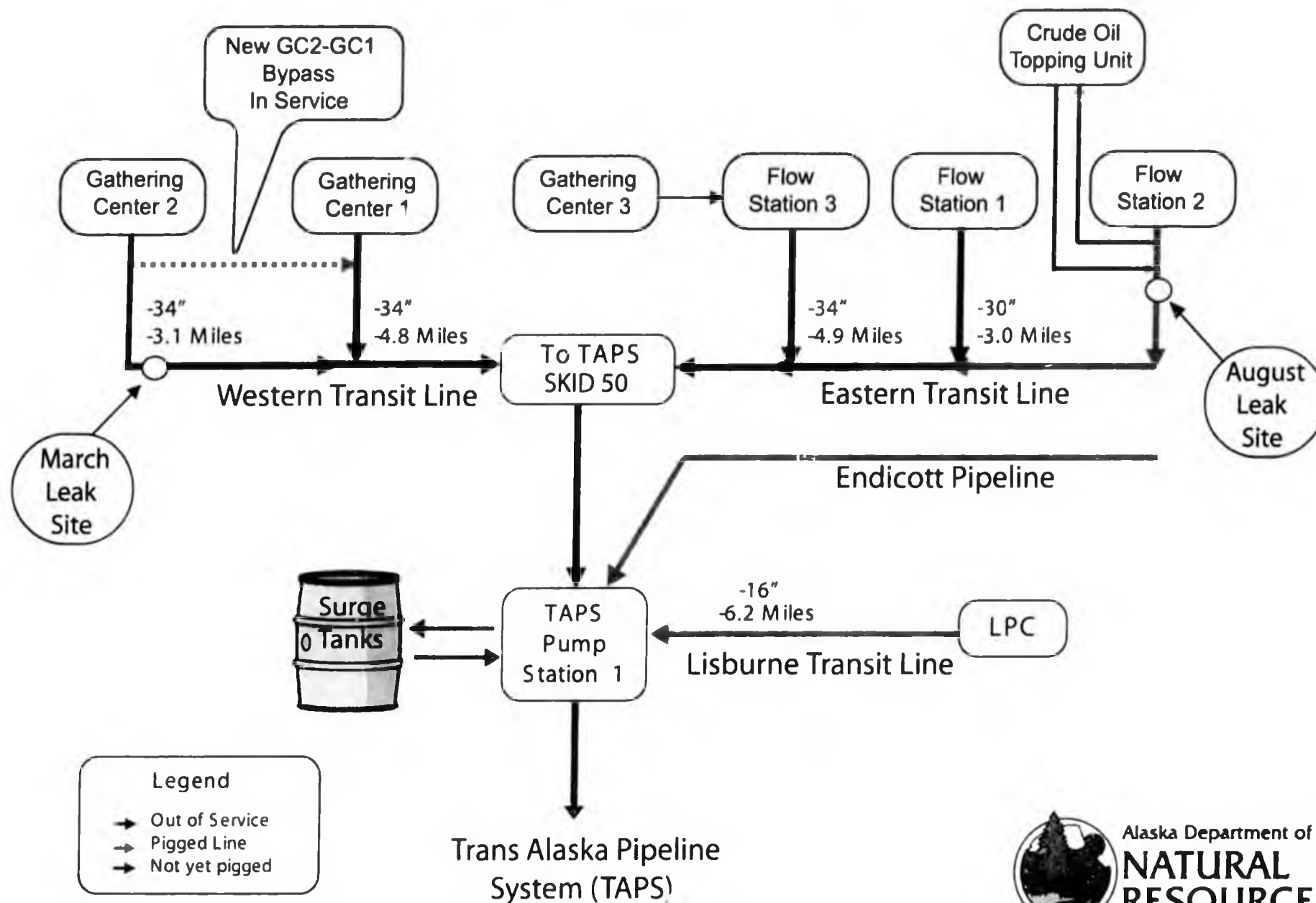
Evolution of the Joint Pipeline Office

- 2001: MMS requests membership in the JPO; Gov. Knowles announces establishment of a Gas Pipeline Cabinet; Gas Pipeline Office established; TAPS owners submit applications to renew the Federal Grant and State Lease, joint team established to conduct renewal processes; In view of September 11 terrorist attacks, security for pipeline and energy resources is high priority.
- 2002: Right-of-way lease renewal applications received for 5 North Slope pipelines; Kenai-Kachemak pipeline project public noticed; 7.9 earthquake hits interior on 11/3, system worked as intended with no oil spilled; 30-year right-of-way lease renewals signed for TAPS and north slope pipelines.
- 2003: Interior Secretary Norton signs the Federal Record of Decision extending the ROW agreement for 30 years and matching the State Lease; JPO awarded the Iron Mountain Award for Excellence in Records and Information Management
- 2004: JPO Strategic Reconfiguration Project implementation begins
- 2005: Strategic Reconfiguration Project continues; Gas Office works on new applications; Technical Working Group Charter for joint working group for corrosion inline inspection is adopted.

Prudhoe Bay Oil Transit Lines



Prudhoe Bay Oil Transit Lines



Alaska Department of
**NATURAL
RESOURCES**

August 16, 2006

Ensuring System Integrity

Presented to
The Senate and House Resources Committees
August 18, 2006

Michael L. Menge
Commissioner



Alaska Department of
Natural Resources

Next Steps

- Prudhoe/WOA Continued Operation
- Prudhoe/EOA Restart Operations
- Reduced Flow Impacts to TAPS
- Impacts to other PBU Operations, Other Fields and In-State Refineries
- Transit Pipeline Replacement Plan
- *Implementation of System Integrity Oversight*

Prudhoe/WOA Continued Operations (SPCO)

- Plan for WOA Drain-Down: GC2 to GC1 Line Segment
 - Estimated volume of 17,000 bbls.
 - Planned start date: August 17
 - Draining from top of pipe to vac trucks
 - Possible complication with Dept. of Justice investigation
- Timeline for moving WOA pig launcher from GC2 to GC1
 - Pig launcher is being refurbished in Anchorage
 - Estimated installation date: October 31
 - Will allow in-line inspection from GC-1 to Skid 50
- Pigging Schedule: GC1 to PS1 Line Segment
 - Sediment Management Plan: Bypass of Pump Station 1
 - Cleaning pig runs begin early November
 - Smart Pig run: late November
 - The most significant defects identified from smart pig run by end of 2006
 - Complete data analysis in 3-4 months
 - Response/Plan Revision based on smart pig data

Prudhoe/EOA Re-Start Operations (SPCO)

- Determine the current integrity of the EOA Transit Line
 - Analyzing data from in-line inspection pig run prior to shutdown
 - BP is currently using automated external inspection techniques to scan for areas of interest
 - Areas of interest measured by ultrasonic direct measurement tools
 - Progress hampered by tape coating on the exterior of the pipe
 - BP evaluating new tools and techniques to read through the tape
 - BP is allocating most resources to WOA due to USDOT Corrective Action Order, therefore slowing progress on the EOA
- Plan for bypassing Pump Station #1 intake: sediment management
 - New piping will be installed downstream of Skid to Tank 110 at Pump Station 1.
- Pipeline integrity testing plan: Ultrasonic Testing (UT) and Smart Pig
 - Continuing ultrasonic direct measuring and automated scans of the pipe
 - Continuing to evaluate techniques to speed up process re: tape issue
 - Pigging will be evaluated with respect to interim operations and long-term solution
- BP analysis of interim options to restore production
 - Evaluating bypass options from flow stations 1, 2 and 3 into the Endicott pipeline
 - Most probable scenario is: Flow Station 2 bypass into Endicott pipeline on an interim basis. Flow Stations 1 and 3 pipelines placed back into service on an interim basis. Flow Station 2 to 1 segment replaced as soon as possible. Flow Station 1 and 3 to Skid 50 segments to be replaced later.

Prudhoe/EOA Re-Start Operations (SPCO) Continued

- Mitigation measures for both WOA and EOA operations
 - Increased corrosion inhibitor injection at GC-2 and possibly other locations
 - Investigating biocide injection to mitigate bacterial activity
 - Repeated ultrasonic direct measuring of areas of interest
 - Increased surveillance with infrared detectors with visual sweeps every four hours
 - Increased oil spill response capabilities on-site
 - Investigating additional surveillance techniques such as hydrocarbon sniffing and Light Detection and Ranging (LIDAR).

- Ongoing integrity testing for re-start operations
 - When resources become available from the WOA, BP will shift inspection crews to EOA to prove integrity of the flow station to Skid 50 segment of EOA

- Forecast of effects, specifically production impacts, of the various options for interim operations
 - If flow station 3 is restored, production will increase by 85,000 bbls
 - If flow station 1 is restored, production will increase by 75,000 bbls
 - If flow station 2 bypass is installed, production will increase by 40,000 bbls
 - If OT-31 (WOA) is replaced, production will increase by 7,000 bbls

Reduced Flow Impacts to TAPS (SPCO)

- Initial assessment completed
- Joint pipeline Office and Alyeska are addressing low throughput issues
 - Impact to air quality permits
 - Vibration impacts at Atigun, Isabel and Thompson passes
 - Leak detection sensitivity
 - Crude oil temperature
 - Natural gas supply for Pump Stations 1, 3 and 4
 - Impacts to Strategic Reconfiguration project
 - Impact to pigging program
 - Cold weather operations
 - Impact to ballast water treatment process
 - Implications of batched throughput operations

Impacts to other PBU Operations, Fields and In-State Refineries (DO&G)

- Daily communication with all field operators and Alaska refinery operators has been established.
- Monitoring throughput
- North Slope fuel gas
 - PBU facilities: Power Plant, Camps
 - TAPS
 - Deadhorse gas utility company
- PBU crude oil topping unit
 - Captive to EOA transit line
- NGL to Kuparuk River Unit for Enhanced Oil Recovery
- Gas to North Star Unit: Enhanced Oil Recovery and fuel gas

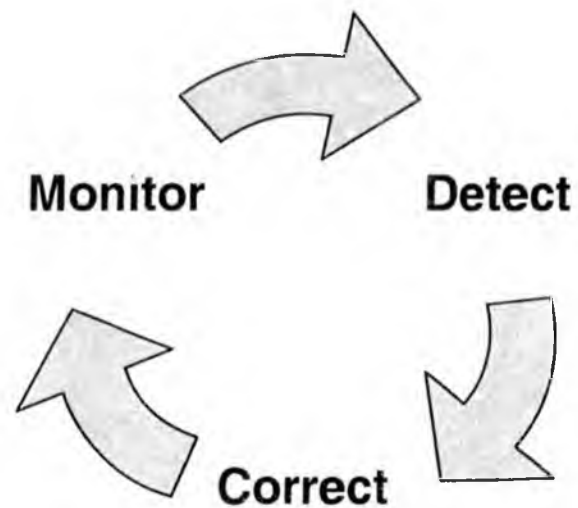
Transit Pipeline Replacement Plan (DO&G/SPCO)

- BP intends to eventually replace all of the WOA and EOA transit pipelines and has placed purchase orders for the pipe needed to do so. The current transit pipelines will be replaced with much smaller diameter pipe better adapted to current operations. Details to be determined include:
 - Schedule
 - Materials
 - Logistics
 - Production Impacts
 - Design criteria for replacement pipe
 - Will DOT conduct a design review? DNR to cooperate, or conduct separately
 - Schedule for submitting a Plan of Operations application
 - Construction Plan
 - Start-Up Plan for new line
 - Operations/Corrosion Monitoring and Prevention Plans
 - DR&R of transit lines

