

HB

548

HFIN

FILE

9-GH2065R
Chenoweth
4/29/96

CS FOR HOUSE BILL NO. 548()
IN THE LEGISLATURE OF THE STATE OF ALASKA
NINETEENTH LEGISLATURE - SECOND SESSION

BY

Offered:
Referred:

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

A BILL

FOR AN ACT ENTITLED

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

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

5 * Section 1. LEGISLATIVE FINDINGS AND INTENT. (a) The legislature finds that

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

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

11 (3) unless the net profit share provisions of the Northstar Unit leases are
12 amended, production of oil and gas from the unit is highly unlikely to begin before the year
13 2002, if at all;

14 (4) because of the development account provisions of the net profit share

1 leases, the later that these leases are developed, the less "net profits" the state receives;

2 (5) if the net profit share provisions of the Northstar Unit leases are amended,
3 full production of oil and gas from the unit may begin as early as the year 1999;

4 (6) amending the net profit share provisions of the Northstar Unit leases to
5 provide for a supplemental royalty will maximize the economic benefits of oil and gas
6 production to the people of the state by encouraging timely production from the unit;

7 (7) the development of the Northstar Unit will provide additional revenue to
8 the state;

9 (8) the timely development of the unit may result in increased state revenue
10 in future lease sales; and

11 (9) the timely development of the unit may result in technological
12 breakthroughs and other cost savings that may make other development opportunities in
13 Alaska economically feasible.

14 (b) With respect to the effect of the effort to secure earlier development of the leases
15 on employment opportunities for state residents and on the state's economy, the legislature
16 finds that

17 (1) paragraph 41 of the 1980 lease and paragraph 31 of the 1983 lease are to
18 be amended; under each of the proposed amendments,

19 (A) the lessee, BP Exploration (Alaska) Inc., undertakes

20 (i) to use its best efforts to advertise for, recruit, and employ
21 qualified residents of the state;

22 (ii) to contract with existing licensed Alaska firms to fabricate
23 the modules to develop the Northstar Unit leases within the state and, in
24 contracting with those firms, to encourage its contractors to employ and, when
25 necessary, train existing state residents;

26 (iii) to enter into contracts with Alaska-licensed vendors,
27 contractors, and suppliers for the provision of supplies and services; and

28 (B) several state agencies with responsibility for improving the
29 employment opportunities of state residents, including training, commit to efforts to
30 supplement and support the lessee's undertakings;

31 (2) the lessee, BP Exploration (Alaska) Inc., has made significant investments

1 in the state, is ranked as one of the state's largest private sector employers, and regularly
2 enters into contracts to obtain support services; consequently, the lessee's fulfillment of the
3 undertakings described in (1) of this subsection should materially contribute to existing
4 resident workforce employment opportunities and to the state's economic stability;

5 (3) a good faith effort by the lessee, BP Exploration (Alaska) Inc., and the state
6 agencies to fulfill the undertakings described in (1) of this subsection should ensure that, under
7 the amended leases, benefits will accrue directly and immediately to the people of the state;
8 and

9 (4) the mutual commitments made by the parties to the lease in these
10 amendments to secure to state residents and businesses the advantages and benefits of both
11 expanded resident hire opportunities and additional work by in-state businesses are in the best
12 interests of the people of the state and are considerations of paramount importance to the
13 legislature in its decision to conditionally approve the proposed amendments of the Northstar
14 Unit leases.

15 * Sec. 2. LEGISLATIVE INTENT REGARDING MEANING OF SPECIFIC RESIDENT
16 EMPLOYMENT REQUIREMENTS. (a) The legislature wishes to set out its intent regarding
17 meaning of certain words and phrases used in the "First Amendment to the Northstar Unit
18 Leases between the State of Alaska and BP Exploration (Alaska) Inc. ('Northstar
19 Amendment')" that is approved by this Act. Specifically, the legislature wishes to set out its
20 intent regarding Paragraph 41 of the 1980 Leases titled "Employment of Alaskan Residents"
21 and Paragraph 31 of the 1983 Lease titled "Employment of Alaskan Residents" in the
22 Northstar Amendment, collectively the "Employment Paragraphs." The legislature intends that
23 the Alaska residents and contractors discussed in the Employment Paragraphs are truly
24 Alaskan and that Alaska residents throughout the state be given an opportunity to obtain
25 employment on the Northstar project.

26 (b) The legislature believes that

27 (1) the findings made by the legislature in AS 36.10.005(a)(1) - (8) and (11) -
28 (18), (c), and (d), regarding an employment preference for Alaska residents on state
29 construction projects are equally applicable to the Northstar Amendment; and

30 (2) the state has a compelling interest in reducing the level of unemployment
31 among its residents.

1 (c) The legislature intends, for purposes of the Employment Paragraphs, that

2 (1) the phrases "Alaska resident," "residents of Alaska," and "resident
3 personnel" mean an individual who is physically present in the state with the intent to remain
4 in the state indefinitely and to make a home in the state;

5 (2) an individual demonstrates that intent by maintaining a residence in the
6 state;

7 (3) other acceptable proof of that intent includes evidence that the individual:
8 is registered to vote in the state, attends school in the state, possesses an Alaska driver's,
9 fishing, trapping, or hunting license, or receives a permanent fund dividend; and

10 (4) the hiring entity may also require that the individual state under oath that
11 the individual is not claiming residency outside of the state or obtaining benefits under a claim
12 of residency outside of the state.

13 (d) The legislature intends that for purposes of the Employment Paragraphs,

14 (1) the word "available" means Alaska residents who are located anywhere in
15 the state, not just in the area of the state where the work is to be performed; and

16 (2) the word "qualified" means an individual who either currently possesses
17 the requisite education, training, skills, or experience to perform the work necessary for a
18 particular position or is capable of performing such skills after completing one of the job
19 training programs contemplated in the Employment Paragraphs.

20 (e) The legislature understands that nonresidents will be hired only if there are no
21 available and qualified Alaska residents to perform the work. For purposes of the
22 Employment Paragraphs, the legislature intends that the requirement to "advertise for available
23 positions locally" includes advertising in newspapers and other publications located throughout
24 the state, including rural areas, not just in the location where the work is to be performed.

25 (f) The legislature further intends that the requirement to "use Alaska job service
26 organizations" includes those offices maintained by the Department of Labor whose functions
27 are to aid the unemployed in finding employment and any job service organization located
28 throughout the state, not just the location where the work is to be performed.

29 (g) The legislature intends that, for purposes of the Employment Paragraphs, the
30 phrases "Alaska Contractors" and "Alaska firms" mean a firm or contractor that

31 (1) holds an Alaska business license;

- 1 (2) maintains its principal place of business in the state; and
2 (3) is
3 (A) a sole proprietorship and the proprietor is an Alaska resident;
4 (B) a partnership and more than 50 percent of the partners are Alaska
5 residents;
6 (C) a corporation that has been incorporated in the state or is authorized
7 to do business in the state; or
8 (D) is a joint venture composed entirely of ventures that qualify under
9 this paragraph.

10 (h) For purposes of Employment Paragraphs, the legislature intends that the lessee's
11 reporting obligations comply with the reporting requirements of 8 AAC 30.062 and shall
12 include information regarding the number of nonresidents hired within the past year, and the
13 number of Alaska contractors and non-Alaska contractors hired within the past year.

14 * Sec. 3. AMENDMENT OF LEASES AUTHORIZED. (a) The State of Alaska and BP
15 Exploration (Alaska) Inc. are parties to the following leases in the Northstar Unit:

- 16 (1) ADL 312798, effective February 1, 1980;
17 (2) ADL 312799, effective February 1, 1980;
18 (3) ADL 312808, effective February 1, 1980;
19 (4) ADL 312809, effective February 1, 1980; and
20 (5) ADL 355001, effective August 1, 1983.

