

**CS FOR SENATE BILL NO. 318(RES)**

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - SECOND SESSION

BY THE SENATE RESOURCES COMMITTEE

Offered: 4/25/96  
Referred: Finance

Sponsor(s): SENATE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

**A BILL**

**FOR AN ACT ENTITLED**

1 "An Act authorizing, approving, and ratifying the amendment of Northstar Unit  
2 oil and gas leases between the State of Alaska and BP Exploration (Alaska)  
3 Inc.; and providing for an effective date."

4 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

5 \* **Section 1.** LEGISLATIVE FINDINGS AND POLICY. Based upon the findings of fact  
6 set out in the "Findings of Fact of the Senate Resources Committee Regarding SB 318," dated  
7 April 24, 1996, the legislature finds

8 (1) the production of oil and gas from state land is a matter of statewide  
9 interest and effect because it is the principal source of revenue to the state and provides  
10 important job opportunities for the people of the state;

11 (2) BP Exploration (Alaska) Inc. holds certain state oil and gas leases in the  
12 Northstar Unit that include net profit share provisions;

13 (3) BP Exploration (Alaska) Inc. has refused to develop the Northstar Unit  
14 leases unless the leases are amended to eliminate the net profit share provisions;

1 (4) unless the net profit share provisions of the Northstar Unit are amended,  
2 production of oil and gas from the unit is highly unlikely to begin before the year 2002;  
3 (5) because of the development account provisions of the net profit share  
4 leases, the later that these leases are developed, the less "net profits" the state receives;  
5 (6) if the net profit share provisions of the Northstar Unit leases are amended,  
6 full production of oil and gas from the unit may begin as early as the year 1999;  
7 (7) amending the net profit share provisions of the Northstar Unit leases to  
8 provide for a supplemental royalty, instead of a share of net profits, will provide economic  
9 benefits of oil and gas production to the people of the state by encouraging production from  
10 the Northstar Unit earlier than it might otherwise occur under the terms of the Northstar Unit  
11 Agreement and the unit's approved Plan of Development;  
12 (8) the development of the unit and the associated construction of unit facilities  
13 within the state will provide additional revenue to the state and increased job opportunities;  
14 (9) the expedited development of the unit may result in increased state revenue  
15 from future oil and gas lease sales;  
16 (10) the expedited development of the unit may result in technological  
17 breakthroughs and other cost savings that may make other development opportunities in the  
18 state economically feasible;  
19 (11) notwithstanding the anticipated benefits that may result from the  
20 amendment of the Northstar Unit's net profit share lease terms, the legislature reaffirms that  
21 it is the policy of the state to enforce the competitively bid terms of its oil and gas leases and  
22 that the commissioner of natural resources should assure that the state's oil and gas resources  
23 are being diligently and timely developed;  
24 (12) the public's confidence that the terms of the state's oil and gas leases are  
25 being fairly and uniformly administered must be maintained;  
26 (13) it is important to assure that there is no appearance of favoritism in the  
27 state's administration of its oil and leases; and therefore  
28 (14) except as provided under sec. 2 of this Act, the commissioner of natural  
29 resources is directed not to negotiate the amendment of the competitively bid terms of any  
30 state oil and gas lease without prior explicit authorization by the legislature through the  
31 passage of a general act granting the authority to do so.

1     \* **Sec. 2.** (a) The State of Alaska and BP Exploration (Alaska) Inc. are parties to the  
2 following leases in the Northstar Unit:

- 3             (1) ADL 312798, effective February 1, 1980;
- 4             (2) ADL 312799, effective February 1, 1980;
- 5             (3) ADL 312808, effective February 1, 1980;
- 6             (4) ADL 312809, effective February 1, 1980; and
- 7             (5) ADL 355001, effective August 1, 1983.

8             (b) The commissioner of natural resources may amend the Northstar Unit leases  
9 described in (a) of this section as set out below:

10                             AMENDMENT TO THE NORTHSTAR UNIT LEASES  
11                             BETWEEN THE STATE OF ALASKA AND  
12                             BP EXPLORATION (ALASKA) INC.

13             The State of Alaska ("State") and BP Exploration (Alaska) Inc.  
14 ("BPXA") are parties to the following leases in the Northstar Unit: ADL  
15 312798, effective February 1, 1980; ADL 312799, effective February 1, 1980;  
16 ADL 312808, effective February 1, 1980; and ADL 312809, effective  
17 February 1, 1980 (collectively the "1980 Leases"); as well as ADL 355001,  
18 effective August 1, 1983 (the "1983 Lease"). The parties agree to amend the  
19 1980 Leases and the 1983 Lease as set forth in this amendment to the Northstar  
20 Unit leases.

21   1980 Leases

22             (1) Paragraph 6(b) is replaced in its entirety as follows:

23                             (b) Annual rental paid in advance is a credit on the royalty or  
24 supplemental royalty due under this lease for that year.