System Integrity Oversight

- Review: DNR Authorities
- Future Oversight: System Integrity & Compliance
- Ongoing Oversight – DNR, Division of Oil & Gas
- Other State of Alaska Regulatory Oversight
- Organizational Structure
- Implementation
- Performance Standards

***The Division of Oil and Gas
has been directed to expand its mission
to include
system integrity oversight.***



System Integrity Oversight

- DNR Authorities

- As Land Owner, DNR authority originates in the Alaska Land Act (AS 38.05)

- AS 38.05.020 – “The commissioner may exercise the powers and do the acts necessary to carry out the provisions and objectives of this chapter.”
 - AS 38.05.180(a)(1)(A) – “The people of Alaska have an interest in the development of the state’s oil and gas resources to maximize the economic and physical recovery of the resources.”
 - AS 38.05.180(a)(2)(A)(ii) – “It is in the best interests of the state...to allow the maximum flexibility in the methods of issuing leases to minimize the adverse impact of exploration, development, production, and transportation activity.”
 - AS 38.05.850 – Authority over off-lease gathering lines.
 - Standard Oil and Gas Lease -- “Lessee shall exercise reasonable diligence in drilling, producing, and operating wells...shall carry on all operations hereunder in a good and workmanlike manner in accordance with approved methods and practices, having due regard for the prevention of waste of oil and gas...and the preservation and conservation of the property for the future productive operations....shall allow Lessor to inspect all operations at any time; shall carryout at Lessee’s expense all reasonable orders and requirements of Lessor relative to the prevention of waste and the preservation of said land...”
 - Enforcement of Unit Agreements, Plans of Development, Plans of Operation

- Regulation of Pipelines, under the Right of Way Leasing Act (AS 38.35)

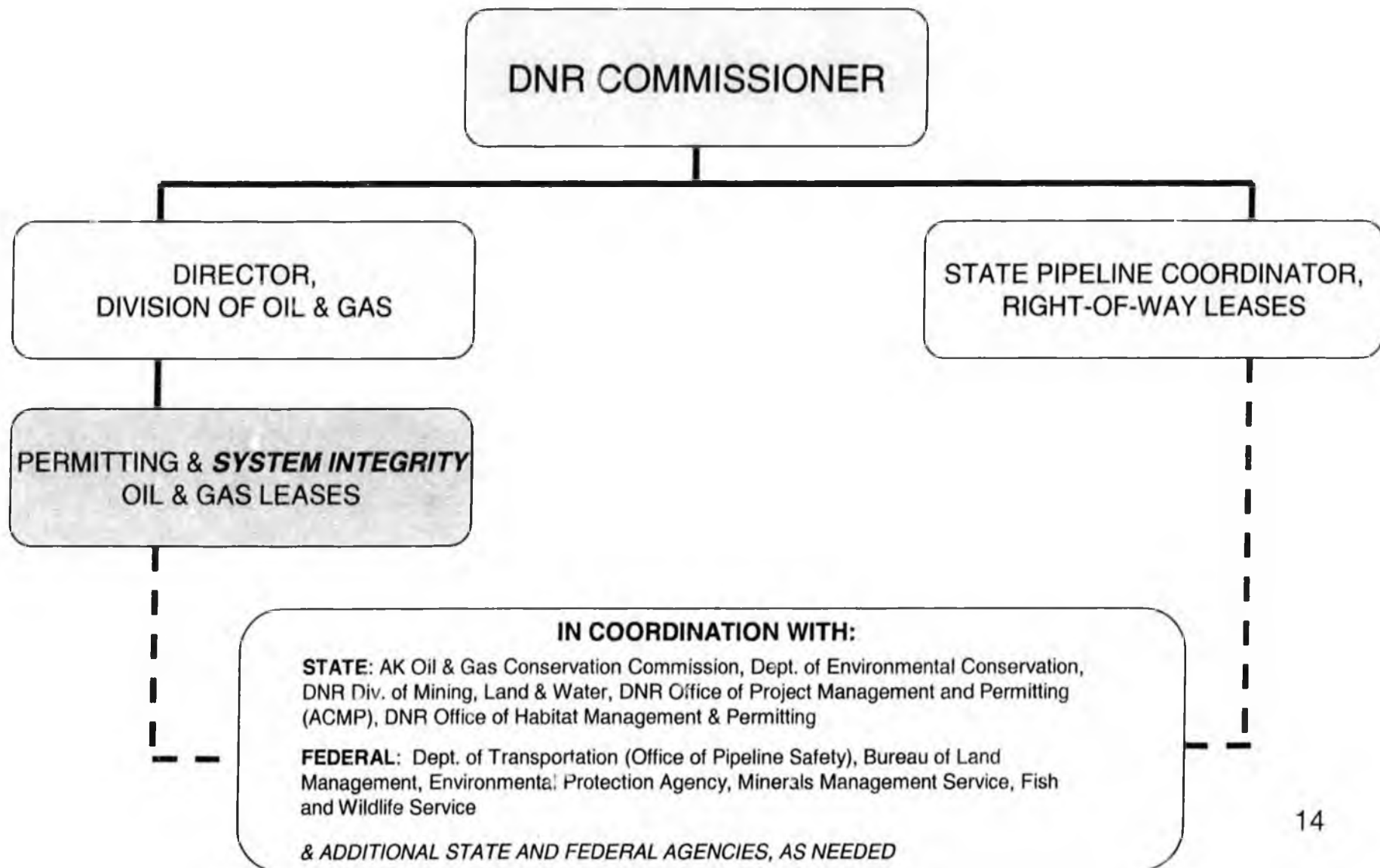
System Integrity Oversight

- Current DO&G Permitting & Compliance
 - Identify and coordinate mitigation measures in Best Interest Findings
 - Facilities & Operations
 - Fish, Wildlife, Habitat
 - Subsistence, Commercial and Sport Harvest Activities
 - Fuel and Hazardous Substances
 - Public Access
 - Prehistoric, Historic, and Archeological Sites
 - Local Hire, Communication and Training
 - Mitigation Measures become terms of the Lease
 - Plans of Operation Approvals
 - Describe all related project facilities and activities
 - Determine compliance with Lease Mitigation Measures
 - Identify Lease Area Surface Owners
 - Broad Public Notice
 - Addresses new permit stipulations (from ACMP review, performance standards)
 - Inspect facilities for compliance with all terms
 - Coordinate corrective actions, perform follow-up inspections

System Integrity Oversight

- Other State Regulatory Activity
 - DNR/Division of Mining, Land & Water (DMLW)
 - Land Use (Tundra Travel)
 - Water Use
 - Material Sale Contracts
 - Easements
 - DNR/Office of Habitat Management & Permitting (OHMP)
 - Fish Habitat, Fish Passage Permits
 - DNR/Office of Project Management & Permitting (OPMP)
 - Alaska Coastal Management Program Reviews
 - DNR/State Pipeline Coordinator's Office (SPCO)
 - AS 38.35 Pipelines
 - Department of Public Safety: Fire Marshal's Office
 - Department of Labor & Workforce Development: Electrical Inspector, Safety Liaison
 - ADEC
 - Oil Spill Prevention/Response
 - Storm Water Discharge
 - Wastewater Disposal
 - Solid Waste Disposal
 - Air Quality
 - AOGCC
 - Drilling Permits – Production and Underground Injection
 - Reservoir Management
 - Well Spacing and Correlative Rights
 - Prevention of Waste

Organizational Structure: System Integrity Component



System Integrity Oversight

State System Integrity Program



- Risk-based Monitoring
- Quality Assurance Audits
- Oversight of Risk Assessment
- Oversight of Risk Management



Producer Quality Assurance/Quality Control



Drill sites

Gathering lines

Gathering Centers / Flow stations

Transit lines

Rotary equipment

Power generation/distribution

Fuel

Roads/pads

Environmental protection

Spill prevention/response

Leak detection

System Integrity Oversight

- Implementation of System Integrity Oversight Component
 - Use ROW Lease Compliance Monitoring template of the SPCO
 - Establish programmatic elements for compliance monitoring
 - Lessees identify how their programs meet requirements
 - Review Lessee Programs; Perform risk analysis
 - Risk analysis identifies priorities for attention
 - Annual compliance monitoring report documents compliance with lease conditions and monitors select issues as determined by the Director, Division of Oil & Gas.
 - Implementation Requirements
 - Staff: 3-4, supplemented by current JPO staff and contractual support
 - Schedule: First annual System Integrity Oversight Report submitted to the Legislature on August 6, 2007.
 - Priorities: 1) Prudhoe Bay Unit; 2) Remaining North Slope fields; 3) Statewide

Prudhoe Bay Shutdown Impacts

August 18, 2006
Alaska Department of Revenue

Terminology

- Total Revenue includes:
 - Royalty – Oil & Gas
 - Severance Tax – Oil & Gas
 - Property Tax – Oil & Gas
 - Income Tax – Oil & Gas
 - Non-Oil



FY 2007 Budget

General Fund Unrestricted Revenue, Millions

Royalty – Net PF	1,491.4	43.4%
Production Tax	967.6	28.2%
Income Tax	479.2	13.9%
Property	36.7	1.1%
Bonus, Rent, etc	33.5	1.0%
Total Oil	3,008.4	87.5%
Non-Oil	428.3	12.5%
Tot Budget	3,436.7	100.0%

Source: Spring 2006 Revenue Sources Book, page 77.

Agenda

- ANS Oil Production – 2 Scenarios
 - 200,000 b/d
 - Gradual Increase up to 400,000 b/d
- Crude Oil Prices – 2 Scenarios
 - RSB Prices
 - Futures Prices
- Comparisons:
 - Lost Revenue
 - Budget Surplus/Deficit
 - Cumulative Surplus/Deficit
- Liquidity
- Conclusions

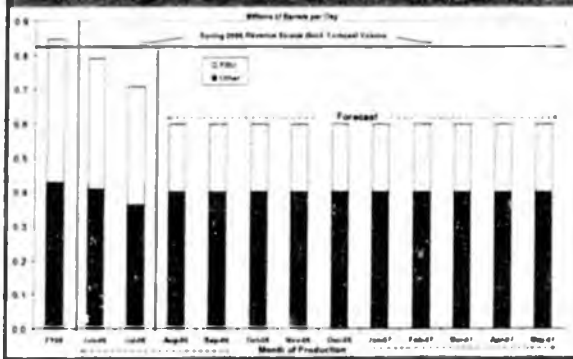


ANS Crude Oil Production Volumes



ANS Crude Oil & NGL Production

Assumes P&J Production Averages 200,000 b/d for Remainder of Year



Cumulative Revenue Compared to the Revenue Budget
July 1, 2006 to June 30, 2007



	Millions of Dollars	
	Futures Prices	RSB Prices
200,000 b/d	+2,002	+308
Increase to 400 000 b/d	+3,233	+999

Liquidity

- CBRF = \$2.3 b
- PF Earnings Reserves = \$2.5 b



Conclusions

- Regardless of Assumptions:
- The Loss to the State is substantial.
 - Due to higher oil prices for the Fiscal Year to-date, and incremental revenues from the PPT, it is *unlikely* the State will have to cut spending to avoid a deficit.
 - The State has substantial reserves to address cash flow timing issues and, with legislative approval, to cover a deficit.