21 (b) The commissioner of natural resources may amend the Northstar Unit leases
22 described in (a) of this section to the extent set out in the "First Amendment to the Northstar
23 Unit Leases Between the State of Alaska and BP Exploration (Alaska) Inc.", dated March 22,
24 1996, if the amendment includes a provision as follows:

25 (1) Paragraph 41 of each of the leases described in (a)(1) - (4) of this
26 section is replaced in its entirety as follows:

27 "41. EMPLOYMENT OF ALASKAN RESIDENTS. Lessee
28 shall comply with all valid federal, State and local laws in hiring
29 Alaska residents and contractors and shall not discriminate against
30 Alaska residents or contractors. Within the constraints of law, lessee
31 shall employ Alaska residents and contractors to the extent they are

1 available and qualified. Subject to the foregoing:

2 Lessee voluntarily agrees to adopt a program to hire residents of
3 Alaska. Lessee shall advertise for available positions locally and use
4 Alaska job service organizations to notify the Alaskan public. For work
5 in connection with this lease, lessee shall use best efforts to contract
6 with Alaska firms and fabricate modules in Alaska, whenever feasible.
7 Lessee shall encourage its contractors to employ and train, when
8 necessary, residents of Alaska. In determining feasibility, lessee shall
9 consider commercial, health, safety, and environmental conditions and
10 requirements to ensure maintenance of lessee's operational standards.
11 Lessee shall submit annually to the director, division of oil and gas, for
12 transmission to the Department of Labor, a report that details the
13 specific measures lessee and its contractors and subcontractors have
14 taken or are planning to take to recruit qualified Alaska residents for
15 available jobs, describes on-the-job training opportunities, and describes
16 lessee's efforts to hire Alaska firms for work in connection to this lease.
17 Lessee shall furnish the Department of Labor a quarterly report
18 regarding the employment of Alaska residents on the leased area in
19 compliance with regulations by the Commissioner of Labor. The report
20 must also include statistical data concerning the number of resident
21 personnel hired within the past year for this lease";

22 (2) Paragraph 31 of the lease described in (a)(5) of this section is replaced
23 in its entirety as follows:

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

30 Lessee voluntarily agrees to adopt a program to hire residents of
31 Alaska. Lessee shall advertise for available positions locally and use

1 Alaska job service organizations to notify the Alaskan public. For work
 2 in connection with this lease, lessee shall use best efforts to contract
 3 with Alaska firms and fabricate modules in Alaska, whenever feasible.
 4 Lessee shall encourage its contractors to employ and train, when
 5 necessary, residents of Alaska. In determining feasibility, lessee shall
 6 consider commercial, health, safety, and environmental conditions and
 7 requirements to ensure maintenance of lessee's operational standards.
 8 Lessee shall submit annually to the director, division of oil and gas, for
 9 transmission to the Department of Labor, a report that details the
 10 specific measures lessee and its contractors and subcontractors have
 11 taken or are planning to take to recruit qualified Alaska residents for
 12 available jobs, describes on-the-job training opportunities, and describes
 13 lessee's efforts to hire Alaska firms for work in connection to this lease.
 14 Lessee shall furnish the Department of Labor a quarterly report
 15 regarding the employment of Alaska residents on the leased area in
 16 compliance with regulations by the Commissioner of Labor. The report
 17 must also include statistical data concerning the number of resident
 18 personnel hired within the past year for this lease"; and

19 (3) These amendments take effect when and if an Act(s) substantially
 20 similar to the act, attached as Exhibit D and incorporated by reference,
 21 takes effect. This amendment is dated for reference purposes as of
 22 March 22, 1996.

23 * Sec. 4. REPORTING PROVISIONS. The lessee, BP Exploration (Alaska) Inc., shall file
 24 with the commissioner of labor at least every six months the reports that the commissioner
 25 of labor determines are necessary to evaluate the lessee's efforts described under sec. 3(b) of
 26 this Act. *The Commissioner shall submit these reports to the*
Legislature.

27 * Sec. 5. SEVERABILITY. Under AS 01.10.030, the provisions of this Act are severable.

28 * Sec. 6. This Act takes effect immediately under AS 01.10.070(c).

4/30/96

TONY KNOWLES, GOVERNOR

PLEASE REPLY TO

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ANCHORAGE, ALASKA 99501-1392
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KEY BANK BUILDING
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FAIRBANKS, ALASKA 99701-4673
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JUNEAU, ALASKA 99811-0300
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DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

APR 22 1996

April 22, 1996

Honorable Loren Leman
Senator
Alaska State Legislature
Room 115 State Capitol
Juneau, Alaska 99801

Re: SB318 (Northstar Unit net profit
share reduction)

Dear Senator Leman:

You have requested our comments on the draft committee substitute to Senate Bill No. 318.

We recommend that the material set out beginning at page 1, line 5 through page 20, line 8 be deleted from the bill and placed in a separate committee report. The record speaks for itself, there is no need to select and insert excerpts of the record in the bill. It is sufficient that the committee investigate the facts and circumstances of the lease amendments and have a reasonable basis for the action it proposes. The technique of selecting excerpts from the record may be used by opponents of the transaction to argue that the committee placed too much, or not enough reliance on certain facts, when this was not the case. The committee will no doubt rely on the entire record in recommending a bill for passage by the Senate.

We believe that the insertion of an amended lease amendment in statute raises serious questions whether, in enacting this bill, the legislature would be violating the separation of powers doctrine implicit in the Alaska Constitution. The governor proposed a bill that would give the Department of Natural Resources the power to reduce a net profit share lease. The governor's version would also have the legislature ratify the amendments negotiated for the Northstar Unit. The draft committee substitute would enact a counteroffer to the leaseholder which differs from the agreement between the department and British Petroleum. The negotiation of lease agreements is an executive function, not a lawmaking function. Clearly the legislature may delineate the power that the department has when it acts in these matters. It is when the legislature attempts to negotiate on behalf of the state that the separation of powers doctrine has been violated.

Hon. Loren Leman

April 22, 1996

Page 2

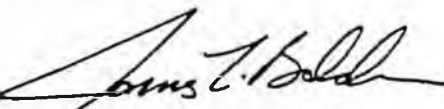
If the committee is determined to effect changes in the present lease amendment, it should consider redrafting the bill to set out limits on the power to reduce or change the net profits aspects of the North Star leases. If the legislature defines the power in a way that is inconsistent with the lease amendments presented, the parties must return to negotiations.

The lease provisions added in the committee substitute relating to local hire may present a legal defect that will lead to litigation. Protracted litigation may frustrate the purpose of the lease amendments. On page 28 lines 10 - 29, the provision appears to mandate resident hire on module fabrication projects. The provision also requires the lessee to ensure that all subcontractors practice local hire. These requirements appear to be similar to the local hire requirements that were struck down in Robison v. Francis, 713 P.2d 259 (Alaska 1986). For this reason, the committee is urged to recede from this proposed change to the lease agreement. It probably does not violate the United States or Alaska Constitutions to require a leaseholder to fabricate modules in Alaska.

Thank-you for the opportunity to comment on the draft committee substitute.

Very truly yours,

BRUCE M. BOTELHO
ATTORNEY GENERAL

By: 
James L. Baldwin
Assistant Attorney General

JLB:clh

R. Brown

Initial Feedback from discussions with Legislators

Senator Pearce, Halford, Lehman, Reiger, Kelly
Rep. Green, Rokeberg, Brice, James, Therriault

- Generally favorable reception, especially to the technical proposal
- Following review, conversation moves to how rather than if (see themes below)

- Themes:
 - Jobs, local hire, Union, Fairbanks, Canada.....
 - Bi-partisan support (avoid the politics of a Governor's bill)
 - Political cover (external messaging: avoid give-away, selling out to big oil)
 - Fairness to others in the Industry
 - previous owners and original bidders
 - Independent analysis (distrust of the Governor and political appointees)
 - support by career workers in DNR, DOR
 - Clear commitment to develop

- Questions:
 - Where are the other NPSL leases? Do they need fixing?
 - Clearer understanding of the history of NPSL leasing
 - which lease sales, who was the Commissioner, etc?
 - Why did we acquire from Amerada given the NPSL terms?
 - Why a specific Northstar/BPX bill? Why not policy "fix" of all NPSL leases?
 - What of ARCO? Will they support, oppose, or remain neutral?
 - Alignment with the recommendations of the O&G Policy Council
 - Will BP also support a heavy oil bill? with what priority?
 - Is the proposal "legal" and constitutional?
 - Can ratification be used to force BP to commitment on Gas development?