25             (2) Paragraph 7 is replaced in its entirety as follows:

26                             7. SUPPLEMENTAL ROYALTY. (a) In addition to the  
27 royalty paid and computed under paragraphs 8, 10, and 11 below,  
28 Lessee shall pay to the State a supplemental royalty ("supplemental  
29 royalty"). Lessee shall pay the supplemental royalty, if owed, upon the  
30 same production volume for which royalty is paid ("production  
31 volume"). The supplemental royalty payment for a given month equals

1 the supplemental royalty value times the supplemental royalty  
2 percentage rate ("percentage rate") times the production volume for that  
3 month. The percentage rate shall be calculated monthly by reference  
4 to: (1) an ANS West Coast spot price ("spot price"); and (2) a  
5 supplemental royalty trigger price ("trigger price"). If the spot price is  
6 equal to or less than the trigger price, then the percentage rate equals  
7 zero. If the spot price is greater than the trigger price, then the  
8 percentage rate equals [the spot price per barrel minus the trigger price  
9 per barrel] times 1.5 percent per dollar per barrel. The percentage rate  
10 may never exceed 7.5 percent.

11 (b) The spot price is the price per barrel calculated in Article  
12 3.3 of and Exhibit 4 to the ANS Royalty Litigation Settlement  
13 Agreement ("ANS Agreement"), dated December 31, 1991, between the  
14 State and BPXA, for the crude oil referred to as "ANS (USWC)" in the  
15 ANS Agreement. The trigger price is \$17.35 per barrel through  
16 April 30, 1997. On May 1, 1997, and each May 1 thereafter, the  
17 trigger price shall be adjusted by an inflation factor equal to fifty  
18 percent of the "inflation rate" defined as the Producer Price Index for  
19 Industrial Commodities ("PPI") for December of the previous year, as  
20 reported by April 30 of the current year, divided by the PPI for  
21 December of 1995, as reported by April 30, 1996. The supplemental  
22 royalty value for oil, gas, natural gas liquids and associated substances  
23 is defined in paragraphs 10 and 11 below. Exhibit B is a sample  
24 calculation to demonstrate the method of calculating supplemental  
25 royalty for oil.

26 (3) Paragraph 9 is replaced in its entirety as follows:

27 9. REDUCTION OF ROYALTY. Except as provided in  
28 paragraph 7 above, Lessee shall not be entitled to any reduction of  
29 royalty paid under paragraph 8 above or supplemental royalty paid  
30 under paragraph 7 above based on any current or future agreement,  
31 State statute, or State regulation.

1 (4) Paragraph 10 is replaced in its entirety as follows:

2 10. ROYALTY IN VALUE. Unless the State elects to receive  
3 all or a portion of its royalty or supplemental royalty in kind as  
4 provided in paragraph 12 below, Lessee shall pay to the State the value  
5 of all royalty and supplemental royalty oil, gas and associated  
6 substances as determined under paragraph 11 below. Royalty and  
7 supplemental royalty paid in value shall be free and clear of all lease  
8 expenses (and any portion of such expenses which is incurred away  
9 from the leased area), including, but not limited to, expenses for  
10 separation, cleaning, dehydration, gathering, saltwater disposal, and  
11 preparing the oil, gas or associated substances for transportation off the  
12 leased area. All royalty and supplemental royalty that may become  
13 payable in money to the State shall be paid on or before the last day of  
14 the calendar month following the month in which the oil, gas or  
15 associated substances are produced. Royalty and supplemental royalty  
16 payments shall be accompanied by copies of run tickets or such other  
17 information relating to valuation of royalty and supplemental royalty as  
18 the State may require, which may include, but is not limited to,  
19 evidence of sales, shipments, and amounts of gross oil, gas and  
20 associated substances produced.

21 (5) Paragraph 11 is replaced in its entirety as follows:

22 11. VALUE. For purposes of computing supplemental royalty  
23 due under this lease, the value of supplemental royalty oil, gas, natural  
24 gas liquids and associated substances shall be the value used in  
25 computing royalty on said substances.

26 (a) To compute the value of oil for royalty and supplemental  
27 royalty purposes, this lease shall be deemed an "ANS Lease" under the  
28 terms of the ANS Agreement, irrespective of any provision(s) of such  
29 agreement which would otherwise exclude this lease therefrom.

30 (b) To compute the value of gas and natural gas liquids for  
31 royalty and supplemental royalty purposes, this lease shall be deemed

1 a "Lease" under the terms of the 1995 ANS Gas Royalty Litigation  
2 Settlement Agreement between BPXA and the State dated as of April 1,  
3 1995, irrespective of any provision(s) of such agreement which would  
4 otherwise exclude this lease therefrom.