Alaska Oil and Gas Conservation Commission testimony to Joint
Senate and House Resources Committee Meeting

By John K. Norman, Chair

August 18, 2006

INTRODUCTION

You have identified 4 main areas of concern. I will address those in which the AOGCC has involvement, but I will not address revenue impacts, since that is an area over which the AOGCC has no authority or jurisdiction.

AOGCC RESPONSIBILITY FOR OVERSIGHT

- The AOGCC has no authority to regulate pipelines

- We do have statutory authority to
 - Prevent hydrocarbon waste
 - Encourage greater ultimate hydrocarbon recovery
 - Protect correlative rights; and
 - Protect fresh ground waters from negative impacts of oil and gas operations

There is presently no clear and direct mandate for safety assurance in our statutes.

- Our general responsibilities include
 - Setting rules for how a reservoir is developed
 - Approving permits to drill new wells and rework existing wells
 - Insuring mechanical integrity of wellbores
 - Insuring that wellhead safety systems function properly
 - Insuring that blowout prevention equipment used during drilling operations function properly
 - Insuring proper subsurface placement and confinement of non-hazardous oilfield injection fluids
 - Proving the accuracy of custody transfer meters

- Making waste determinations from operational events (such as spills or unauthorized gas flaring)

AOGCC RESPONSE TO THIS INCIDENT

- AOGCC Commissioners received telephonic notification of the operator's decision to shut-in the Prudhoe Bay Field early Sunday afternoon, August 6. Written notification followed in a timely manner.
- The operator's field personnel notified AOGCC's on-site inspectors on the North Slope at about the same time.
 - AOGCC inspectors immediately drove to and began visually inspecting the line and reporting to us what they were seeing. Their reports to us were consistent with the reports we were receiving from the operator.
- Since then we have been coordinating with other State agencies on various issues precipitated by the operators decision to shut-in portions of the field and have been processing the permits and applications related to the operator's decisions.

ISSUES/CONCERNS WITHIN OUR AUTHORITY & ASSOCIATED LEGAL AND REGULATORY ACTIONS

- Preventing Hydrocarbon Waste and Encouraging Greater Ultimate Recovery
 - We see no evidence that a one-time, short-term shut down of the EOA of the Prudhoe Bay Field will damage the reservoir.
 - The operator has advised that they plan to continue waterflood and gas cap water injection, both of which will benefit ultimate recovery.

- It is possible that one or more wells may not come back on production easily when production is resumed in the EOA, but that will not likely result in a decrease in ultimate recovery because other wells can recover the reserves and well workovers can be performed as needed.
- The greatest risk we see to ultimate oil recovery comes from the timing synergies of oil production and gas pipeline start-up. Producing gas from Prudhoe Bay while there is still oil to be recovered will put ultimate oil recovery at risk. The more oil that can be recovered before beginning major gas sales from the reservoir, the less oil will be at risk when large-scale gas offtake actually begins. Obviously, this shut down delays, rather than accelerates oil recovery and thus it could ultimately have a negative effect on total hydrocarbon recovery from the reservoir.

○ Mechanical integrity of wells upon restart

- The AOGCC has rules in place for restart of wells. Specific actions are required and pressure limits are imposed to minimize the risk of well failure because of well-heating-induced annular pressure increases.
- As long as the operator carefully follows our existing Conservation Orders, then restart should not be a problem.

○ Proving the Accuracy of Custody-transfer Meters

- Our regulations prohibit operators from making any modification to the custody transfer meters that are typically located on these transit lines.
- In order for production to be restored in a timely manner, there will likely be modifications that will require our involvement as the operator continues to pig lines and to look for alternate routes for the transportation of EOA oil.

OUR THOUGHTS ON FUTURE PREVENTION

In our view, three areas need to be addressed – (1) environmental protection, (2) human health and safety, and (3) State resource protection. Gaps in State oversight exist in all three areas. These gaps need to be fully identified and the appropriate agency or agencies need statutory authority, clear and complete regulations, and adequate funding to ensure that all oil and gas operations within the State of Alaska protect all three of these areas

This represents a departure from what we, along with other states, have traditionally done in managing and regulating oil and gas resource development. We have never managed the routine design, installation, operation and maintenance of a producers' infrastructure. Rather we have assumed that it was in the producers' best interests to build and maintain that infrastructure themselves. Recent events cast doubt on the validity of that assumption.

We are currently participating in the Governor's Arctic Pipeline Technology Team. This is an inter-agency team established in the aftermath of the March transit line spill between GC-1 and GC-2. We have an engineer on the technical team; and Commissioner Foerster serves in an oversight role.

Understandably we're all now focusing attention on pipelines, but there's more to infrastructure than simply pipelines. There are gas plants, separation facilities, dehydrators, seawater treatment plants, and so on. The same maintenance and repair concerns exist for every bit of this infrastructure, not just the pipelines. All of these components can develop leaks or break down in one way or another; and, all of these components are essential to the continued proper operation of Alaska's oil and gas fields. If we're concerned that producers maintain pipelines so that production (and thus the State's revenue stream) can continue, then we should also be concerned that they maintain the rest of the essential infrastructure. Regulating only pipelines and not the rest of the infrastructure would be like taking care of only the tires of a car, ignoring the motor, and expecting the car to work every time you need it to.

This incident is a wake up call for all of us in Alaska. We face declining production and aging infrastructure. This event leaves no question that there is a need for State regulation of the design, construction, installation, operation and maintenance of critical oil and gas infrastructure in Alaska.

Thank you and I'll be pleased to respond to any questions you may have.

STATE OF ALASKA

DEPARTMENT OF LAW
OFFICE OF THE ATTORNEY GENERAL

Frank H. Murkowski, Governor

P.O. BOX 110300
JUNEAU, ALASKA 99811-0300
PHONE: (907)465-3600
FAX: (907)465-2075

August 17, 2006

BY FAX TO (907) 564-4254

Mr. Steve Marshall, President
BP Exploration Alaska, Inc.
900 E. Benson Blvd.
Anchorage, AK 99508-4254

Re: Prudhoe Bay Unit Corrosion Issues and Partial Shutdown

Dear Mr. Marshall:

In light of recent events surrounding corrosion issues in transit lines in the Prudhoe Bay Unit (PBU) and partial shutdown at Prudhoe, I believe it important to apprise you of the State's position with respect to preserving its rights and holding fully accountable those parties responsible for any losses.

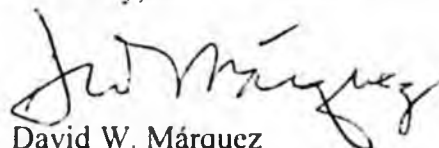
First, the State will be issuing subpoenas to all PBU leaseholders in order to preserve all documents that may be relevant to corrosion at Prudhoe Bay. The State also may undertake any other investigative measures as it deems necessary. Although the State recognizes that BP is the operator of the PBU, the State is unwilling to make assumptions at this time where liability may ultimately lie.

Second, the State as sovereign and regulator, as well as lessor of the PBU leases, recognizes that its regulatory agencies will be working with BP in order to facilitate all remedial efforts. In that capacity, the State will cooperate with BP with respect to the necessary permits and approvals required by law. The State, nevertheless, expects BP as its lessee and PBU Operator to continue its operation and procedures in a manner consistent with its duties as a prudent operator.

Finally, the State's regulatory role should not be construed by any parties as a waiver of the State's rights under either the PBU leases or other potential civil or criminal actions.

If you have any questions, please feel free to contact me.

Sincerely,



David W. Márquez
Attorney General

Mr. Steve Marshall
BP Exploration Alaska, Inc.
Re: Prudhoe Bay Unit Corrosion Issues and Partial Shutdown

August 17, 2006
Page 2

Enclosures: (2) Subpoenas (8/17/06)

cc: (w/encls.) Mr. Jim Bowles, President
ConocoPhillips, Alaska, Inc.

Mr. Richard Owen, Alaska Operations Manager
ExxonMobil Alaska Production, Inc.

Mr. Leonard Gurule, Sr. Vice President, Alaska Division
Forest Oil Corporation

Mr. John Zager, Alaska General Manager
Chevron Corp.

STATE OF ALASKA

DEPARTMENT OF ENVIRONMENTAL CONSERVATION

IN THE MATTER OF)
)
THE INVESTIGATION OF THE)
CRUDE OIL SPILL FROM THE)
FLOW STATION 2 TRANSIT LINE,)
PRUDHOE BAY, ALASKA)
_____)

**SUBPOENA TO PRESERVE
AND PRODUCE DOCUMENTS**

TO: BP Exploration (Alaska) Inc.
ConocoPhillips Alaska, Inc.
Chevron U.S.A, Inc.
ExxonMobil Alaska Production, Inc.
Forest Oil Corporation.

Pursuant to the authority of A.S. 46.03.020 (5), (6), and (7), and A.S. 46.04.060, you are commanded to preserve all documents, including computer records, and especially including those which might otherwise be destroyed in the normal course of business or during a response to an oil spill, for inspection by and production to the Alaska Department of Environmental Conservation, which documents relate in any way to the discharge of crude oil from the Flow Station 2 Transit Line, located at or near Prudhoe Bay, Alaska ("the spill"). This command includes, but is in no way limited to, documents concerning the amount of oil discharged or released into the environment; the discovery of the spill and/or the response to the spill; pipeline monitoring for the transit line since January 1, 1996; oil transfers through the transit line since January 1, 2001; inspections or maintenance on the transit line since its construction; corrosion control on the line since its construction; and the amount of oil recovered during cleanup operations relating to the spill.

You are further commanded to allow these documents to be inspected, during normal business hours, by an inspector employed by the Alaska Department of Environmental Conservation, and to produce all documents designated by the inspector to the Alaska Department of Environmental Conservation.

For the purposes of this subpoena, the term "document" is defined as follows:

The original (or when the original is not in your custody or control, a carbon or other identical copy) form of any information that is written,

printed, typed, drawn, stored, or otherwise memorialized, including (without limitation) letters, memoranda, messages, notes, reports, studies, movies, videotape, print or slide photographs, audio tapes, message machine recordings, minutes, telegrams, teletype messages or microfilms, telex or telefax messages, maps, graphs, drawings, charts, lists, manuals, guides, instructions, directories, tables or tabulations, appointment books, diary entries, checks, check registers or stubs, vouchers, and recordings of informal memoranda of any oral communications, personal notes (either typed or handwritten), or any other form of record (such as, for example, financial and tax records). "Document" includes information stored on machines, discs, tapes, drums, computer discs and hard drives, CD-ROMs, DVDs, and other electronic, magnetic, or digital devices or media which store and/or retrieve information.

Requests for modification of this subpoena may be made in writing to the attention of the undersigned.

If you wish to challenge this subpoena, you may do so by petition to the Alaska Superior Court to quash it. If you do not file such a petition and if you fail to respond to this subpoena, the Office of the Attorney General on behalf of the Alaska Department of Environmental Conservation will commence a proceeding in court pursuant to Alaska Rule of Civil Procedure 45 and Alaska Statute 44.62.590 for an order directing you to show cause why you should not be held in contempt of court for failure to comply with this subpoena. Please note that any information provided to the Department could be used against any person in the event of a criminal prosecution and that you have the right to be represented by counsel during the course of this civil investigation.

If you have any questions concerning this subpoena, you should feel free to contact Senior Assistant Attorney General Breck Tostevin at 1-907-269-5274.