EM Luttrell
2 January 1996

Northstar

Key Variables Affecting Economics



- **Oil Reserves**
- **Capital Investment**
- **Oil Price**
- **Operating Costs**
- **Production Rate**

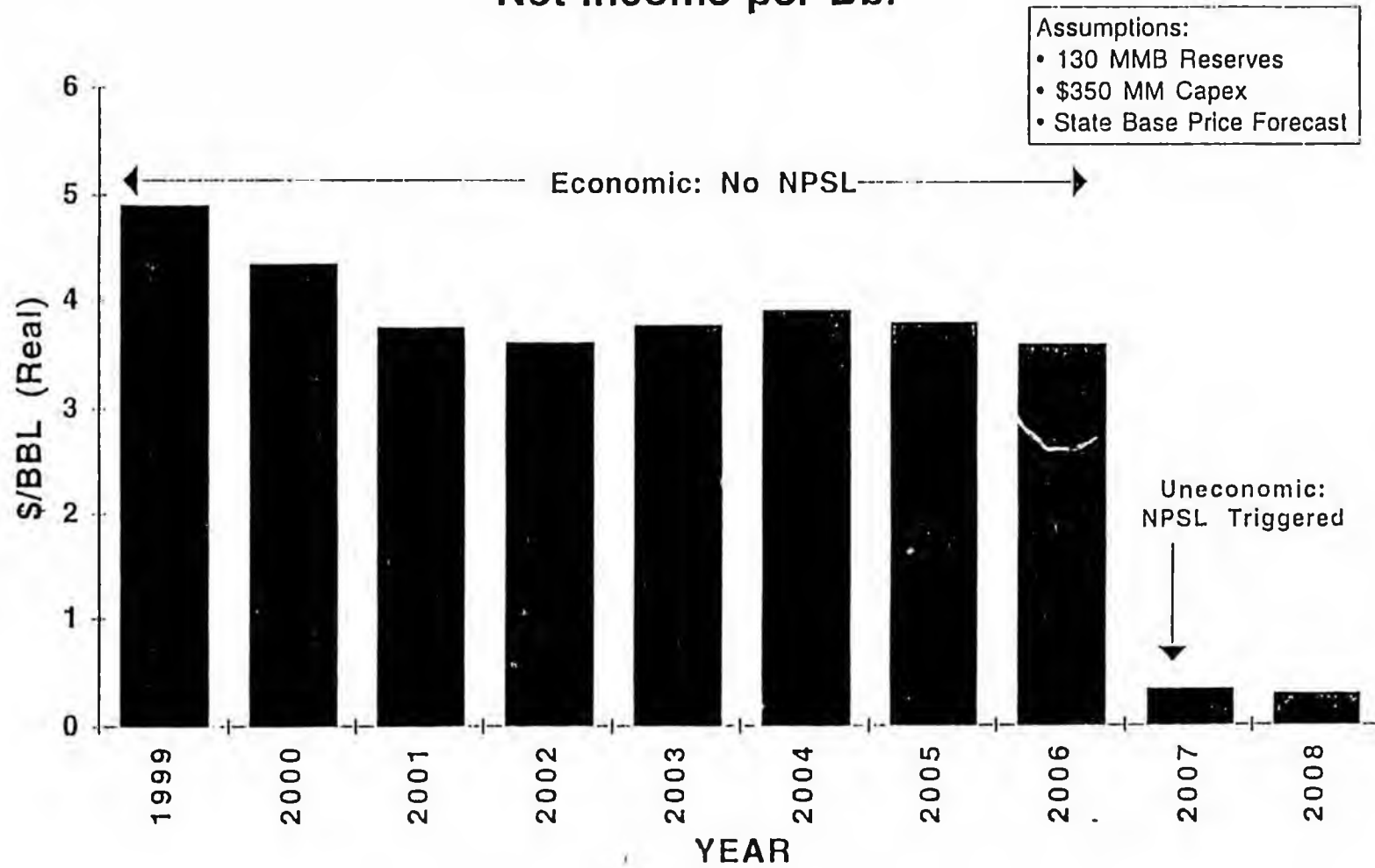
revised 4/30/96

Northstar

NPSL Problem

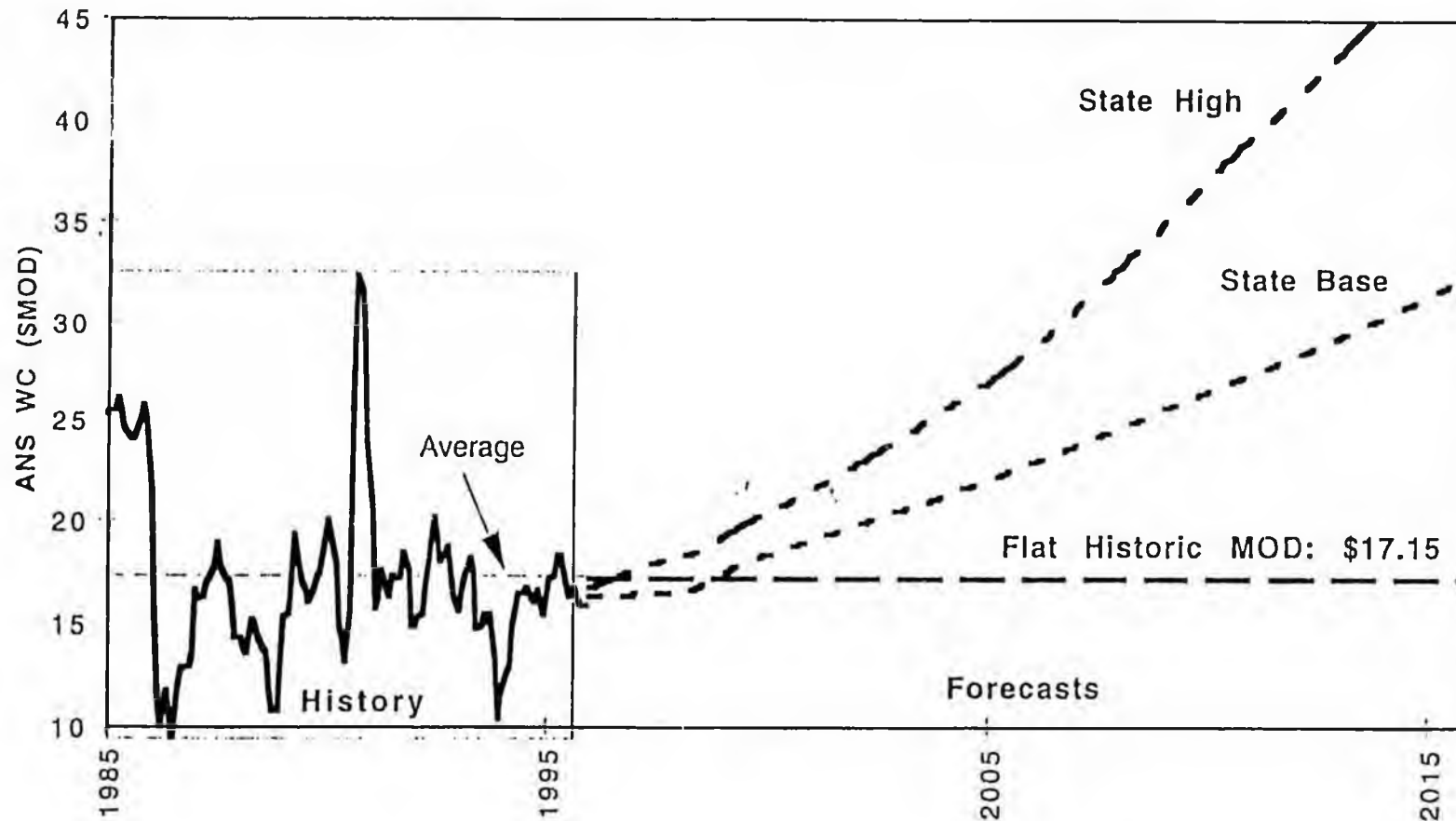


Net Income per Bbl



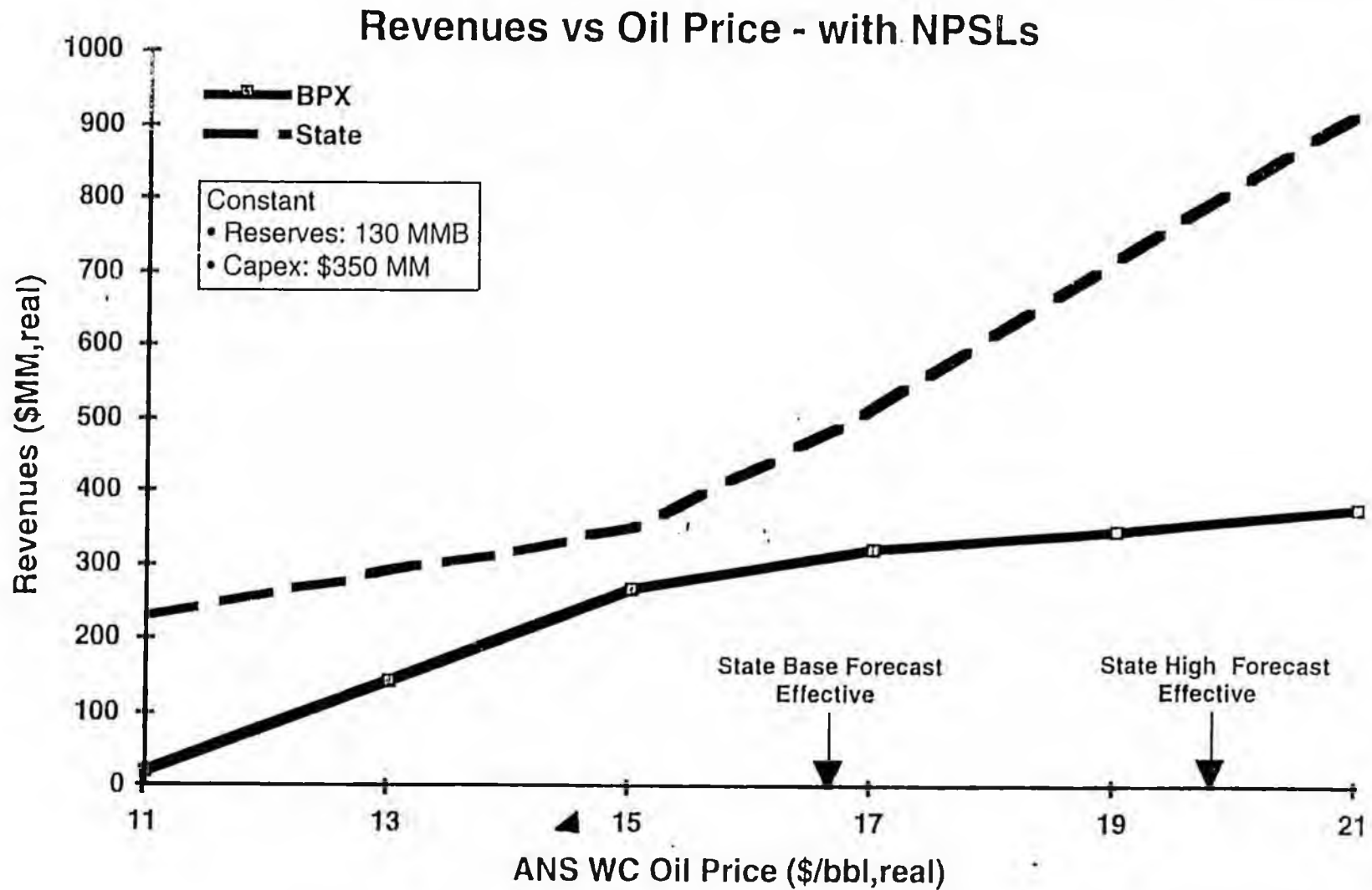