5 (c) To compute the value of associated substances (which shall  
6 be deemed to exclude oil, gas, and natural gas liquids) for royalty and  
7 supplemental royalty purposes, the value of such associated substances  
8 shall not be less than the highest of:

9 (1) the field price actually received by Lessee for such  
10 associated substances;

11 (2) Lessee's posted price in the field for such associated  
12 substances;

13 (3) the volume weighted average field price actually  
14 received by other producers in the same field or area for associated  
15 substances of like kind and quality at the time such associated  
16 substances are removed from the leased or unit area; or

17 (4) the volume weighted average posted price in the  
18 field of other producers in the same field or area for associated  
19 substances of like kind and quality at the time such associated  
20 substances are removed from the leased or unit area.

21 If associated substances are sold away from the leased or unit  
22 area, the term "field price" above shall be the actual price for such  
23 associated substances received from the purchaser thereof less the actual  
24 cost of transportation away from the leased or unit area to the point of  
25 delivery.

26 Minimum Value Determinations. The State may establish  
27 minimum values for purposes of computing royalties on associated  
28 substances obtained from this lease, with consideration being given to  
29 the price actually received by Lessee, to the price or prices paid in the  
30 same field or area for production of like quality, to posted prices, to  
31 prices received by Lessee and/or other producers from sales occurring

1 away from the leased area, and to other relevant matters. Each such  
2 determination will be made only after Lessee has been given notice and  
3 a reasonable opportunity to be heard. Under this provision, it is  
4 expressly agreed that the minimum value of royalty associated  
5 substances under this lease may not necessarily equal the price of such  
6 associated substances.

7 (6) The following provision shall be added to the end of paragraph 12:

8 (e) Supplemental royalty under paragraph 7 above may be taken  
9 in kind under the same terms and conditions as royalty may be taken  
10 in kind under this paragraph 12.

11 (7) Paragraph 14 is replaced in its entirety as follows:

12 14. APPORTIONMENT OF ROYALTY FROM APPROVED  
13 UNIT. The landowner's royalty and supplemental royalty share of the  
14 unit production allocated to each separately owned tract shall be  
15 regarded as royalty to be distributed to and among, or the proceeds of  
16 it paid to, the landowners, free and clear of all unit expense and free of  
17 any lien for it. Under this provision, the State's royalty and  
18 supplemental royalty share of any unit production allocated to the  
19 leased area shall be regarded as royalty to be distributed to, or the  
20 proceeds of it paid to, the State, free and clear of all unit expenses (and  
21 any portion of such expenses which is incurred away from the unit  
22 area), including, but not limited to, expenses for separation, cleaning,  
23 dehydration, gathering, saltwater disposal, and preparing oil, gas or  
24 associated substances for transportation off the unit area, and free of  
25 any lien for it.

26 (8) Paragraph 28 (c) is added as follows:

27 (c) Notwithstanding any other provisions of this lease, the  
28 Northstar Unit Agreement, State statute, or State regulation, this lease  
29 shall terminate automatically without notice, an opportunity to be heard,  
30 or judicial proceeding, if the Lessee fails to comply with the sanction  
31 schedule set forth in Exhibit C ("sanction schedule"), attached and

1 incorporated by reference. Automatic termination shall occur whether  
2 or not there is a well on the leased area capable of producing oil or gas  
3 in paying quantities, the lease is committed to a unit agreement, or the  
4 Lessee is drilling or conducting reworking operations, on the date  
5 performance under the schedule is due. Furthermore, upon termination  
6 BPXA shall promptly file of record appropriate lease relinquishments.  
7 The automatic termination shall occur at 11:59 P.M., Alaska Time, on  
8 the day performance of the obligation under the sanction schedule is  
9 due.

10 (9) Paragraph 32 is replaced in its entirety as follows:

11 32. FORCE MAJEURE. If the State determines that Lessee has  
12 been prevented, after diligent efforts made in good faith, from  
13 complying with any express or implied promise, term, condition or  
14 covenant of this lease (other than the obligation to provide project  
15 sanction within twelve (12) months of the passage by the legislature of  
16 an Act authorizing an Amendment to the Northstar Unit leases for the  
17 project), from conducting drilling operations, or from producing or  
18 marketing oil or gas from the leased area, by reason of war, riots, acts  
19 of God, unusually severe weather, or any other cause beyond Lessee's  
20 reasonable ability to foresee or control (including delays caused by  
21 judicial decision or lack thereof or inability to obtain local, State, or  
22 federal permits or environmental impact statements), whether similar to  
23 those enumerated or not, Lessee's obligation to comply with such  
24 provision shall be suspended, but not voided, and Lessee shall not be  
25 liable for damages for failure to comply therewith. If Lessee's  
26 obligations to conduct drilling or reworking operations are suspended  
27 under this paragraph and the continuation of such operations without  
28 suspension would have had the effect of preventing the expiration or  
29 termination of this lease, this lease shall not terminate during the period  
30 which the obligation to perform such operations is suspended. Nothing  
31 in this paragraph shall be construed to suspend the obligation to pay

1 rentals, or to suspend the obligation to pay royalties, supplemental  
2 royalties or other production payments from operations on the lease area  
3 which are not suspended or from operations which are not affected by  
4 any such suspension, to the State.