By: _____
Kurt Fredriksson
Commissioner

Date: 8/17/06

STATE OF ALASKA

DEPARTMENT OF ENVIRONMENTAL CONSERVATION

IN THE MATTER OF)
)
THE INVESTIGATION OF THE)
CRUDE OIL SPILL FROM THE) **SUBPOENA TO PRESERVE**
GC-2 TRANSIT LINE, PRUDHOE) **AND PRODUCE DOCUMENTS**
BAY, ALASKA)
_____)

TO: ConocoPhillips Alaska, Inc.;
Chevron U.S.A, Inc.;
ExxonMobil Alaska Production, Inc.;
Forest Oil Corporation.

Pursuant to the authority of A.S. 46.03.020 (5), (6), and (7), and A.S. 46.04.060, you are commanded to preserve all documents, including computer records, and especially including those which might otherwise be destroyed in the normal course of business or during a response to an oil spill, for inspection by and production to the Alaska Department of Environmental Conservation, which documents relate in any way to the discharge of crude oil from the GC-2 Transit Line, located at or near Prudhoe Bay, Alaska ("the spill"). This command includes, but is in no way limited to, documents concerning the amount of oil discharged or released into the environment; the discovery of the spill and/or the response to the spill; pipeline monitoring for the transit line since January 1, 1996; oil transfers through the transit line since January 1, 2001; inspections or maintenance on the transit line since its construction; corrosion control on the line since its construction; and the amount of oil recovered during cleanup operations relating to the spill.

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For the purposes of this subpoena, the term "document" is defined as follows:


The original (or when the original is not in your custody or control, a carbon or other identical copy) form of any information that is written, printed, typed, drawn, stored, or otherwise memorialized, including (without limitation) letters, memoranda, messages, notes, reports, studies,

movies, videotape, print or slide photographs, audio tapes, message machine recordings, minutes, telegrams, tel-type messages or microfilms, telex or telefax messages, maps, graphs, drawings, charts, lists, manuals, guides, instructions, directories, tables or tabulations, appointment books, diary entries, checks, check registers or stubs, vouchers, and recordings of informal memoranda of any oral communications, personal notes (either typed or handwritten), or any other form of record (such as, for example, financial and tax records). "Document" includes information stored on machines, discs, tapes, drums, computer discs and hard drives, CD-ROMs, DVDs, and other electronic, magnetic, or digital devices or media which store and/or retrieve information.

Requests for modification of this subpoena may be made in writing to the attention of the undersigned.

If you wish to challenge this subpoena, you may do so by petition to the Alaska Superior Court to quash it. If you do not file such a petition and if you fail to respond to this subpoena, the Office of the Attorney General on behalf of the Alaska Department of Environmental Conservation will commence a proceeding in court pursuant to Alaska Rule of Civil Procedure 45 and Alaska Statute 44.62.590 for an order directing you to show cause why you should not be held in contempt of court for failure to comply with this subpoena. Please note that any information provided to the Department could be used against any person in the event of a criminal prosecution and that you have the right to be represented by counsel during the course of this civil investigation.

If you have any questions concerning this subpoena, you should feel free to contact Senior Assistant Attorney General Breck Tostevin at 1-907-269-5274.



By: _____
Kurt Fredriksson
Commissioner

Date: 8/17/06

PRUDHOE

BAY

CORROSION

CRISIS,

8/18/06

(FILE 2)

UNIT AGREEMENT
PRUDHOE BAY
UNIT
STATE OF ALASKA

UNIT AGREEMENT
PRUDHOE BAY UNIT
STATE OF ALASKA

AGO 10034215

**UNIT AGREEMENT
PRUDHOE BAY UNIT
STATE OF ALASKA**

THIS AGREEMENT, entered into as of April 1, 1977, by the parties who have signed the original of this instrument, a counterpart thereof, or other instrument agreeing to become a party hereto, with the agreement and approval of the State of Alaska.

WITNESSETH:

WHEREAS, the A.R.Co.-Humble (now A.R.Co.-Exxon) Prudhoe Bay State No. 1 Well on land covered by State Lease No. ADL-28303 between the depths of 8,117 feet below Kelly Bushing and the top of the carbonate formation at 8,785 feet below Kelly Bushing (called "Permo-Triassic formation") as measured by the Schlumberger Dual Induction Laterolog, Run 4 dated February 8, 1968, and Run 5 dated March 9, 1968, and subsequent additional wells have established the discovery of a major oil and gas field in the Prudhoe Bay area of the Arctic Slope of Alaska; and

WHEREAS, Section 31.05.110 (a) of the Alaska Statutes (Oil and Gas Conservation) provides that to prevent, or to assist in preventing waste, to insure a greater ultimate recovery of oil and gas, and to protect the correlative rights of owners of interests in the tracts of land affected, these owners may validly integrate their interests to provide for the unitized development and operation of such tracts of land as a unit; and

WHEREAS, the Commissioner of Natural Resources, State of Alaska, is authorized by Chapter 38.05 of the Alaska Statutes where necessary or advisable in the public interest, to agree to and approve a unit plan of development or operation on behalf of the State of Alaska insofar as it covers and includes lands and mineral interests of the State of Alaska; and

WHEREAS, in order to accomplish the foregoing purposes, it is deemed necessary and desirable to enter into this agreement to

unitize the Oil and Gas Rights in and to the Unit Area, as herein established, in order to conduct the Unit Operations as herein provided;

Now, THEREFORE, in consideration of the premises and of the mutual agreements herein contained, it is agreed as follows:

ARTICLE 1

DEFINITIONS

As used in this agreement:

1.1 *Director* is the Director, Division of Lands, Department of Natural Resources, State of Alaska, or his duly authorized representative, who is authorized and has been delegated the authority to act for and on behalf of the Commissioner of the Department of Natural Resources with respect to the agreement to and approval of this agreement by the State of Alaska and the giving of the various approvals called for in this agreement.

1.2 *Effective Date* is the time and date this agreement becomes effective as provided in Article 14.1 hereof.

1.3 *Gas Cap Gas* is natural gas (with all of its constituent elements, including condensate and gas plant liquids, derived or extracted from it after it leaves the Reservoir) which originally occurred in a Reservoir in gaseous form and not in solution with Oil.

1.4 *Gas Cap* is that portion of a Reservoir occupied by Gas Cap Gas originally in place and not by Oil or Solution Gas.

1.5 *Gas Cap Participating Area* shall have the meaning given to it by Section 5.1(c) hereof.

1.6 *Legal Subdivision of Land* is a section of land according to the governmental or protracted survey thereof, containing six hundred and forty (640) acres more or less, or the nearest equivalent in instances of irregular surveys.

1.7 *Oil* is any hydrocarbon produced in liquid form at the wellhead and originally existing in liquid form in the Reservoir.

1.8 *Oil and Gas Rights* are the rights to explore, develop, and operate lands within the Unit Area for the production of Unitized Substances, or to share in the production so obtained or the proceeds or value thereof.

1.9 *Oil Rim* is that portion of a Reservoir occupied by Oil and Solution Gas originally in place and not by Gas Cap Gas.

1.10 *Oil Rim Participating Area* shall have the meaning given to it by Section 5.1(e) hereof.

1.11 *Outside Substances* are all substances injected into a Reservoir which have been obtained from any source outside the Unit Area or on which payments for Royalty Interests previously have been made.

1.12 *A Participating Area* is a Tract or group of Tracts described and designated as such pursuant to this agreement for purposes of developing, producing and allocating one or more of the Unitized Substances from all or part of one or more Reservoirs, as determined for such Tract or group of Tracts in accordance with this agreement.

1.13 *Prudhoe Bay (Permo-Triassic) Gas Cap* shall have the meaning given to it by Section 5.1(b) hereof.

1.14 *Prudhoe Bay (Permo-Triassic) Oil Rim* shall have the meaning given to it by Section 5.1(d) hereof.

1.15 *Prudhoe Bay (Permo-Triassic) Reservoir* shall have the meaning given to it by Section 5.1(a) hereof.

1.16 *A Reservoir* is the portion of a porous and permeable underground formation containing or appearing to contain an individual and separate, continuous accumulation of producible Unitized Substances which is confined by impermeable rock or a defined oil-water or gas-water contact and is characterized by a single natural pressure system.

1.17 *Reservoir Limits* means the areal extent of a Reservoir in its original condition prior to the first withdrawal of any Unitized Substance therefrom.

1.18 *Royalty Interest* is a right to or interest in any portion of the Unitized Substances or proceeds or value thereof other than a Working Interest.

1.19 *Royalty Owner* is the State of Alaska and any other party hereto who owns a Royalty Interest.

1.20 *Solution Gas* for the purposes of distinguishing it from Gas Cap Gas, is any gaseous hydrocarbon which originally occurred in a Reservoir in solution with Oil. Solution Gas for purposes of distinguishing it from Oil, is any hydrocarbon which originally occurred in a Reservoir in solution with Oil and which was converted to a gaseous form by changes in pressure or temperature effected by ordinary production methods. In either case, the term Solution Gas includes all constituent elements including gas plant liquids derived or extracted therefrom after it leaves the Reservoir.

1.21 *Tract* is the land described as such and given a Tract number in Exhibit A as originally attached hereto or as such Exhibit A may be amended from time to time in accordance with the provisions hereof.

1.22 *Tract Participation* is the percentage assigned to a Tract for a Participating Area for allocating Unitized Substances to such Tract.

1.23 *Unit Area* is the land described by Tracts in Exhibit A and shown on Exhibit B as to which this agreement becomes effective or to which it may be extended as herein provided.

1.24 *Unit Equipment* is all personal property, lease and well equipment, plants and other facilities and equipment taken over or otherwise acquired by Working Interest Owners for use in Unit Operations.

1.25 *Unit Operating Agreement* is the agreement entered into by Working Interest Owners, having the same Effective Date as this agreement, entitled "Unit Operating Agreement, Prudhoe Bay Unit, State of Alaska", as amended or supplemented from time to time.

1.26 *Unit Operations* are all operations conducted pursuant to this agreement and the Unit Operating Agreement.

1.27 *Unit Operators* are the Working Interest Owners designated by Working Interest Owners under the Unit Operating Agreement to conduct Unit Operations, acting as operators and not as Working Interest Owners.

1.28 *Unitized Substances* are all oil, gas and associated substances other than Outside Substances within or produced from the Unit Area.

1.29 *Working Interest* is an interest in Unitized Substances by virtue of a lease, operating agreement, fee title, or otherwise, including a carried interest, under or pursuant to which the owner of such interest has the right to drill for, develop and produce, or cause to be drilled for, developed and produced, oil and gas, and the owner of which interest is obligated to pay, either in cash or out of production or otherwise, a portion of the unit expenses. A Royalty Interest created out of a Working Interest subsequent to the execution of this agreement by the owner of such Working Interest shall continue to be subject to such Working Interest burdens and obligations that are stated in this agreement and the Unit Operating Agreement. For the purpose of this agreement the interest of BP ALASKA INC. as shown on Exhibit A shall be considered as a Working Interest.

1.30 *Working Interest Owner* is a party hereto who owns a Working Interest.

ARTICLE 2 EXHIBITS

2.1 *Exhibits.* The following exhibits, which are attached hereto, are incorporated herein by reference:

2.1.1 *Exhibit A* is a schedule that describes each Tract in the Unit Area and shows among other things the ownership of Oil and Gas Rights in each Tract.

2.1.2 *Exhibit B* is a map depicting the boundary line of the Unit Area and the Tracts therein.