Northstar

Future Price in Context of History

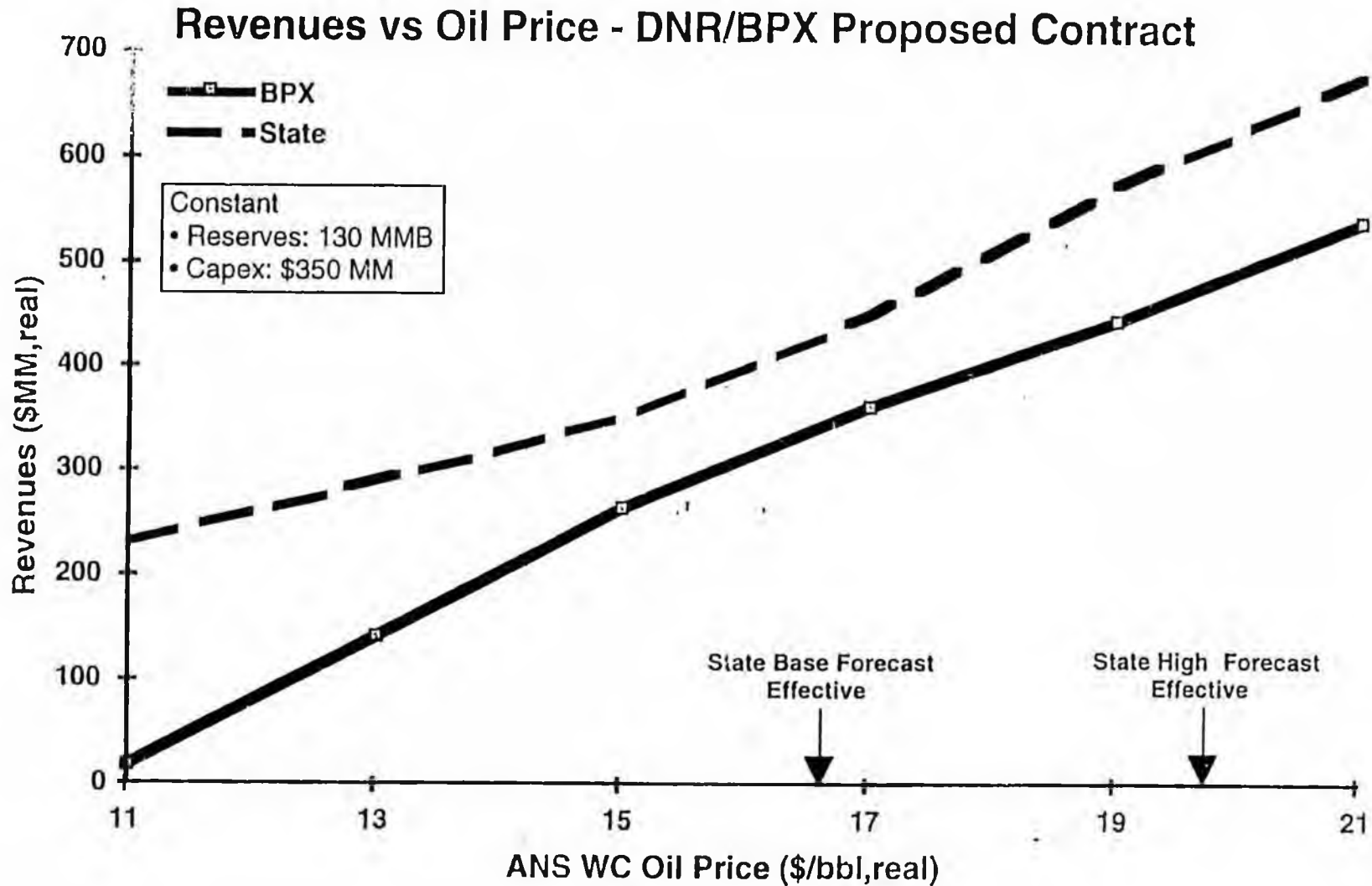




Revenues vs Oil Price with NPSLs

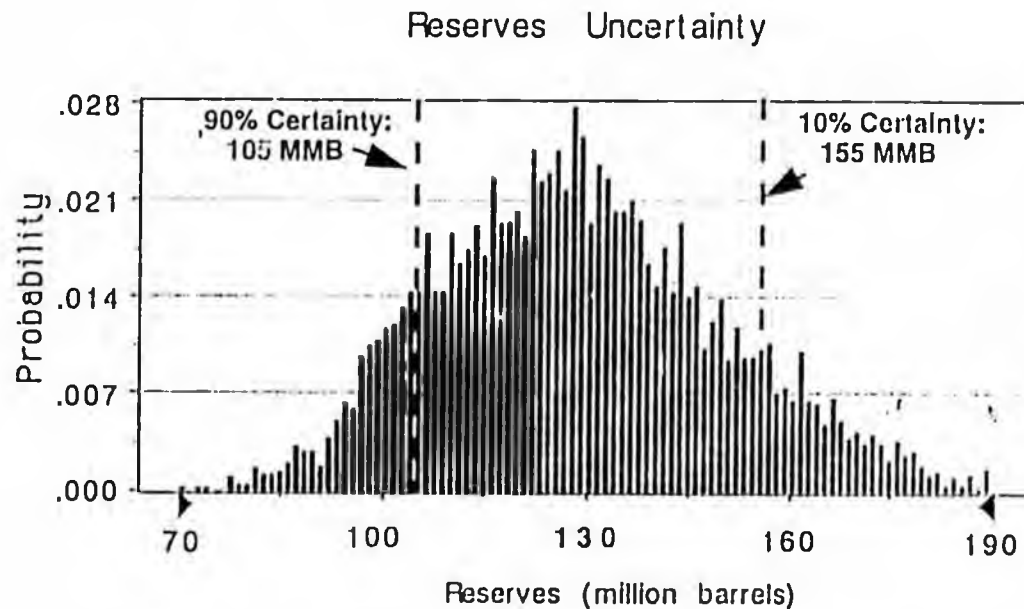


Revenues vs Oil Price with Agreement



Northstar

Reserves: Current Uncertainty



(Assuming Water Flood + Gas Injection)
(@ 50% recovery factor)

Estimated Oil In Place: 260 MMB