5 (10) Paragraph 41 is replaced in its entirety as follows:

6 41. FABRICATION OF PRODUCTION AND PROCESSING  
7 MODULES WITHIN ALASKA AND EMPLOYMENT OF ALASKAN  
8 RESIDENTS. Lessee agrees to utilize on-site production and  
9 processing modules for development of the Northstar oil field, and  
10 agrees to fabricate those modules within Alaska. BP Exploration  
11 (Alaska) Inc. will reimburse the State for any public funds expended to  
12 prepare, develop or operate any sites or facilities necessary for the  
13 fabrication, transportation or installation of the Northstar Unit  
14 production and processing modules. All expenses associated with the  
15 design, fabrication, transportation and installation of production and  
16 processing modules required for the development of the Northstar oil  
17 field will be the sole responsibility of BP Exploration (Alaska) Inc. and  
18 its contractors.

19 Lessee shall comply with all valid federal, State and local laws  
20 in hiring Alaska residents and contractors and shall not discriminate  
21 against Alaska residents or contractors. Within the constraints of law,  
22 Lessee shall employ Alaska residents and contractors to the extent they  
23 are available and qualified. Subject to the foregoing:

24 Lessee voluntarily agrees to hire residents of Alaska. Lessee  
25 shall advertise for available positions locally and use Alaska job service  
26 organizations to notify the Alaskan public. For work in connection with  
27 this lease, Lessee shall purchase materials and services from Alaska  
28 vendors, suppliers, and consultants and shall contract with Alaska firms  
29 for fabricating the modules for on-site production and processing  
30 facilities in Alaska. Lessee shall require its contractors to employ and  
31 train, when necessary, residents of Alaska. Lessee shall submit

1 annually to the Director, Division of Oil and Gas, for transmission to  
2 the President of the Senate and the Speaker of the House of  
3 Representatives, a report that details the specific measures Lessee and  
4 its contractors and subcontractors have taken or are planning to take to  
5 recruit qualified Alaska residents for available jobs, describes on-the-job  
6 training opportunities, and describes Lessee's efforts to hire Alaska  
7 firms for work in connection with this lease. Lessee shall furnish the  
8 Department of Labor, for transmission to the President of the Senate  
9 and the Speaker of the House of Representatives, a quarterly report  
10 regarding the employment of Alaska residents on the lease area in  
11 compliance with regulations by the Department of Labor. The report  
12 must also include statistical data concerning the number of resident  
13 personnel hired within the past year for this lease.

14 1983 Lease

- 15 (1) Paragraph 4(f) and paragraph 34(7) are deleted and replaced in their  
16 entirety with the following paragraph 4(f):

17 (f) FORCE MAJEURE. If the State determines that lessee has  
18 been prevented, after diligent efforts made in good faith, from  
19 complying with any express or implied promise, term, condition or  
20 covenant of this lease (other than the obligation to provide project  
21 sanction within twelve (12) months of the passage by the legislature of  
22 an Act authorizing an Amendment to the Northstar Unit leases for the  
23 project), from conducting drilling operations, or from producing or  
24 marketing oil or gas from the leased area, by reason of war, riots, acts  
25 of God, unusually severe weather, or any other cause beyond lessee's  
26 reasonable ability to foresee or control (including delays caused by  
27 judicial decision or lack thereof or inability to obtain local, State, or  
28 federal permits or environmental impact statements), whether similar to  
29 those enumerated or not, lessee's obligation to comply with such  
30 provision shall be suspended, but not voided, and lessee shall not be  
31 liable for damages for failure to comply therewith. If lessee's

1 obligations to conduct drilling or reworking operations are suspended  
2 under this paragraph and the continuation of such operations without  
3 suspension would have had the effect of preventing the expiration or  
4 termination of this lease, this lease shall not terminate during the period  
5 which the obligation to perform such operations is suspended. Nothing  
6 in this paragraph shall be construed to suspend the obligation to pay  
7 rentals, or to suspend the obligation to pay royalties, supplemental  
8 royalties or other production payments from operations on the lease area  
9 which are not suspended or from operations which are not affected by  
10 any such suspension, to the State.

11 (2) Paragraph 5(b) is replaced in its entirety as follows:

12 (b) Annual rental paid in advance is a credit on the royalty or  
13 supplemental royalty due under this lease for that year.