2.1.3 *Exhibit C* is a description of the Oil Rim Participating Area, as defined in Section 5.1(e) of this agreement, and a description of the Gas Cap Participating Area, as defined in Section 5.1(c) of this agreement, and a schedule showing respective Tract Participations for each Participating Area.

2.1.4 *Exhibit D* consists of two maps labeled D-1 and D-2 depicting the boundary lines of the Oil Rim Participating Area, as defined in Section 5.1(e) of this Agreement, and the Gas Cap Participating Area, as defined in Section 5.1(c) of this agreement.

2.1.5 *Exhibit E* is the plan of development for the Oil Rim Participating Area, as defined in Section 5.1(e) of this agreement, and the Gas Cap Participating Area, as defined in Section 5.1(c) of this agreement.

2.1.6 *Exhibit E-1* is the plan of development and operation for lands not included in the Initial Participating Areas.

2.1.7 *Exhibit F* is a map depicting the Reservoir Limits of the Prudhoe Bay (Permo-Triassic) Reservoir.

2.2 *Reference to Exhibits.* When reference is made to an exhibit, it is to the exhibit as originally attached or, if revised, to the latest revision.

2.3 *Exhibits Considered Correct.* Exhibits A, B, C, D, E, E-1 and F shall be considered to be correct until revised as herein provided.

2.4 *Correcting Errors.* Shapes and descriptions of the respective Tracts have been established by using the best information available. If it subsequently appears that any Tract, because of diverse Royalty or Working Interest ownership, should be divided into more than one Tract, or that any mechanical miscalculation or clerical error has been made, Unit Operators, with approval of Working Interest Owners, shall correct the mistake by revising the exhibits to conform to the facts. Such revision shall not include any re-evaluation of reservoir engineering or geological interpretations used in determining Tract Participation. Each such revision of an exhibit made prior to thirty (30) days after the Effective Date shall

be effective as of the Effective Date. Each such revision thereafter made shall be effective at 12:01 a.m. on the first day of the calendar month next following the filing for record of the revised exhibit or on such other date as may be determined by Working Interest Owners as set forth in the revised exhibit.

2.5 *Exhibits for New Participating Areas.* Unit Operators shall prepare exhibits similar in form to Exhibits C and D for each new Participating Area created pursuant to Sections 5.3 and 5.4 of this agreement and shall submit the same promptly to Working Interest Owners and after approval by them to the Director for approval.

2.6 *Filing Revised Exhibits.* If an exhibit to this agreement is revised, Unit Operator shall execute an appropriate instrument with the revised exhibit attached and file the same for record in the Barrow Recording District and in the filing office of the Division of Lands in Anchorage, Alaska.

ARTICLE 3

CREATION AND EFFECT OF UNIT

3.1 *Oil and Gas Rights Unitized.* All Oil and Gas Rights in each of the Tracts described in Exhibit A are hereby unitized so that Unit Operations may be conducted as if the Unit Area had been included in a single lease executed by the State of Alaska and any other party who may have authority to execute oil and gas leases, as lessor, in favor of all Working Interest Owners, as lessees.

3.2 *Personal Property Excepted.* All lease and well equipment, materials, and other facilities heretofore or hereafter placed by any of the Working Interest Owners on the land covered hereby shall be deemed to be and shall remain personal property belonging to and may be removed by the Working Interest Owners and is hereby excepted from the provisions of this agreement. The rights and interests therein as among Working Interest Owners are set forth in the Unit Operating Agreement.

3.3 *Amendment of Leases and Other Agreements.* The provisions of the various leases, agreements, division and transfer orders, or other instruments pertaining to respective Tracts or the production therefrom are amended to the extent necessary to make

them conform to the provisions of this agreement, but otherwise shall remain in effect.

3.4 *Continuation of Leases and Term Interests.* Except for the purpose of determining payments to the State of Alaska and other Royalty Owners, production from any part of the Unit Area, as such area may be enlarged or contracted, or other Unit Operations shall be considered as production from or operations upon each Tract, and such production or operations, so long as the particular Tract remains committed to this agreement, shall continue in effect each lease or term mineral or royalty interest as to all lands and formations covered thereby just as if such operations were conducted on and as if a well were producing from each Tract.

3.5 *Rental Settlement.* Rental or minimum royalties due on leases committed hereto shall be paid by Working Interest Owners responsible therefor at the rates specified in the respective leases and in accordance with applicable laws and regulations, regardless of whether or not the primary term of said leases has expired, unless such rentals or minimum royalties are waived, suspended or reduced by law or by approval of the Director. Minimum royalty accrues on each lease, any part of which is in a Participating Area, and each other lease which is producing or certified by the Alaska Division of Lands as capable of producing in paying quantities, on the first day of each lease year and is payable at the end of the lease year. Rentals on all other leases shall be due and payable prior to the beginning of each lease year.

3.6 *Titles Unaffected by Unitization.* Nothing herein shall be construed to result in the transfer of title to the Oil and Gas Rights by any party hereto to any other party or to Unit Operators.

3.7 *Injection Rights.* Pursuant to an approved development and operation plan, Working Interest Owners may inject substances into the Unit Area for Unit Operations, together with the right to drill, use, and maintain injection wells on the Unit Area, and to use for injection purposes any nonproducing or abandoned wells or dry holes, and any producing wells completed in the Unit Area.

3.8 *Operating Rights.* Working Interest Owners, and Unit Operators in their behalf, shall have the same rights as are granted in the several oil and gas leases of ingress, egress, use of the surface and subsurface, use of water, use of other substances, use for the laying of pipelines and any other rights in said leases, which shall extend to and may be exercised for the benefit of the Unit Operations, the same as if the entire Unit Area were covered by a single oil and gas lease containing such provisions. Such rights shall extend to all lands hereafter added to the Unit Area and shall continue in full force and effect as to any lands hereafter excluded from the Unit Area (whether by virtue of Section 9.3 of this agreement or otherwise) which, when excluded, are either being utilized for the benefit of Unit Operations or to be utilized pursuant to an approved plan of development and operation.

ARTICLE 4

UNIT OPERATORS AND PLAN OF DEVELOPMENT AND OPERATION

4.1 *Unit Operators.* Working Interest Owners are concurrently herewith entering into the Unit Operating Agreement designating Unit Operators. BP ALASKA INC., with offices at 3111 "C" Street (P.O. Box 4-1379, 99509), Anchorage, Alaska, is designated as Unit Operator for the following identified leases or portions thereof included within the Unit Area:

<u>State of Alaska Lease No.</u>	<u>Tract No.</u>
47445	1
28235	2
28254	3
47469	9
47448	10
28256	11
28255	12
28237	13
47447	14
47446	15
25637	16
47449	17
28239	18
28238	19
28259	20
28258	21

Prudhoe Bay Unit Agreement

<u>State of Alaska Lease No.</u>	<u>Tract No.</u>
28257	22 & 22-A
28279	23
28278	24
28277	25
28299	26
28304	43
28280	44
28281	45
28282	46
28260	47
28261	48
47450	49
28240	50
28241	51 & 51-A
28244	52
28245	53
28262	54 & 54-A
28263	55 & 55-A
47451	56
28283	57
28284	58
28285	59
28305	60
28310	75
28286	76
28287	77
28288	78
28264	79
47452	80
47453	81
28246	82
47454	83
28265	84
28289	85 & 85-A
47471	86
47472	87
28313	88
47475	103
47476	104
28290	105

ATLANTIC RICHFIELD COMPANY, with offices at 711 West 8th Avenue (P.O. Box 360, 99510), Anchorage, Alaska, is designated as Unit Operator for the following identified leases or portions thereof included within the Unit Area:

<u>State of Alaska Lease No.</u>	<u>Tract No.</u>
34625	4
34626	5
34627	6
34624	7
28297	8
28300	27
28301	28
34628	29
34629	30
34630	31
34635	32
- 34634	33
- - 34633	34
34636	35
28337	36
28338	37
28320	38
34631	39
34632	40
28302	41
28303	42
28306	61
28307	62
28321	63
28322	64
28323	65
28339	66
28340	67
28341	68
28343	69
28324	70
28325	71
28326	72
28308	73
28309	74
28312	89
28311	90
28329	91
28328	92
28327	93
28345	94
28344	95
28347	96
28346	97
28332	98
28331	99
28330	100

<u>State of Alaska Lease No.</u>	<u>Tract No.</u>
28315	101
28314	102
47482	106
28316	107 & 107-A
28335	108
28334	109 & 109-A
28333	110
28349	111

Further reference in this agreement and the Unit Operating Agreement to Unit Operators shall mean BP ALASKA INC., with respect to that portion of the Unit Area for which it is designated as Unit Operator, and ATLANTIC RICHFIELD COMPANY, with respect to that portion of the Unit Area for which it is designated as Unit Operator. Unit Operators shall have the right to conduct Unit Operations, which shall conform to the provisions of this agreement and the Unit Operating Agreement. By signature hereto, BP ALASKA INC. and ATLANTIC RICHFIELD COMPANY, hereby agree to accept the duties and obligations of Unit Operators for discovery, development and production of Unitized Substances as herein provided. A change of either Unit Operator may be made in accordance with the Unit Operating Agreement, and the Director shall be notified promptly of any such change. In the event of any such change, the Unit Operator herein designated, change of which is desired, shall continue in its capacity as a Unit Operator until a qualified successor shall have been selected and approval thereof is given by the Director and the successor shall have assumed its duties as a Unit Operator. No change of a Unit Operator shall become effective until approved by the Director. Upon a change of Unit Operator, the outgoing Unit Operator shall deliver possession of all equipment, materials and appurtenances used in conducting Unit Operations and owned by the Working Interest Owners to the new, duly qualified and approved successor Unit Operator.

4.1.1 Each Unit Operator shall file with the appropriate State of Alaska office all applications for permits and make all reports and file all notices which pertain to wells, facilities or Unit Operations conducted or to be conducted within that portion of the Unit Area for which it is designated as a Unit Operator.

4.1.2 Both Unit Operators must accept joint responsibility for the following reports and filings, as may be lawfully required, by jointly submitting same:

4.1.2.1 Establishment and revision of any Participating Area.

4.1.2.2 Plans of development and operation.

4.1.2.3 Reports concerning monthly production including allocation of the royalty portion of such production to the Working Interest Owners for settlement with the State of Alaska.

4.1.2.4 Plans for gathering lines, injection systems and other facilities related geographically to both operating areas.

Whenever the State of Alaska should require both Unit Operators to take any action or to report any matter, such matter shall be submitted jointly. The Unit Operators shall act hereunder only as authorized in accordance with provisions of this agreement and the Unit Operating Agreement, and the State shall be entitled to rely upon any action by the Unit Operators hereunder as authorized in accordance with said Unit Operating Agreement.

4.2 *Method of Development and Operation.* To the end that Unitized Substances economically recoverable may be increased and waste prevented, Working Interest Owners shall with due diligence develop the Unit Area in accordance with good engineering and production practices. Such engineering and production practices shall include a plan of development and operation on a Reservoir basis (or portion thereof), designed to efficiently and economically produce Unitized Substances. The plan for development and operation of the Oil Rim Participating Area and the Gas Cap Participating Area, as those Participating Areas are respectively defined in Sections 5.1(e) and 5.1(c) of this agreement, is attached hereto as Exhibit E, and is approved by the Director's approval of this agreement. Modifications of Exhibit E shall be submitted to the Director for approval.