Sources of Uncertainty

- Bulk Rock Volume
- Porosity
- Net/Gross
- Oil Saturation
- Formation Volume Factor
- Recovery Efficiency

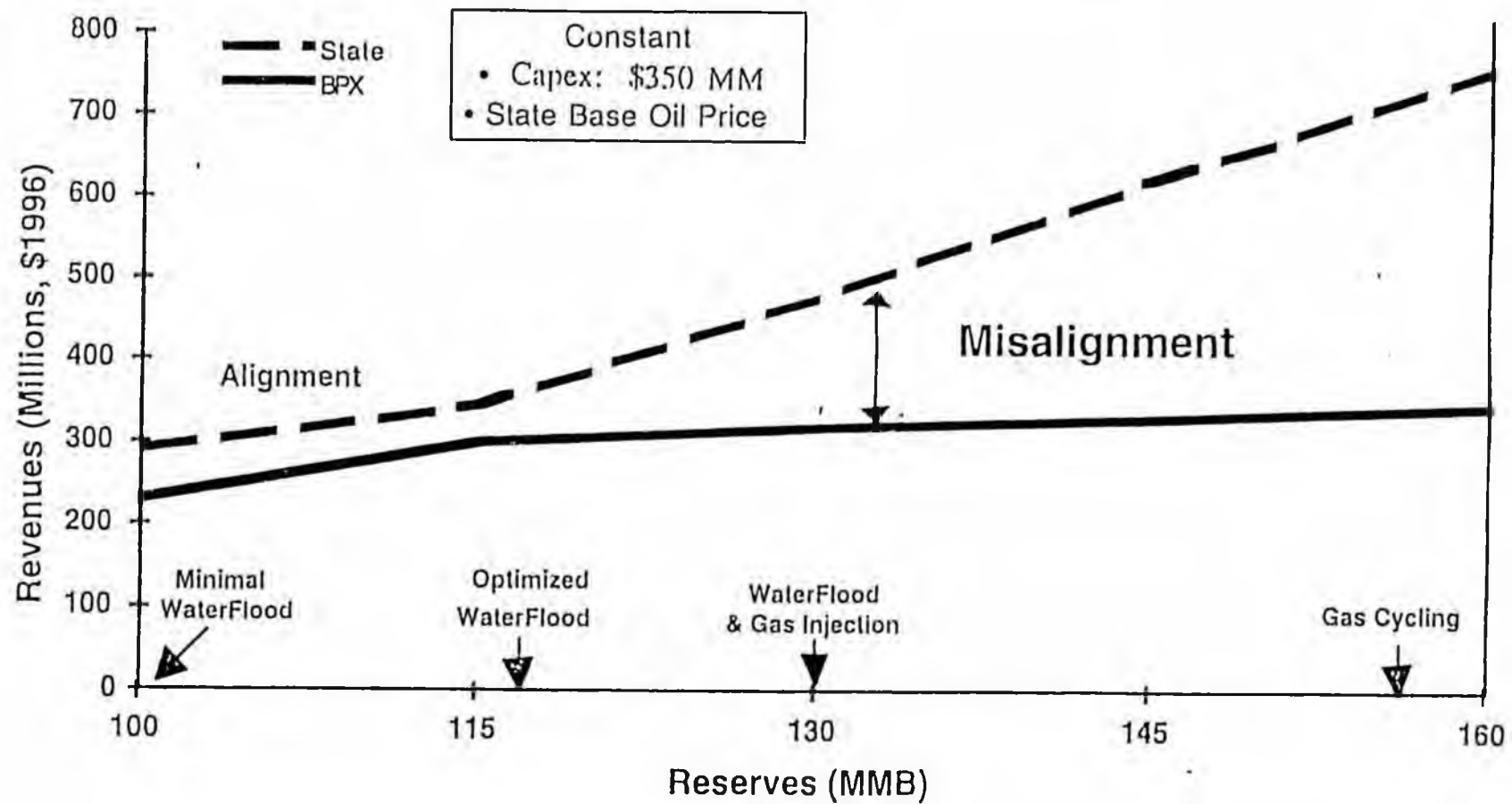
Other Recovery Mechanisms

- No Pressure Maintenance: 52
- Minimal Water Flood 100
- Optimized Water Flood 117
- Water Flood + Gas Injection: 130
- Gas Cycling 155