14 (3) Paragraph 7 is replaced in its entirety as follows:

15 7. APPORTIONMENT OF ROYALTY FROM APPROVED  
16 UNIT. The State's royalty and supplemental royalty share of the unit  
17 production allocated to each separately owned tract must be regarded  
18 as royalty to be distributed to or among, or the proceeds of it paid to,  
19 the State, free and clear of all unit expenses and free of any lien for  
20 them. Under this provision, the State's royalty and supplemental  
21 royalty share of any unit production allocated to the leased area will be  
22 regarded as royalty to be distributed to, or the proceeds of it paid to, the  
23 State, free and clear of all unit expenses (and any portion of those  
24 expenses incurred away from the unit area), including, but not limited  
25 to, expenses for separating, cleaning, dehydration, gathering, saltwater  
26 disposal, and preparing oil, gas, or associated substances for  
27 transportation off the unit area, and free of any lien for them.

28 (4) A new paragraph 20(c) is added as follows:

29 (c) Notwithstanding any other provisions of this lease, the  
30 Northstar Unit Agreement, State statute, or State regulation, this lease  
31 shall terminate automatically without notice, an opportunity to be heard,

1 or judicial proceeding, if the lessee fails to comply with the sanction  
2 schedule set forth in Exhibit C ("sanction schedule"), attached and  
3 incorporated by reference. Automatic termination shall occur whether  
4 or not there is a well on the leased area capable of producing oil or gas  
5 in paying quantities, the lease is committed to a unit agreement, or the  
6 lessee is drilling or conducting reworking operations, on the date  
7 performance under the schedule is due. Furthermore, upon termination  
8 BPXA shall promptly file of record appropriate lease relinquishments.  
9 The automatic termination shall occur at 11:59 P.M., Alaska Time, on  
10 the day performance of an obligation under the sanction schedule is  
11 due.

12 (5) Paragraph 31 is replaced in its entirety as follows:

13 31. FABRICATION OF PRODUCTION AND PROCESSING  
14 MODULES WITHIN ALASKA AND EMPLOYMENT OF ALASKAN  
15 RESIDENTS. Lessee agrees to utilize on-site production and  
16 processing modules for development of the Northstar oil field, and  
17 agrees to fabricate those modules within Alaska. BP Exploration  
18 (Alaska) Inc. will reimburse the state for any public funds expended to  
19 prepare, develop or operate any sites or facilities necessary for the  
20 fabrication, transportation or installation of the Northstar Unit  
21 production and processing modules. All expenses associated with the  
22 design, fabrication, transportation and installation of production and  
23 processing modules required for the development of the Northstar oil  
24 field will be the sole responsibility of BP Exploration (Alaska) Inc. and  
25 its contractors.

26 Lessee shall comply with all valid federal, State and local laws  
27 in hiring Alaska residents and contractors and shall not discriminate  
28 against Alaska residents or contractors. Within the constraints of law,  
29 Lessee shall employ Alaska residents and contractors to the extent they  
30 are available and qualified. Subject to the foregoing:

31 Lessee voluntarily agrees to hire residents of Alaska. Lessee

1 shall advertise for available positions locally and use Alaska job service  
2 organizations to notify the Alaskan public. For work in connection with  
3 this lease, Lessee shall purchase materials and services from Alaska  
4 vendors, suppliers, and consultants and shall contract with Alaska firms  
5 for fabricating the modules for on-site production and processing  
6 facilities in Alaska. Lessee shall require its contractors to employ and  
7 train, when necessary, residents of Alaska. Lessee shall submit  
8 annually to the Director, Division of Oil and Gas, for transmission to  
9 the President of the Senate and the Speaker of the House of  
10 Representatives, a report that details the specific measures Lessee and  
11 its contractors and subcontractors have taken or are planning to take to  
12 recruit qualified Alaska residents for available jobs, describes on-the-job  
13 training opportunities, and describes Lessee's efforts to hire Alaska  
14 firms for work in connection with this lease. Lessee shall furnish the  
15 Department of Labor, for transmission to the President of the Senate  
16 and the Speaker of the House of Representatives, a quarterly report  
17 regarding the employment of Alaska residents on the lease area in  
18 compliance with regulations by the Department of Labor. The report  
19 must also include statistical data concerning the number of resident  
20 personnel hired within the past year for this lease.

21 (6) Paragraph 35 is replaced in its entirety as follows:

22 35. ROYALTY ON PRODUCTION. Except for oil, gas, and  
23 associated substances used on the leased area for development and  
24 production or unavoidably lost, the lessee shall pay to the State as a  
25 royalty 20 percent in amount or value of the oil, gas, and associated  
26 substances saved, removed, or sold from the leased area and of the gas  
27 used on the leased area for extraction of natural gasoline or other  
28 products from the leased area.

29 (7) Paragraph 36 is replaced in its entirety as follows:

30 36. VALUE. For purposes of computing supplemental royalty  
31 due under this lease, the value of supplemental royalty oil, gas, natural

1 gas liquids, and associated substances shall be the value used in  
2 computing royalty on said substances.

3 (a) To compute the value of oil for royalty and supplemental  
4 royalty purposes, this lease shall be deemed an "ANS Lease" under the  
5 terms of the ANS Agreement, irrespective of any provision(s) of such  
6 agreement which would otherwise exclude this lease therefrom.