A plan for the development and operation of lands not included in the initial Participating Areas is attached hereto as Exhibit E-1

and is approved by the Director's approval of this agreement. Within five (5) years after the Effective Date, Unit Operators shall submit for the Director's approval a further plan of development and operation for lands not then included in a Participating Area. If Unit Operators fail to submit an acceptable further plan of development and operation or fail in a substantial respect to conduct the operations included in an approved plan, the Director may upon notice to Unit Operators and the affected Working Interest Owners exclude from Unit Area any lands not then included in a Participating Area; provided, however, that such lands shall not be excluded while bona fide drilling operations are being conducted on any such lands and continued diligently, with at least one well being commenced each calendar year and followed by a good faith attempt to complete such well during the winter drilling season; provided further that if Unit Operators have timely submitted a plan of development and operation on a Reservoir basis (or portion thereof), covering a portion of such lands, and such plan has been approved by the Director, then lands covered by such plan of development and operation shall not be excluded from the Unit Area so long as operations are being diligently conducted pursuant thereto. The Director may modify the drilling requirements of this section by granting reasonable extensions of time when in his opinion such action is warranted.

Development and operation of the Unit Area, as it may be enlarged or contracted, pursuant to a plan or plans submitted and approved by the Director in accordance with this Section 4.2, shall be deemed full performance of all obligations for development and operation with respect to each and every Tract included in such plan or plans, regardless of whether there is any development of any particular Tract or Tracts of the Unit Area, notwithstanding anything to the contrary in the lease.

A plan of development and operation for each subsequently established Participating Area shall be submitted to the Director for approval as information upon which to base such plan is developed.

4.3. *Rate of Prospecting, Development and Production.* The Director is hereby vested with authority to alter or modify from

time to time the quantity and rate of production under this agreement when such quantity and rate is not fixed pursuant to State law or does not conform to any state-wide voluntary conservation or allocation program which is established, recognized and generally adhered to by the majority of operators in such State, such authority being hereby limited to alteration or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated in the order of alterations or modification. Without regard to the foregoing, the Director is also hereby vested with authority to alter or modify from time to time the rate of prospecting and development and the quantity and rate of production under this agreement when such alteration or modification is in the interest of attaining the conservation objectives stated in this agreement and is not in violation of any applicable State law.

Powers in this section vested in the Director shall only be exercised after notice to Unit Operator and opportunity for hearing to be held not less than thirty (30) days from notice, and shall not be exercised in a manner that would (i) require any increase in the rate of prospecting, development or production in excess of that required under good and diligent oil and gas engineering and production practices; or (ii) alter or modify the rates of production from the rates provided in the approved plan of development and operations then in effect or, in any case, curtail rates of production to an unreasonable extent, considering unit productive capacity, transportation facilities available, and conservation objectives; or (iii) prevent this agreement from serving its purpose of adequately protecting all parties in interest hereunder, subject to applicable conservation laws and regulations.

4.4. *Drilling by Working Interest Owners.* Any Working Interest Owner shall be entitled to drill wells under circumstances and limitations prescribed in the Unit Operating Agreement. On approval by the Director, a plan of testing, evaluation and pilot production may be carried out by such Working Interest Owner to determine if such wells are capable of sustained commercial production of Unitized Substances in sufficient quantities to justify Working Interest Owners in developing and producing the Reservoir, or portions thereof, into which such well is completed; provided, how-

ever, that any such wells which are determined to be capable of such production must thereafter be produced by the Unit Operator.

ARTICLE 5

PARTICIPATING AREAS AND TRACT PARTICIPATIONS

5.1 *Definitions Pertaining to Participating Areas Within Prudhoe Bay (Permo-Triassic) Reservoir.*

5.1(a) *Prudhoe Bay (Permo-Triassic) Reservoir* means the accumulation of Unitized Substances correlating with the Unitized Substances found in the A.R.Co.-Humble (now A.R.Co.-Exxon) Prudhoe Bay State No. 1 well between the depths of 8,117 feet and 8,785 feet below Kelly Bushing as measured by the Schlumberger Dual Induction Laterlog, Run 4, dated February 8, 1968, and Run 5, dated March 9, 1968 (including also the Put River Sandstone, which is that sandstone interval that correlates with the interval 9,638 to 9,719 measured feet on the Borehole Compensated Sonic Log, Run 2, dated September 28, 1975, in the Atlantic Richfield-Exxon NGI No. 1 well, and any other formation that contains an accumulation of Unitized Substances in substantial hydrocarbon communication with the above-described portion of the Prudhoe Bay (Permo-Triassic) Reservoir), and which has Reservoir Limits shown on Exhibit F as such exhibit may be revised from time to time by the Working Interest Owners in accordance with the Unit Operating Agreement and Section 2.6 hereof. For the purposes of this agreement, the Prudhoe Bay (Permo-Triassic) Reservoir shall be considered as a separate, continuous accumulation of producible Unitized Substances, even if faults or other discontinuities may divide the Permo-Triassic formation within the designated area in Exhibit F into separate Reservoir segments.

5.1(b) *Prudhoe Bay (Permo-Triassic) Gas Cap* is that portion of the Prudhoe Bay (Permo-Triassic) Reservoir which originally contained Gas Cap Gas and which is distinguished from the Prudhoe Bay (Permo-Triassic) Oil Rim as being that portion of the Permo-Triassic Reservoir which originally existed above the gas-oil contact or contacts as determined by the Working Interest Owners.

5.1(c) *Gas Cap Participating Area* is the Participating Area described in Exhibit C and depicted in Exhibit D-2 as established for the Prudhoe Bay (Permo-Triassic) Gas Cap by Section 5.2 of this agreement.

5.1(d) *Prudhoe Bay (Permo-Triassic) Oil Rim* is that portion of the Prudhoe Bay (Permo-Triassic) Reservoir which originally contained Oil and Solution Gas and which was not originally occupied by Gas Cap Gas.

5.1(e) *Oil Rim Participating Area* is the Participating Area described in Exhibit C and depicted in Exhibit D-1 as established for the Prudhoe Bay (Permo-Triassic) Oil Rim by Section 5.2 of this agreement.

5.2 *Participation for Prudhoe Bay (Permo-Triassic) Reservoir Participating Areas.* The Oil Rim Participating Area shown on Exhibit D-1 and the Gas Cap Participating Area shown on Exhibit D-2 are hereby established as the initial Participating Areas. The Tract Participations initially agreed to by the Working Interest Owners for the Oil Rim and Gas Cap Participating Areas are shown in Exhibit C. Tract Participations have been assigned to the Tracts within the Oil Rim Participating Area primarily on the basis of Oil and Solution Gas originally in place and to the Gas Cap Participating Area primarily on the basis of Gas Cap Gas originally in place, as determined by agreement of the Working Interest Owners. Because development of the Tracts and the available information concerning Unitized Substances is not complete enough to allow final determination of Tract Participations as of the Effective Date, the Working Interest Owners agree that the initial Tract Participations shall be subject to adjustments or corrections as provided in the Unit Operating Agreement.

The Oil Rim and Gas Cap Participating Areas may be enlarged and/or contracted from time to time with approval of the Working Interest Owners, as set out in the Unit Operating Agreement, and of the Director. Such enlargement shall include Legal Subdivisions of Land, any portion of which is reasonably proved to be within the Reservoir Limits of the Prudhoe Bay (Permo-Triassic) Reservoir. Such contraction shall exclude Tracts reasonably proved to be wholly outside the Reservoir Limits of the Prudhoe

Bay (Permo-Triassic) Reservoir. Effective January 1, 1982, corrected Tract Participations resulting from enlargements, contractions or other corrections deemed necessary by the Working Interest Owners shall be assigned to the Tracts in the Oil Rim Participating Area and to Tracts in the Gas Cap Participating Area as determined by the Working Interest Owners in accordance with the Unit Operating Agreement.

Contractions of the Oil Rim and/or Gas Cap Participating Areas shall not be made after January 1, 1982. The Oil Rim and Gas Cap Participating Areas may be enlarged after January 1, 1982, to include Legal Subdivisions of Land any portion of which is reasonably proved to be within the Reservoir Limits of the Prudhoe Bay (Permo-Triassic) Reservoir upon the terms and conditions as may be determined by the Working Interest Owners, in accordance with the provisions of the Unit Operating Agreement, including provision for the allocation of a Tract Participation to the added Legal Subdivision of Land. For enlargements which may occur after January 1, 1982, the corrected Tract Participations of the Tracts in the Participating Area prior to the enlargement shall remain in the same ratio one to the other.

New exhibits showing such new Tracts, Tract Participations and boundaries shall be filed with the Director for approval.

5.3 *Participation—Other Participating Areas.* As to any other Reservoir which has been or may be discovered within the Unit Area and which shall have been reasonably proven to be capable of sustained commercial production of Unitized Substances in sufficient quantities to justify Working Interest Owners in developing and producing such Reservoir, or portion thereof, the affected Working Interest Owners shall establish a Participating Area for all or that portion of such Reservoir as has been reasonably defined. Such Participating Area may be established, enlarged or contracted to include lands which are reasonably proved to be within the Reservoir Limits of such Reservoir or portion thereof. The lands to be included shall be based on such subdivisions of the public land surveys as may be approved by the Director, but not less than the area approved by the well-spacing order affecting such lands for such Reservoir. Such lands and Tract Participations for each Participating Area shall be

determined by the Working Interest Owners and approved by the Director.

5.4 *Provisions Common to All Reservoirs.* For all Participating Areas, including the Permo-Triassic Oil Rim and Gas Cap Participating Areas, the Working Interest Owners and the Royalty Owners other than the State of Alaska shall have the right to allocate the Unitized Substances, other than the State's Royalty Interest share, in any way they see fit in accordance with the provisions of the Unit Operating Agreement.

Insofar as the interest of the State of Alaska is concerned, there shall be no retroactive adjustment of interest in Unitized Substances, or in the proceeds therefrom, upon the correction of Tract Participations, but as between themselves, the Working Interest Owners and the Royalty Owners other than the State of Alaska are free to provide otherwise in the Unit Operating Agreement if they desire.

The Working Interest Owners in any two or more Participating Areas established hereunder for any one or more Reservoirs or portion thereof may, with approval of the Director and as provided in the Unit Operating Agreement, combine such Participating Areas except that the approval of the Director shall not be required for combination of the Oil Rim Participating Area and the Gas Cap Participating Area.

Except as hereinabove provided, the effective date for establishment, revision or consolidation of Participating Areas as to the State of Alaska shall be 12:01 a.m. of the first day of the calendar month following approval by the Director or such other appropriate date as may be agreed by the Director and Unit Operators, acting on behalf of Working Interest Owners. No land included in a Participating Area shall ever be excluded therefrom because of depletion of Unitized Substances.

5.5 *Failure to Agree.* The parties hereto agree, anything contained herein to the contrary notwithstanding, that failure or refusal of the Director to approve, or of Working Interest Owners or any of them to agree, to any matter or matters arising out of or in connection with the creation or operation of or production from any

Participating Area hereafter proposed or created in addition to the Oil Rim Participating Area and Gas Cap Participating Area established by this agreement shall not under any circumstances invalidate or otherwise affect this agreement, the Unit Operating Agreement, or continued Unit Operations on or production of Unitized Substances from the Oil Rim Participating Area and the Gas Cap Participating Area in the same manner and to the same extent as if no additional Participating Areas were ever proposed or created under the terms hereof.