Reserves Impact with NPSLs



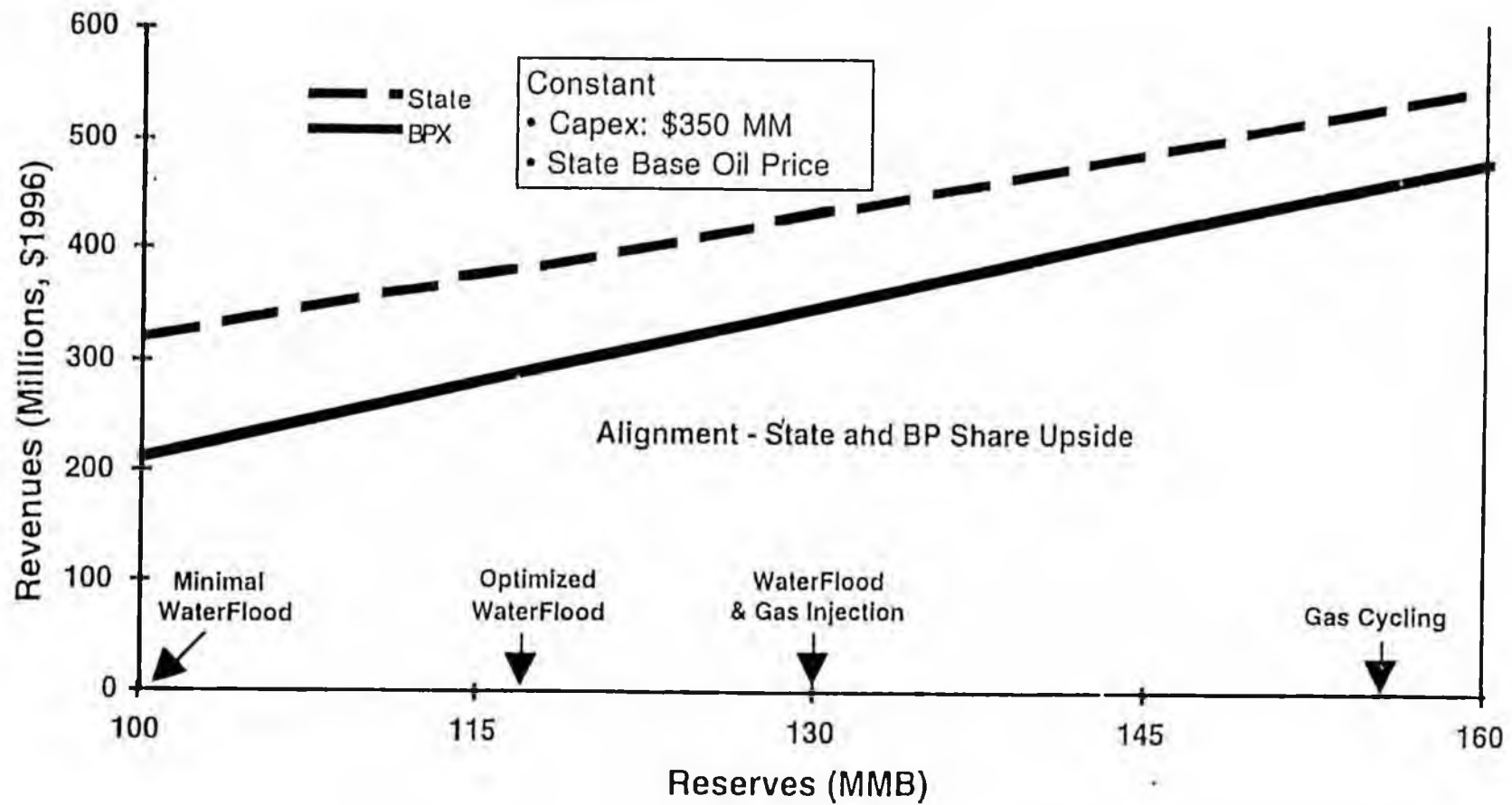
Revenues vs. Reserves with NPSLs



Reserves Impact with Agreement



Revenues vs. Reserves with Agreement

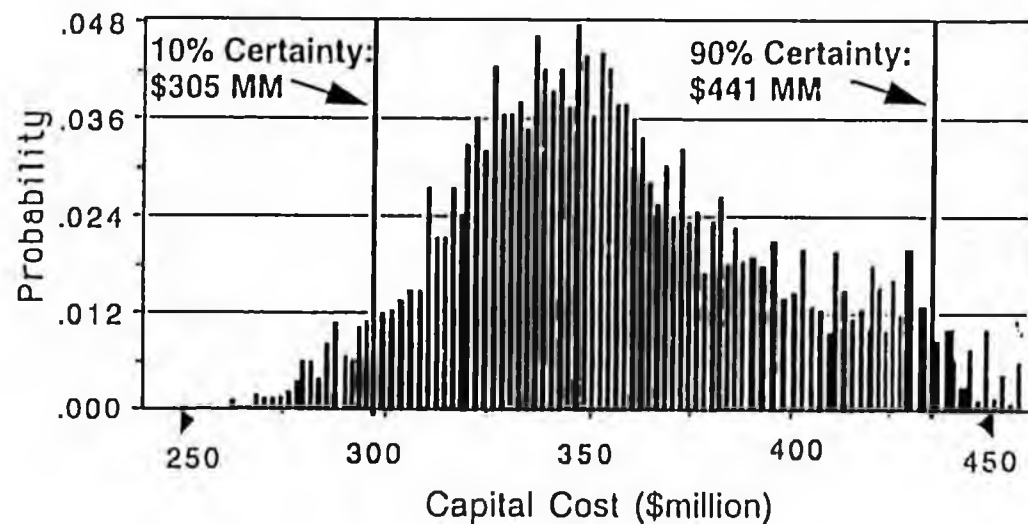


Northstar

Capital Cost: Current Uncertainty



Capital Cost Uncertainty within Class III Framework



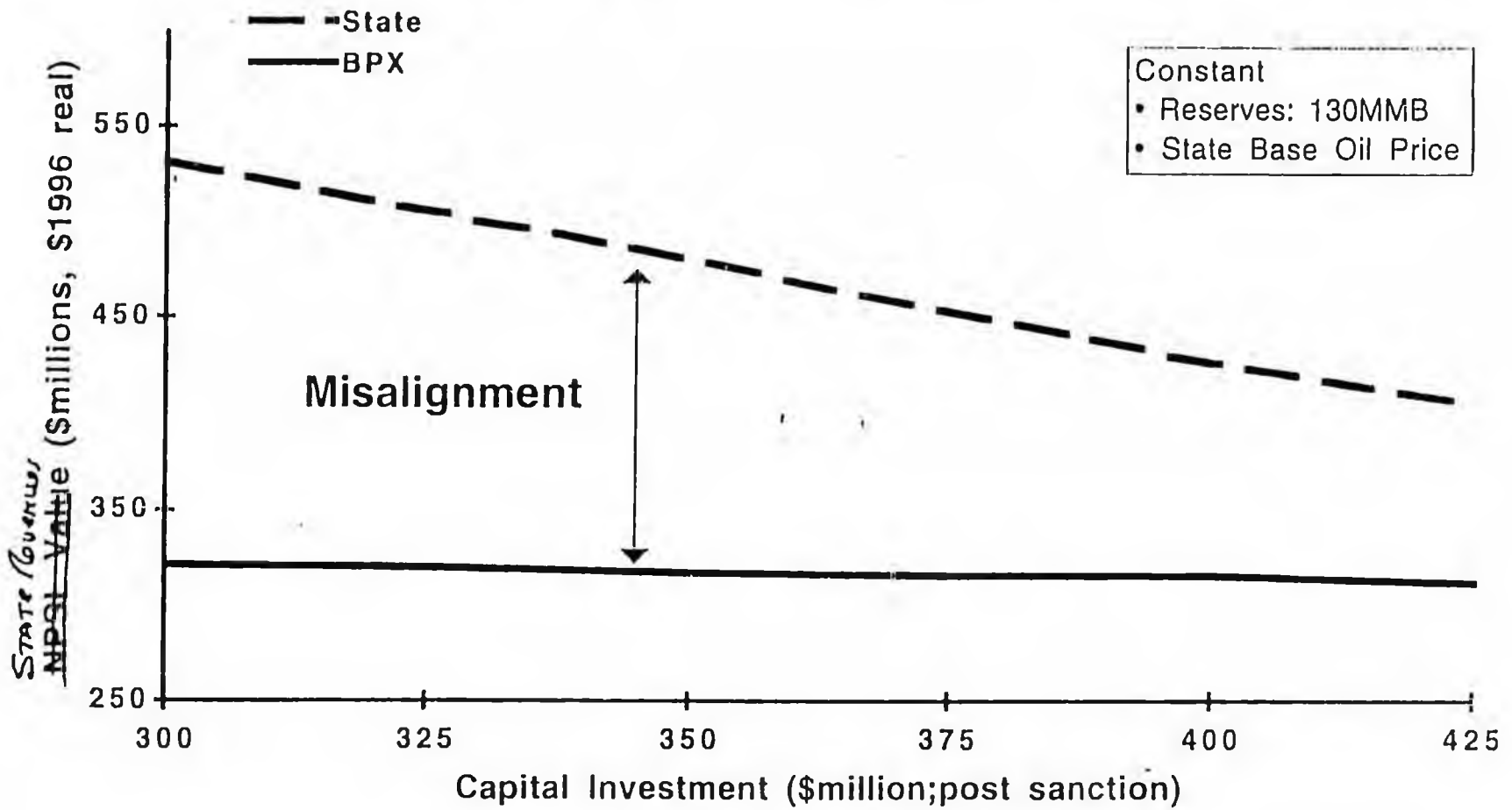
Sources of Cost Uncertainty (\$mm):