7 (b) To compute value of gas and natural gas liquids for royalty  
8 and supplemental royalty purposes, this lease shall be deemed a "Lease"  
9 under the terms of the 1995 ANS Gas Royalty Litigation Settlement  
10 Agreement between BPXA and the State dated as of April 1, 1995,  
11 irrespective of any provision(s) of such agreement which would  
12 otherwise exclude this lease therefrom.

13 (c) To compute the value of associated substances (which shall  
14 be deemed to exclude oil, gas, and natural gas liquids) for royalty and  
15 supplemental royalty purposes, the value of such associated substances  
16 shall not be less than the highest of:

17 (1) the field price actually received by lessee for such  
18 associated substances;

19 (2) Lessee's posted price in the field for such associated  
20 substances;

21 (3) the volume weighted average field price actually  
22 received by other producers in the same field or area for associated  
23 substances of like kind and quality at the time such associated  
24 substances are removed from the leased or unit area; or

25 (4) the volume weighted average posted price in the  
26 field of other producers in the same field or area for associated  
27 substances of like kind and quality at the time such associated  
28 substances are removed from the leased or unit area.

29 If associated substances are sold away from the leased or unit  
30 area, the term "field price" above shall be the actual price for such  
31 associated substances received from the purchaser thereof less the actual

1 cost of transportation away from the leased or unit area to the point of  
2 delivery.

3 Minimum Value Determinations. The State may establish  
4 minimum values for purposes of computing royalties on associated  
5 substances obtained from this lease, with consideration being given to  
6 the price actually received by lessee, to the price or prices paid in the  
7 same field or area for production of like quality, to posted prices, to  
8 prices received by lessee and/or other producers from sales occurring  
9 away from the leased area, and to other relevant matters. Each such  
10 determination will be made only after lessee has been given notice and  
11 a reasonable opportunity to be heard. Under this provision, it is  
12 expressly agreed that the minimum value of royalty associated  
13 substances under this lease may not necessarily equal the price of such  
14 associated substances.

15 (8) Paragraph 37 is replaced in its entirety as follows:

16 37. ROYALTY IN VALUE. Unless the State elects to receive  
17 all or a portion of its royalty or supplemental royalty in kind as  
18 provided in paragraph 38, lessee shall pay to the State the value of all  
19 royalty and supplemental royalty oil, gas and associated substances as  
20 determined under paragraph 36. Royalty and supplemental royalty paid  
21 in value shall be free and clear of all lease expenses (and any portion  
22 of such expenses which is incurred away from the leased area),  
23 including, but not limited to, expenses for separation, cleaning,  
24 dehydration, gathering, saltwater disposal, and preparing the oil, gas or  
25 associated substances for transportation off the leased area. All royalty  
26 and supplemental royalty that may become payable in money to the  
27 State shall be paid on or before the last day of the calendar month  
28 following the month in which the oil, gas or associated substances are  
29 produced. Royalty and supplemental royalty payments shall be  
30 accompanied by copies of run tickets or such other information relating  
31 to valuation of royalty and supplemental royalty as the State may

1 require, which may include, but is not limited to, evidence of sales,  
2 shipments, and amounts of gross oil, gas and associated substances  
3 produced.

4 (9) The following provisions shall be added to the end of paragraph 38:

5 (f) Supplemental royalty under this lease may be taken in kind  
6 under the same terms and conditions as royalty may be taken in kind  
7 under this paragraph 38.

8 (10) Paragraph 39 is replaced in its entirety as follows:

9 39. REDUCTION OF ROYALTY. Except as provided in  
10 paragraph 40 below, lessee shall not be entitled to any reduction of  
11 royalty paid under paragraph 35 above or supplemental royalty paid  
12 under paragraph 40 below based on any current or future agreement,  
13 State statute, or State regulation.

14 (11) Paragraph 40 is replaced in its entirety as follows:

15 40. SUPPLEMENTAL ROYALTY. (a) In addition to the  
16 royalty paid and computed under paragraphs 35, 36, 37 above, lessee  
17 shall pay to the State a supplemental royalty ("supplemental royalty").  
18 Lessee shall pay the supplemental royalty, if owed, upon the same  
19 production volume for which royalty is paid ("production volume").  
20 The supplemental royalty payment for a given month equals the  
21 supplemental royalty value times the supplemental royalty percentage  
22 rate ("percentage rate") times the production volume for that month.  
23 The percentage rate shall be calculated monthly by reference to: (1) an  
24 ANS West Coast spot price ("spot price"); and (2) a supplemental  
25 royalty trigger price ("trigger price"). If the spot price is equal to or  
26 less than the trigger price, then the percentage rate equals zero. If the  
27 spot price is greater than the trigger price, then the percentage rate  
28 equals [the spot price per barrel minus the trigger price per barrel] times  
29 1.5 percent per dollar per barrel. The percentage rate may never exceed  
30 7.5 percent.