ARTICLE 6

ALLOCATION OF UNITIZED SUBSTANCES

6.1 *Allocation of Unitized Substances Produced from Participating Areas.* All Unitized Substances produced and saved from the Unit Area shall be allocated to the Participating Area established for such Reservoir and to the Working Interest Owners therein; except that where there are separate Oil Rim and Gas Cap Participating Areas within a Reservoir, production therefrom of Gas Cap Gas shall be allocated to the Gas Cap Participating Area of such Reservoir, and to the Working Interest Owners therein, and production therefrom of Oil and Solution Gas shall be allocated to the Oil Rim Participating Area of such Reservoir and to the Working Interest Owners therein. Such allocations shall be in accordance with methods, formulas and procedures as provided in the Unit Operating Agreement.

Unitized Substances allocated to each Working Interest Owner in a Participating Area shall be allocated to the several Tracts in such Participating Area in which such Working Interest Owner owns a Working Interest in the proportion that the product of such Working Interest Owner's Working Interest in each such Tract multiplied by the current Tract Participation for such Tract bears to the sum of all such products for that Working Interest Owner. The amount of Unitized Substances allocated to each Tract, regardless of whether the amount is more or less than the actual production of Unitized Substances from the well or wells, if any, on such Tract, shall be deemed for all purposes to have been produced from such Tract.

6.2 *Allocation of Unitized Substances from Reservoirs not in a Participating Area.* Prior to the effective date of a Participating Area established for any part of a Reservoir, production of any Unitized Substances from such part is allocated to the Tract from which such production is obtained.

The Unitized Substances allocated to each such Tract shall be accounted for among the Working Interest Owners on the basis set forth in the Unit Operating Agreement.

6.3 *Royalty Settlement.* The Unit Operator shall furnish to the State of Alaska a schedule for each month's total royalty production of Unitized Substances not taken in kind by the State, showing the allocation thereof to the Tracts and to the Working Interest Owners therein and each such Working Interest Owner shall make settlement for its share of such royalty production in accordance with its lease or leases and subject to the provisions of Section 7.2.

Provided, however, that if there is pending an application for certification for the benefit of discovery royalty pursuant to applicable laws and regulations, the State shall credit all such royalty proceeds (whether paid in kind or in value) as unearned until such time as (1) the pending application, if any, for discovery royalty finally is determined and (2) the pending application, if any, for establishment of such Participating Area shall have been approved by the Director. When both such events occur, the State shall refund the excess, if any, between the value of the royalty previously paid on such production (whether in kind or in value) and the amount which would have been due if the initial Participating Area (and the discovery royalty, if applicable) had been in effect from the date of first production, and credit the balance to the proper earned royalty account.

In the event of failure of any Working Interest Owner to make proper settlement of any royalty due from it, the State shall not be prejudiced hereby as to any recourse which it might have against the original lessee of the lease or leases from which such Working Interest originated.

6.4 *State of Alaska's Taking Royalty in Kind.* Notwithstanding any provision in the several State leases which may require the State of Alaska 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 six (6) months advance written notice to Unit Operators the State of Alaska may elect (nominate) to take in kind all or a specified percentage of its royalty oil and/or gas from the Unit Area; except that Working Interest Owners shall give the State thirty (30) days advance written notice prior to initial production from the Unit Area, and any election by the State at the time of such initial production will be effective if advance written notice thereof is given within ten (10) days thereafter. While the State of Alaska is taking some or all of its royalty in kind the amount taken in kind may be increased or decreased by not more than ten percent (10%) of the then current nomination upon ninety (90) days written notice to Unit Operators, provided, however, the State of Alaska may not in any event take oil and/or gas in excess of the total royalty accrued on unit production for that period. All royalty taken in kind by the State of Alaska 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 any taking in kind by the State of Alaska.

6.5 *Alaska Native Claims Settlement Act.* Notwithstanding anything to the contrary in the foregoing provisions of this Article 6 it is agreed that the State of Alaska shall account for, and pay from its Royalty Interest, the two percent (2%) royalty payable to the Alaska Native Fund as and to the extent provided in Section 9 of the Alaska Native Claims Settlement Act of December 18, 1971 (Public Law 92.203), the same as if this agreement had never been entered into.

6.6 *Royalty on Outside Substances.* If any Outside Substances consisting of natural gases are injected into any Reservoir by the Working Interest Owners of any Participating Area, eighty percent (80%) of any like substance contained in Unitized Substances subsequently produced from such Reservoir and allocated to such Participating Area and sold or used for other than Unit Operations shall be deemed to be a part of the Outside Substances so injected until

the total volume deemed to be such Outside Substances equals the total volume of such Outside Substances so injected. If any Outside Substances, which, prior to injection, are liquefied petroleum gases or other liquid hydrocarbons, are injected into any Reservoir by the Working Interest Owners of any Participating Area, ten percent (10%) of all Unitized Substances produced from such Reservoir and allocated to such Participating Area and sold after one year from the time injection of such Outside Substances was commenced, shall be deemed to be a part of the Outside Substances so injected until the total value of the production deemed to be such Outside Substances equals the total value (or delivered cost at Prudhoe Bay Field (if purchased) of the Outside Substances so injected. Such ten percent (10%) of the Unitized Substances deemed to be Outside Substances shall be in addition to that which is being recovered for natural gases as hereinabove provided, if both liquefied petroleum gases or other liquid hydrocarbons and natural gases are injected. No payment shall be due or payable to Royalty Owners on substances produced from any Reservoir that are deemed to be Outside Substances.

If any liquid hydrocarbons which have been obtained from any source outside the Unit Area, or on which payments for Royalty Interests have been made, are added to or mixed with Unitized Substances for purposes of Unit Operations, then eighty percent (80%) of all liquid hydrocarbon Unitized Substances subsequently produced and sold shall be deemed to be such added or mixed liquid hydrocarbons until the total volume of such production equals the total volume of the liquid hydrocarbons so added or mixed, and no payment shall be due or payable to Royalty Owners on such added or mixed liquid hydrocarbons.

ARTICLE 7

USE OR LOSS OF UNITIZED SUBSTANCES

7.1 *Use of Unitized Substances.* Working Interest Owners may use or consume Unitized Substances for Unit Operations, including, but not limited to, the injection thereof into any formation underlying the Unit Area.

7.2 *Royalty Payments.* No royalty, overriding royalty, production or other payments shall be payable on account of Unitized Substances used, unavoidably lost, stored or consumed in Unit Operations, including, but not limited to, the injection thereof into any formation underlying the Unit Area. If Unitized Substances are used or consumed in the operation of any facility the use of which is not exclusively devoted to Unit Operations, royalty, overriding royalty or production or other payments shall not be payable on that part of the Unitized Substances used or consumed in the facility which fairly is apportionable on a use basis to those Unit Operations being served by the facility.

ARTICLE 8

TITLES

8.1 *Removal of Tract from Unit Area.* If a Tract ceases to have its Working Interest Owners or Royalty Owners committed to this agreement because of failure of title, such Tract shall be removed from the Unit Area effective as of 12:01 a.m. on the first day of the calendar month in which failure of title is finally determined, unless within ninety (90) days after the date of final determination of the failure of title, the true Working Interest Owners or Royalty Owners of the Tract execute this agreement and, if a Working Interest Owner, the Unit Operating Agreement.

8.2 *Revision of Exhibits.* If a Tract in a Participating Area is removed from the Unit Area because of failure of title, Unit Operator shall recompute the Tract Participation of each of the Tracts remaining in the Unit Area and shall revise Exhibits A, B, C and D accordingly; provided, however, the revised Tract Participations of the Tracts remaining in the Unit Area shall remain in the same ratio one to another. The revised exhibits shall be effective as of 12:01 a.m. on the first day of the calendar month in which such failure of title is finally determined.

8.3 *Failure of Title of Part of Tract.* In the event of failure of title of any party hereto as to a divided portion of any Tract, Unit Operators, with the approval of the Working Interest Owners and the Director, shall cause such Tract to be divided into separate

Tracts, and if such Tract is in a Participating Area, recompute the Tract Participation of each of the resulting Tracts (the sum of which shall equal the Tract Participation of the original Tract) and revise Exhibits A, B, C and D accordingly. Thereafter, such resulting Tract in which title was not affected shall remain in the Unit Area, and such resulting Tract in which title failed shall be subject to the provisions of Sections 8.1 and 8.2 above.

8.4 *Royalty Interest Titles.* If title to a Royalty Interest fails, but the Tract to which it relates is not removed from the Unit Area, the party whose title failed shall not be entitled to share hereunder with respect to such interest.

8.5 *Production Where Title is in Dispute.* If the title of the State of Alaska is in dispute then as to Unitized Substances which the State is taking in kind, Unit Operators shall require that the party to whom such Unitized Substances are delivered or to whom the proceeds thereof are paid furnish security for the proper accounting therefor to the rightful owner if the title of the State fails in whole or in part.

If the title of the State of Alaska is in dispute then as to Unitized Substances for which the Working Interest Owners are settling the royalty in value, no payment of funds due the State of Alaska shall be withheld, but such funds of the State of Alaska shall be deposited with the State and held as unearned money pending final settlement of the title dispute, and then applied as earned or returned in accordance with such final settlement.

8.6 *Payment of Taxes to Protect Title.* The owner of surface rights to lands within the Unit Area, or severed mineral interests or Royalty Interests in such lands, or lands outside the Unit Area on which Unit Equipment is located, is responsible for the payment of any ad valorem taxes on all such rights, interests, or property, unless such owner and Working Interest Owners otherwise agree. If any ad valorem taxes are not paid by or for such owner when due, Unit Operators may, with approval of Working Interest Owners, at any time prior to tax sale or expiration of period of redemption after tax sale, pay the tax, redeem such rights,

interests, or property, and discharge the tax lien. Any such payment shall be an item of unit expense. Unit Operators shall, as possible, withhold from any proceeds derived from the sale of Unitized Substances otherwise due any delinquent taxpayer an amount sufficient to defray the costs of such payment or redemption, such withholding to be credited to Working Interest Owners. Such withholding shall be without prejudice to any other remedy available to Unit Operators or Working Interest Owners.

ARTICLE 9

ENLARGEMENTS AND CONTRACTIONS OF UNIT AREA

9.1 *Enlargement of Unit Area.* The Unit Area may be enlarged from time to time so as to include any additional lands reasonably determined to be within any Reservoir any portion of which is within the Unit Area. The lands to be included shall be based on such subdivisions of the public land surveys as may be approved by the Director, but not less than the area approved by the well-spacing order affecting such lands for such Reservoir. Such enlargement shall be effected in the following manner:

(a) Unit Operators, acting pursuant to the terms of the Unit Operating Agreement or on demand of the Director, shall prepare a notice of the proposed enlargement describing the contemplated additions to the Unit Area, the reasons therefor, and the proposed effective date, which shall be the first day of the calendar month following the date of final approval of the enlargement.

(b) Said notice shall be delivered to the Director and a copy thereof mailed to each Working Interest Owner, at its last known address, and to any other party believed by the Unit Operators to own any Oil and Gas Rights in any lands proposed to be added. Such notice shall state a definite period, which shall not end earlier than thirty (30) days after the mailing of such last notice to be mailed, during which any interested party may file with the Unit Operators written objections, and reasons therefor, to the proposed enlargement.

