

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL & GAS

SARAH PALIN, GOVERNOR

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**CERTIFIED MAIL
RETURN RECEIPT REQUESTED**

September 2, 2008

Jeffery Walker, Regional Supervisor
Minerals Management Service
Alaska Outer Continental Shelf Region
3801 Centerpoint Drive, Suite 500
Anchorage, Alaska 99503-5823

R. L. Skillern, Senior Landman
BP Exploration (Alaska) Inc.
900 East Benson Blvd – MB 4
P.O. Box 196612
Anchorage, Alaska 99519-6612

Subject: Northstar Participating Area Final Unit Tract Participations
Revisions to Northstar Unit Agreement, Revised Exhibit C-1, Sections 2.2.2 and 2.2.3

Dear Messrs. Walker and Skillern:

As you know, on December 26, 2007, BP Exploration, Alaska Inc. (BPXA), as a Working Interest Owner and the Operator of the Northstar Unit (NU) and on behalf of the only other Working Interest Owner, Murphy Exploration Alaska Inc., submitted its proposed Northstar Participating Area Final Unit Tract Participations (BPXA proposal), as required under the NU Agreement, Revised Exhibit C-1, Section 2.1.

Revised Exhibit C-1, Section 2.2.2, anticipates that within four months of the sixth anniversary of Northstar Production the Department of Natural Resources (DNR) and the MMS (Joint Team) must recommend approval or rejection of the BPXA proposal. If rejection is recommended, the Joint Team must propose its own joint participations. Within one month of any joint rejection, BPXA is required to submit comments or objections to the Joint Team proposal.

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

As you also know, the DNR and the MMS were unable to reach agreement to accept or reject the BPXA proposal within the four month deadline. On May 19, 2008, DNR, through the Division of Oil and Gas (Division), rejected the BPXA proposal and proposed alternative participations (State proposal). In a May 27, 2008, letter, the MMS disagreed with the State proposal and recommended approval of the BPXA proposal. On June 16, 2008, the Joint team and BPXA agreed to a revised schedule under Revised Exhibit C-1, Sections 2.2.2 and 2.2.3, providing additional time for the Joint Team to reach agreement about whether to accept or reject the BPXA proposal and to recommend approval or rejection of the BPXA proposal by September 2, 2008.

The DNR and the MMS desire additional time, beyond September 2, 2008, to further evaluate and discuss the BPXA proposal in an effort to reach consensus and approve identical participations, as required under Revised Exhibit C-1, Section 2.3.

My staff has discussed this matter with MMS and BPXA staff. It is my understanding that all the parties have agreed to the following revised schedule under Revised Exhibit C-1, Sections 2.2.2 and 2.2.3, to provide additional time for DNR and the MMS to reach agreement about whether to accept or reject the BPXA proposal.

1. By December 2, 2008, the Joint Team shall recommend approval or rejection of the Proposed Final Unit Tract Participations.
2. By February 2, 2009, BPXA shall provide written comments or objections if the Joint Team recommends rejection of the Proposed Final Unit Tract Participations.
3. By March 2, 2009, the Regional Supervisor and the Commissioner shall approve the Proposed Final Unit Tract Participations, the Joint Team Final Unit Tract Participations, or alternative Final Unit Tract Participations.

In addition, the DNR believes that Section 3.1(b) of Revised Exhibit C-1 was intended to be 1% greater than or 1% less than the Interim Unit Tract Participations for State leases. Therefore, Section 3.1(b) is amended to read as follows:

the sum of the Final Unit Tract Participations for State leases is greater than 83.160% or less than 81.160%.

If BPXA or the MMS disagree with this amendment, please advise me no later than September 16, 2008.

This is the fourth schedule revision agreed to since the BPXA proposal. All other provisions of Revised Exhibit C-1 remain unchanged.

I appreciate BPXA's willingness to allow the DNR and the MMS additional time to make their best efforts to reach consensus on the BPXA proposal.

Sincerely,



Kevin Banks
Director

cc or ec: (electronic copy)

John Denis, BP

Meg Kremer, DNR

Paul Anderson, DNR

Jack Hartz, DNR

Julie Houle, DNR

Art Copoulos, DNR

Cammy Taylor, DNR

Nan Thompson, DNR

Greg Bidwell, DNR

Jim Stouffer, DNR

Jeff Landry, DOL

Richard Todd, DOL

Doug Choromanski, MMS