31 (b) The spot price is the price per barrel calculated in Article

1 3.3 of and Exhibit 4 to the ANS Royalty Litigation Settlement  
2 Agreement ("ANS Agreement"), dated December 31, 1991, between the  
3 State and BP Exploration (Alaska) Inc. for the crude oil referred to as  
4 "ANS (USWC)" in the ANS Agreement. The trigger price is \$17.35  
5 per barrel through April 30, 1997. On May 1, 1997, and each May 1  
6 thereafter, the trigger price shall be adjusted by an inflation factor equal  
7 to fifty percent of the "inflation rate" defined as the Producer Price  
8 Index for Industrial Commodities ("PPI") for December of the previous  
9 year, as reported by April 30 of the current year, divided by the PPI for  
10 December of 1995, as reported by April 30, 1996. The supplemental  
11 royalty value for oil, gas, natural gas liquids and associated substances  
12 is defined in paragraphs 36 and 37 above. Exhibit B is a sample  
13 calculation to demonstrate the method of calculating supplemental  
14 royalty for oil.

15 These amendments do not affect: (1) any future agreements which may  
16 be reached for the handling of outside substances as that term is used in the  
17 Northstar Unit Agreement effective January 24, 1990, or (2) the current  
18 valuation methodology for royalty for any other Alaska Net Profit Share leases  
19 between the State and BP Exploration (Alaska) Inc. or any affiliates or any  
20 future agreements which may be reached regarding a future valuation  
21 methodology for Alaska Net Profit Share leases. These amendments take effect  
22 on the first day following delivery of a letter from the commissioner of the  
23 Department of Natural Resources to the Revisor of Statutes, with copies to the  
24 President of the Senate and the Speaker of the House of Representatives,  
25 confirming that BP Exploration (Alaska) Inc. or its parent entity has made an  
26 irrevocable commitment of full funding (project sanction) to develop the North  
27 Star Oil Field. This amendment is dated for reference purposes as of \_\_\_\_\_  
28 \_\_\_\_\_ (Date).

29 LESSEE:

LESSOR:

30 BP EXPLORATION (ALASKA), INC.

STATE OF ALASKA

31 \_\_\_\_\_

1 \_\_\_\_\_, Vice President \_\_\_\_\_, Commissioner  
2 Department of Natural Resources

3 STATE OF ALASKA )  
4 ) ss.  
5 Third Judicial District )

6 On \_\_\_\_\_, 1996, before me appeared \_\_\_\_\_,  
7 Commissioner, State of Alaska, Department of Natural Resources, and who  
8 executed this lease and acknowledged voluntarily signing it on behalf of the  
9 State of Alaska, as lessor.

10 \_\_\_\_\_  
11 Notary Public in and for the State of Alaska  
12 My Commission expires: \_\_\_\_\_

13 STATE OF ALASKA )  
14 ) ss.  
15 Third Judicial District )

16 On \_\_\_\_\_, 1996, before me appeared \_\_\_\_\_,  
17 Vice President of BP Exploration (Alaska), Inc. and who executed this lease  
18 and acknowledged voluntarily signing it on behalf of the BP Exploration  
19 (Alaska), Inc. as lessee.

20 \_\_\_\_\_  
21 Notary Public in and for the State of Alaska  
22 My Commission expires: \_\_\_\_\_

23 Exhibit B

24 Calculation of the Supplemental Royalty Payment for Oil

25 (1) The calculation of the ANS West Coast spot price is derived  
26 from Platt's "Oilgram Price Report" Spot Crude Price Assessments:

27 Platt's Reported Daily  
28 Assessment (\$/barrel)

29 Date	ANSWC	ANSWC	ANSWC	ANSWC
30	Low	High	Daily Average	Daily Average

					(After Rounding) <sup>1</sup>
1					
2	01/02/96	\$17.97	\$18.06	\$18.015	\$18.02
3	01/03/96	\$17.94	\$18.03	\$17.985	\$17.98
4	01/04/96	\$17.96	\$18.03	\$17.995	\$18.00
5	01/05/96	\$18.60	\$18.64	\$18.620	\$18.62
6	01/09/96	\$18.23	\$18.29	\$18.260	\$18.26
7	01/10/96	\$17.99	\$18.05	\$18.020	\$18.02
8	01/11/96	\$17.10	\$17.17	\$18.135	\$17.14
9	01/12/96	\$16.64	\$16.71	\$18.675	\$16.68
10	01/15/96	\$16.75	\$16.83	\$16.690	\$16.79
11	01/16/96	\$16.60	\$16.66	\$16.730	\$16.63
12	01/17/96	\$16.91	\$16.97	\$16.940	\$16.94
13	01/18/96	\$17.46	\$17.54	\$17.500	\$17.50
14	01/19/96	\$17.28	\$17.37	\$17.325	\$17.32
15	01/22/96	\$17.02	\$17.08	\$17.050	\$17.05
16	01/23/96	\$17.10	\$17.16	\$17.150	\$17.13
17	01/24/96	\$17.35	\$17.41	\$17.380	\$17.38
18	01/25/96	\$16.76	\$16.81	\$17.785	\$16.78
19	01/26/96	\$16.43	\$16.53	\$17.480	\$16.48
20	01/29/96	\$16.16	\$16.24	\$16.200	\$16.20
21	01/30/96	\$16.30	\$16.38	\$16.340	\$16.34
22	01/31/96	\$16.46	\$16.56	\$16.510	\$16.51
23	Monthly Average calculated from ANSWC Daily				
24	Average (After Rounding) =				\$17.2271 per barrel
25	ANS West Coast spot price for the January 1996				
26	month of production =				\$17.23 per barrel
27	(2) The inflation factor shall be calculated as follows: Assume				
28	that by April 30, 1996, the U.S. Department of Labor reports a PPI for				
29	December 1995 as 126.2. Assume that by April 30, 1998, the PPI for				

---

<sup>1</sup> All source and calculated numbers shall be rounded as required in the ANS Agreement.

1 December 1997 is 134.2. The inflation factor for 1998 is calculated according  
2 to the following formula:

3 Inflation Factor for May 1, 1998, through April 30, 1999

4 
$$= [(PPI \text{ December of the previous year} \div PPI \text{ December 1995}) - 1] \times 0.5$$

5 
$$= [(134.2 \div 126.2) - 1] \times 0.5 = 0.0317 = 3.17 \text{ percent}$$

6 (3) The trigger price for May 1, 1998, through April 30, 1999,  
7 is calculated by adjusting \$17.35 per barrel by the inflation factor as follows:

8 Trigger price for the current year = \$17.35 per barrel x (1 + inflation factor)

9 = \$17.35 per barrel x (1 + 3.17 percent)

10 = \$17.35 x 1.0317

11 = \$17.90 per barrel

12 (4) Assuming the current month ANSWC spot price is \$21.40,  
13 the supplemental royalty percentage rate is calculated as:

14 Supplemental royalty percentage rate = (ANSWC spot price - trigger price for the  
15 current year) x (1.5 percent per dollar per barrel)

16 = (\$21.40 per barrel - \$17.90 per barrel) x 1.5 percent per dollar per barrel

17 = (21.40 - 17.90) x 0.015

18 = 0.05250 = 5.25 percent

19 (5) The calculation of the supplemental royalty payment for the  
20 current month is the product of the production volume times the royalty value  
21 and the supplemental royalty percentage rate. Assume that 1,550,000 barrels  
22 of oil were produced in the Northstar unit in the current month and that the  
23 royalty value is \$17.71. The supplemental royalty is:

24 Supplemental royalty payment = production volume x royalty value x supplemental  
25 royalty percentage rate

26 = 1,550,000 barrels x \$17.71 per barrel x 5.25 percent

27 = \$1,441,151.25

28 EXHIBIT C

29 SANCTION SCHEDULE

30 The Northstar Development Project ("the Project") is described in the  
31 document titled "Northstar Development Project, Conceptual Engineering

1 Report" dated February 1996. BPXA shall comply with the following sanction  
2 schedule for the Project and shall provide satisfactory evidence of compliance  
3 within fifteen (15) days of the date performance is due under the schedule:

4 BPXA shall receive Project sanction within twelve (12) months after  
5 passage by the legislature of an Act approving the Amendment to the Northstar  
6 Unit Leases for the Project. "Project sanction" means approval in writing by  
7 the highest appropriate authority in BPXA or its parent entity necessary for the  
8 total amount of expenditures required for the Project. Satisfactory evidence of  
9 receipt of sanction shall be tendered to the State in the form of the sanctioning  
10 entity's documents approving the expenditure of funds for the Project. If  
11 project sanction is withdrawn for any reason whatsoever, BPXA shall notify the  
12 State within three working days by letter from an authorized officer and BPXA  
13 shall be deemed to have failed to comply with this schedule.

14 (c) Notwithstanding any other provision of law, the "Amendment to the Northstar Unit  
15 Leases Between the State of Alaska and BP Exploration (Alaska) Inc." as described in (b) of  
16 this section, if voluntarily agreed to by the commissioner of natural resources and BP  
17 Exploration (Alaska) Inc., is approved and ratified.

18 \* **Sec. 3.** This Act takes effect on the first day following delivery of a letter from the  
19 commissioner of natural resources to the revisor of statutes, with copies to the president of the  
20 senate and the speaker of the house of representatives, confirming that BP Exploration  
21 (Alaska) Inc. or its parent entity has made a commitment of full funding (projection sanction)  
22 to develop the Northstar Oil Field.