(c) Upon expiration of the period stated in (b) above, Unit Operators shall file with the Director evidence of mailing of the notice of enlargement together with copies of all objections which have been filed with Unit Operators, along with such applications for joinder executed by those owning Oil and Gas Rights in any land sought to be added as have been submitted to Unit Operators.

(d) After due consideration of all pertinent information, the Director shall render his decision, separately as to each lease or lands therein submitted for commitment. Such decision, unless otherwise stated therein to the contrary, shall become effective as of the time specified in the notice referred to in (a) above. Unit Operators shall notify all other interested parties upon receipt of the Director's decision.

9.2 *Non-Segregation of Lease Partially Committed on Effective Date.* Any lease having only a portion of its lands committed hereto on the Effective Date of this agreement shall not be segregated by such partial commitment, and both the committed portion and the non-committed portion shall be extended by Unit Operations or unit production. Such leases shall be subject to the provisions of Section 9.3 as if such lands initially had been committed hereto; however, no annual rentals shall be payable with respect to those leases covering lands any portions of which are included within any Participating Area until the provisions of Section 9.3 become effective as to such leases. Nothing herein shall operate to excuse further development on the portion of any lease outside the Unit Area where the circumstances would require a reasonably prudent lessee to further develop.

9.3 *Contraction of Unit Area.* Any lands not included or entitled to be included in a Participating Area on the tenth (10th) anniversary of the Effective Date shall be excluded from the Unit Area and from this agreement; provided, however, if only a portion of any lease is included or entitled to be included within a Participating Area, the lease, insofar as it covers the lands so excluded from the Unit Area, shall terminate upon the expiration of ninety (90) days following the date such contraction becomes effective unless annual rentals at the rate specified in the lease are paid on such excluded

lands as hereinafter provided. The lease, insofar as it covers such excluded lands, shall continue in force and effect so long thereafter as Utilized Substances are allocated to a portion of said lease and so long as annual rentals are paid on the portion not within the Participating Area; provided, further, that the first rental payment following contraction shall be paid (with allowance for proration) within ninety (90) days after the date such contraction becomes effective. Thereafter, annual rentals shall be due and payable on the anniversary date of the lease. Nothing herein shall operate to excuse further development on the portion of any lease lying outside the Unit Area where the circumstances would require a reasonably prudent lessee to further develop. Notwithstanding the foregoing provisions of this section, the payment of annual rentals shall not be required to maintain the lease on such excluded lands in force and effect when other provisions of said lease, as applied to the excluded land, will maintain the lease in effect.

9.4 *Segregation of Leases on Additions to Unit Area.* Any lease embracing land of the State of Alaska having no portion of its lands committed hereto on the Effective Date, but having a portion of its lands committed hereto, by enlargement of the Unit Area, shall be segregated as to the portion committed and the portion not committed, and the provisions of such lease shall apply separately to such segregated portions commencing as of the effective date of such enlargement; provided, however, notwithstanding any of the provisions of this agreement to the contrary, any lease embracing lands of the State of Alaska having only a portion of its lands committed hereto shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease if oil or gas is discovered and is capable of being produced in paying quantities from some part of the land embraced in such lease at the time of approval of the addition to the Unit Area by the State of Alaska; or if at the time of such approval by the State the lessee or the Unit Operator is then engaged in bona fide drilling or reworking operations on some part of the lands embraced in such lease, the lease as to all lands embraced therein shall remain in full force and effect so long as such operations are being diligently prosecuted. If such operations result in the production of oil or gas in paying quantities,

said lease shall continue in full force and effect as to all the lands embraced therein so long thereafter as oil or gas is being produced in paying quantities from any portion of said lease. Furthermore, any lease segregated herein shall, as to the non-unitized portion, continue in force and effect for the term thereof, but for not less than two (2) years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities.

Any lease having production in paying quantities on said lease prior to commitment to this agreement by enlargement of the Unit Area shall not be segregated. The non-unitized portion shall not participate in the Unit Area but the lease thereon shall be extended by virtue of the production on the unitized portion and so long as it produces in paying quantities. Nothing herein shall operate to excuse further development on the portion of any lease lying outside the Unit Area where the circumstances would require a reasonably prudent lessee to further develop.

9.5 *Exclusion of Lands Committed.* As to any lands committed hereto which subsequently are excluded from the Unit Area other than by the application of Section 9.3, the lease thereupon shall continue in force and effect for the term of such lease, but for not less than ninety (90) days from the effective date of such exclusion, or as otherwise extended by applicable regulations, and so long thereafter as oil or gas is produced in paying quantities.

ARTICLE 10

CHANGE OF TITLE

10.1 *Successors and Assigns.* This agreement shall extend to, be binding upon, and inure to the benefit of the parties hereto and their respective heirs, devisees, legal representatives, successors, and assigns, and shall constitute a covenant and equitable servitude running with the lands, leases, and interests covered hereby.

10.2 *Transfer of Title.* Any conveyance of all or any part of any interest owned by any party hereto with respect to any Tract shall be made expressly subject to this agreement. No change of title shall be binding on Unit Operators, or any other party hereto

other than the party so transferring, until 12:01 a.m. on the first day of the calendar month next succeeding the date of receipt by Unit Operators of a photocopy or a certified copy of the recorded instrument evidencing such change in ownership.

ARTICLE 11

RELATIONSHIP OF PARTIES

11.1 *No Partnership.* The duties, obligations, and liabilities of the parties hereto are intended to be several and not joint or collective. This agreement is not intended to create, and shall not be construed to create, an association or trust, or to impose a partnership duty, obligation, or liability with regard to any one or more of the parties hereto. Each party hereto shall be individually responsible for its own obligations as herein provided.

11.2 *No Joint Refining or Marketing.* This agreement is not intended to provide, and shall not be construed to provide, directly or indirectly, for any joint refining or marketing of Unitized Substances.

11.3 *Royalty Owners Free of Costs.* This agreement is not intended to impose, and shall not be construed to impose, upon the State of Alaska or any other Royalty Owner any obligation to pay unit expense, unless such Royalty Owner is otherwise so obligated.

11.4 *Confidentiality of Information.* Upon the request of the Unit Operators or Working Interest Owners, the Director shall hold as confidential to the extent authorized by statute, any engineering, geophysical, geological data (including but not limited to drilling logs), daily drilling reports, or any other data or information of like or similar nature which may be requested or required by the State for any purpose of this agreement. As to such of the above items also required to be submitted under the oil and gas conservation regulations, confidentiality shall be maintained to the extent and for such time as authorized by Sections 31.05.030 and 31.05.038, Alaska Statutes, and Section 22.535, Title II, Part 3, Alaska Administrative Code.

ARTICLE 12

LAWS AND REGULATIONS

12.1 *Laws and Regulations.* This agreement shall be subject to all valid applicable federal and state laws, rules, regulations and orders.

12.2 *Reports to the State of Alaska for Purposes of Conservation.* Notwithstanding the definitions for Gas Cap Gas, Solution Gas and Oil in Sections 1.3, 1.20 and 1.7, respectively, or any other provision herein to the contrary, reports to the State of Alaska for conservation purposes under Alaska Statutes 31.05 shall be made on the basis of the definitions of "oil" and "gas" appearing in Alaska Statutes 31.05.170.

ARTICLE 13

FORCE MAJEURE

13.1 *Force Majeure.* All obligations imposed by this agreement on each party, except for the payment of money, shall be suspended while compliance, despite the exercise of due diligence, is prevented in whole or in part by labor disputes, fire, flood, war, civil disturbance, acts of God, Federal, State or municipal law; by any rule, regulation, or order of or delay or failure to act by a Federal, State, municipal or other governmental agency; by inability to secure required Federal, State, municipal or other governmental permits, easements or ordinances; by any judicial acts or restraints; by unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary materials in the open market or delivery thereof to the site of use; or other matters beyond the reasonable control of the party, whether similar to matters herein enumerated or not. This agreement and the leases subject hereto shall not expire nor terminate during any period in which production of Unitized Substances or drilling or well reworking operations or other Unit Operations are suspended by virtue of this Article; provided, however, that nothing in this Article shall be construed to suspend the payment of rentals or of minimum royalties. No party shall be required against its will to adjust or settle any labor dispute.

ARTICLE 14

EFFECTIVE DATE

14.1 *Effective Date* This agreement shall become binding upon each party hereto as of the date such party signs the instrument by which it becomes a party hereto and shall become effective as of 12:01 a.m. on April 1, 1977 after the signing of such an instrument by all of the Working Interest Owners shown on Exhibit A and the State of Alaska, and the signing of the Unit Operating Agreement by such Working Interest Owners. At least one counterpart of this agreement shall be filed for record by Unit Operators in the Barrow Recording District and in the filing office of the Division of Lands in Anchorage, Alaska.

14.2 *Automatic Termination.* If this agreement is not signed by Working Interest Owners shown on Exhibit A on or before June 1, 1977, pursuant to the provisions of Section 14.1 above, this agreement automatically shall cease to be binding on such date.

14.3 *Certificate of Effectiveness.* Unit Operators shall file for record in the Barrow Recording District, State of Alaska, and in the filing office of the Division of Lands in Anchorage, Alaska, a certificate stating the Effective Date.

ARTICLE 15

NONDISCRIMINATION AND LOCAL HIRE

15.1 *Nondiscrimination.* In connection with the performance of work under this agreement, Unit Operators agree to comply with all of the provisions of Section 202(1) to (7), inclusive, of Executive Order 11246 (30 F.R. 12319), which are hereby incorporated by reference into this agreement.

15.2 *Employment of Residents.* Working Interest Owners shall comply with all valid and applicable laws and regulations with regard to the employment, including layoffs, of Alaska residents. Working Interest Owners shall employ qualified Alaska residents and shall not discriminate against Alaska residents, in accordance with AS 38.40 and the regulations adopted pursuant to it. However, if some or all of the requirements of AS 38.40 are held invalid or unconstitutional, this provision shall be void insofar as the statutory requirements are invalid or unconstitutional.

In implementing the provisions of this paragraph, Working Interest Owners shall use their best efforts to include in all collective bargaining agreements with labor unions covering work to be performed under this unit agreement provisions that will assure employment preference to Alaska residents in accordance with AS 38.40 and the regulations adopted pursuant to it. If applicable collective bargaining agreements are in force prior to execution of this unit agreement or commencement of work on this project, Working Interest Owners shall use reasonable efforts to negotiate amendments to those agreements to include appropriate resident employment provisions for the remainder of the term of the existing agreements. The State Department of Labor shall provide Working Interest Owners with any assistance that may be requested by Working Interest Owners in negotiating the required provisions.

ARTICLE 16

TERM

16.1 *Term.* The term of this agreement shall be for ten (10) years after the Effective Date and so long thereafter as Unitized Substances are produced in paying quantities or other Unit Operations are conducted without a cessation of more than ninety (90) consecutive days, unless sooner terminated by Working Interest Owners in the manner herein provided.

16.2 *Termination by Working Interest Owners.* This agreement or any Participating Area may be terminated by Working Interest Owners pursuant to the terms of the Unit Operating Agreement whenever Working Interest Owners so determine and with the approval of the Director.

16.3 *Effect of Termination.* Upon termination of this agreement, the further development and operation of the Unit Area as a unit shall be abandoned, and Unit Operations shall cease. Each oil and gas lease and other agreement covering lands within the Unit Area shall remain in force for the term provided for therein or for one (1) year after the date on which this agreement terminates, whichever is later, as fully and with the same effect as if there were production of oil and gas in paying quantities from each lease, and