	<u>Base</u>	<u>Low</u>	<u>High</u>
• Facilities	122	107	130
• Drilling	85	75	110
• Pipeline	30	27	55
• Logistics/O'head	46	43	55
• Engrg/Infrast.	39	30	49
• Island	28	23	42
Overall	350	305	441

Capex Impact with NPSLs



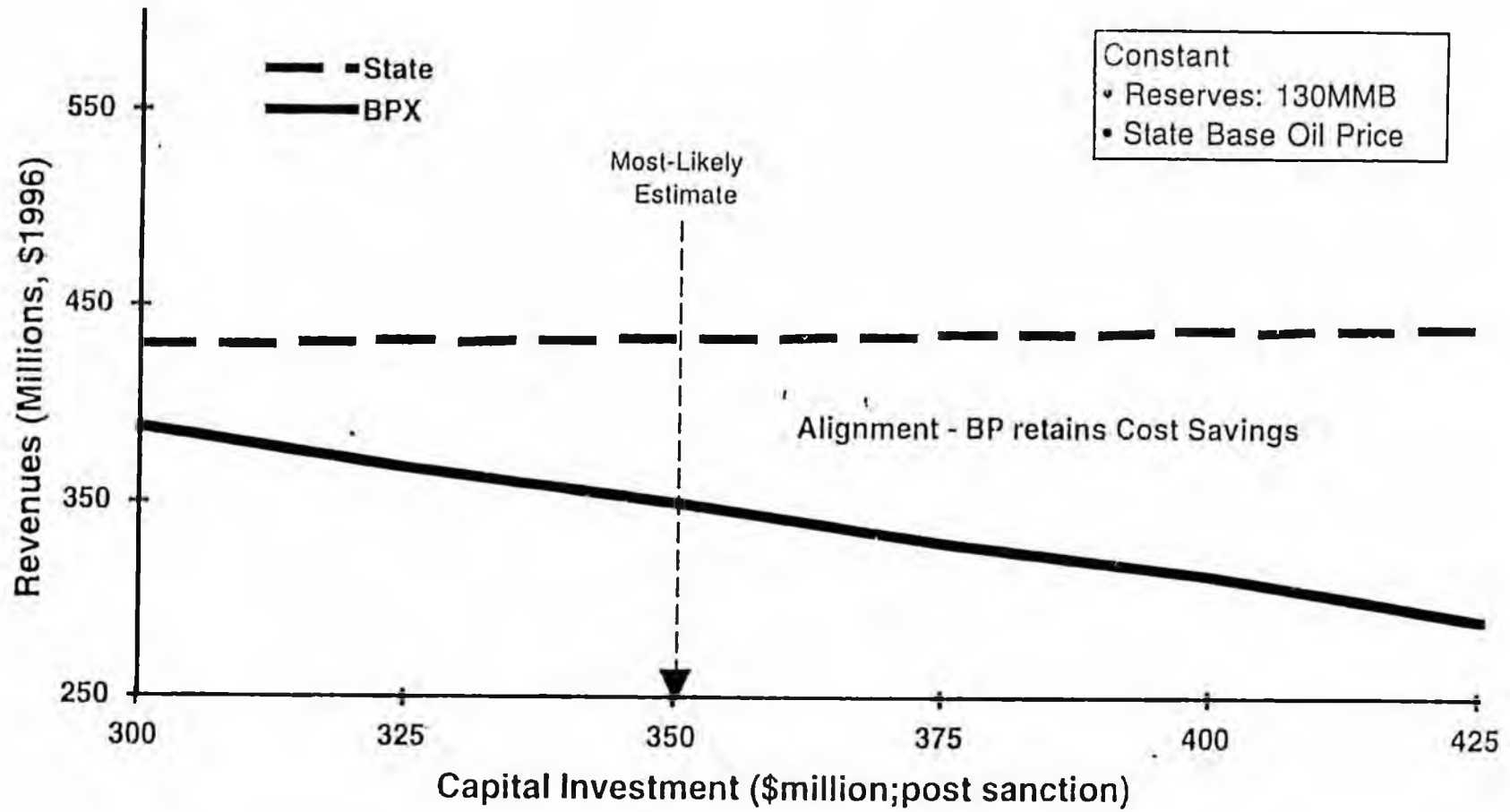
Revenues vs Capital Investment with NPSLs



Capex Impact with Agreement



Revenues vs Capital Investment with Agreement



Northstar

Misalignments

- **Lowering Operating Cost:**
 - Increases the Revenue Account and
 - Accelerates initiation of Net Profit Share
 - = Misalignment

- **Increasing Flow Rate:**
 - Increases near term revenues and .
 - Accelerates initiation of Net PS
 - = Misalignment



Revenue Shares

with State Base Prices

<u>State Revenues</u>	<u>MOD</u>	<u>\$1996</u>	<u>NPV*</u>
• Base Royalty	317	256	169
• State Share of Fed. Royalty	20	16	11
• Supplemental Royalty	51	37	20
• Severance Taxes	70	60	45
• Income Tax	30	24	15
• NSB Property Tax	<u>53</u>	<u>42</u>	<u>27</u>
• State Subtotal	541	435 (42%)	286
<u>Federal Revenues</u>			
• Base Royalty -State Share	55	44	29
• Income Tax	<u>274</u>	<u>214</u>	<u>133</u>
• Federal Subtotal	329	258 (25%)	162
<u>BPX Funds</u>			
• Funds Flow	478	349 (33%)	167

* Discounted net present value @10%

Northstar Economic Evaluation



Estimated Total Revenues

Effect of Delay	Supplemental Royalty and 1999 Development	Net Profit Share and 1999 Development	Supplemental Royalty and 2002 Development	Net Profit Share and 2002 Development
(Real 1996 Dollars)				
<u>State Revenues</u>				
State Royalty	256	256	257	257
State Supplemental Royalty	37	0	67	0
NPSL	0	85	0	41
State Share of Federal Royalty	16	16	16	16
Severance Tax	58	58	56	59
Spill & Conserv. Tax	3	3	3	3
Ad Valorem Tax	42	42	46	46
Income Tax	24	22	22	23
Total	435	481	469	444
<u>Federal Revenues</u>				
Royalty (Net of State Share)	44	44	44	44
Income Tax	215	198	205	213
Total	259	243	249	258
<u>BPXA Cash Flow</u>				
After Tax Funds Flow	349	318	331	346
Real Rate of Return	20.0%	19.9%	19.2%	20.4%

Totals may not add due to rounding.

Northstar Contract Leases

Under the new amendments, the Net Profit Sharing Lease (NPSL) terms would be removed from the State leases. They would be replaced with a supplemental royalty (see attachment), which would vary depending on the life of the field. This Northstar Unit is composed of five state and two federal oil and gas leases and the only joint state/federal unit in Alaska. According to BP and others, one of the primary barriers to development of Northstar is the high NPS which is in addition to the 20% royalty share. BP's main objection to net profits is that it would force the company to prematurely shut down the Northstar field once the state's NPS kicked in. The State leases currently provide for both the highest reserves-weighted royalty, 20%, and NPS 89%, of any unit in the state. BP has guaranteed that the base royalty of 20% will remain unchanged.

Under net-profits leasing, government has access to financial data not usually available. The landowner (state) willingly postpones its income until the operator recovers his costs. The operator thus has the incentive to increase his development and operating costs, in effect lessening the landowners's (state) net-profit share.

Being a development and not an exploration project, the ideal way to develop Northstar--from a the state's perspective--is by net profits. Using net profit bidding on a partially discovered oil field was an approach the legislature when in 1978-79, it passed the leasing amendment that included net profits.

British Petroleum says 130 million barrels are recoverable and will begin production in 1999. BP must approve Northstar within 12 months or drop the leases, through a "use it or lose it" provision. If BP does not receive project sanction from their Board of Directors within one year of legislative approval, they must return all of the Northstar leases, including the leases containing certified wells. The leases could then be released by BP and possibly re-bid.

Following a decision not to develop, Amerada Hess Corp. and its partners sold their interests to several prospective buyers. By the end of 1994, BP had over 98% interest in Northstar and Murphy Oil the remainder. BP had a problem with the lease's NPS provisions and asked Dept. of Natural Resources to modify the terms last year. The agreement would be to remove the provisions in exchange for early, certain development and some form of additional payment to the state. BP has said they will not develop Northstar with the existing NPS provisions.

Assuming the development will occur, after 2002 the State would receive more under the supplemental royalty method than the NPS method.

Benefits

- Potentially 75% of facilities could be fabricated in Alaska involving increased numbers of modules fabricated at existing yards in Anchorage
- Assembly of 2 meg-modules at Port of Anchorage
- Requires commitment to Port assembly yard by mid-year
- Supplemental royalty estimated value of \$37-65 million
- Estimated state revenues is \$435 million

* No local hire provision. Could amend the bill (HB 548) with strong local hire message. It would not be in contract leases, but could be in the bill. (In 1980 lease, an Alaskan hire provision was included that said lessee shall comply with all valid and applicable laws and regulations with regard to the hiring of Alaska residents and will not discriminate and will furnish Dept. of Labor a quarterly report on the status of such).

Dept. of Nat. Resources Economic Evaluation

If BP develops the field with the NPS or supplemental royalty in place in 1999, BP's rate of return remains virtually unchanged, while the state receives \$37 million in supplemental royalty compared to \$85 million in NPS. If BP does not develop the field until 2002 and the NPS in place, then BP's rate of return is slightly lower while the state receives \$37 million compared to \$41 million, only a \$4 million difference.

4/30/96

APR 02 '96 06:05PM BP EXPLORATION AK.

Attachment #1

Sale 30 (12/79) Northstar Bidding

The following table outlines the sale 30 results (NPSL) showing the successful bidder and parties that bid unsuccessfully.

ADL 312798		
Bid Group/Co.	Co. Interest	NPS Bid
Amerada Hess	100%	93.20000%
Texas Eastern	50%	80.86789%
Texaco	50%	
Amoco	100%	71.12500%
Texas Gulf	10%	61.67000%
Conoco	48%	
Placid	22%	
Cities Service	20%	
Murphy	10%	40.79133%
Shell	90%	
Phillips	50%	34.48464%
Chevron	50%	

ADL 312808		
Bid Group/Co.	Co. Interest	NPS Bid
Texas Eastern	100%	84.25978%
Texas Gulf	6%	38.12530%
Gulf Oil	25%	
Conoco	25%	
Placid	16%	
Rowan	3%	
Cities Service	25%	
Unocal	100%	28.80000%
Phillips	50%	10.14550%
Chevron	50%	
Atlantic Richfield	40%	2.11111%
Murphy	10%	
Shell	50%	

ADL 312799		
Bid Group/Co.	Co. Interest	NPS Bid
Amerada Hess	100%	91.20000%
Amoco	100%	82.59999%
Texas Eastern	50%	80.86789%
Texaco	50%	
Rowan	2%	71.82639%
Conoco	20%	
Texas Gulf	5%	
Getty	0.2	
Placid	13%	
Gulf	20%	
Cities Service	20%	
Murphy	10%	56.77133%
Shell	90%	
Phillips	33%	43.26273%
Mobil	33%	
Chevron	34%	
Unocal	100%	32.00000%

ADL 312809		
Bid Group/Co.	Co. Interest	NPS Bid
Texas Eastern	100%	85.25978%
Amoco	100%	71.25009%
Marathon	50%	63.83000%
Amerada	50%	
Gulf	28%	48.37549%
Placid	16%	
Getty	25%	
Texas Gulf	6%	
Rowan	3%	
Cities Service	25%	
Unocal	100%	38.00000%
Mobil	34%	34.23333%
Phillips	33%	
Chevron	33%	
Atlantic Richfield	45%	31.89117%
Shell	56%	

DRAFT

testimony 4-30-96
Jenny McClutchie

April 26, 1996

MARK HANLEY
Fax # 465-2418
3 pages total

NORTH STAR UPDATE

If we look at what Knowles and British Petroleum have said and just judge from that information, then on the down side, assuming the recovery was only 105 million barrels, the Knowles' contract would yield 28 million dollars more than the current contract, or about a dollar per barrel difference, according to some state employee.

Senator Halford asked what if there are 180 million barrels recoverable? The Knowles contract cost the state 300 million dollars (600 million-plus versus 900 million-plus) - 300 hundred million dollars more for the current contract for 50 million barrels of oil more than the 130 million estimated by Knowles -- or about \$6.00 per barrel for each additional barrel of oil over the BP/Knowles' estimate of 130 million. A dollar per barrel on the down side versus \$6.00 per barrel on the up side (50 million divided into 300 million equals \$6.00 a barrel).

You would never get the Knowles' proposed contract past the Harvard School of Business. The Knowles' deal is a stupid deal based upon Knowles' and British Petroleum's own numbers.

But it doesn't end there. While Knowles and BP are stonewalling it and refusing to supply the data on the North Star or the contract or the contracts with Amerada-Hess, et al., meanwhile House Resources Chairman Representative Green is holding hearings without notice, desperately trying to get this absurd deal past the Legislature.

From the old data we have been able to find, we can certainly see why Knowles/BP are not forthcoming and why they have to hide the data and the facts. We have been able to find five oil strikes out of six tries. That's about as good as it can get. One of the five, North Star No. 2, BP lists as abandoned, but that is not what the old files indicate. They encountered down-hole well problems just as they entered the pay zone. Since they had the cores and the well was between North Star No. 1 and Seal No. 1, two big wells, they knew what they'd have. Why complete it only to have to plug it off like they were abandoning it?

This may also apply to Seal No. 4, a step-out listed as dry. It is a poker game, and they have their skills in the game. If Seal No. 4 is not dry, it would greatly increase the size of the North Star project. Seal No. 4 also appears to be outside of the Amerada-Hess, et al. leases and on federal lands. Under a decision that may be coming down from the U.S. Supreme Court, Seal Island, even though it is an artificial island, may extend the state lands into what was formerly federal land, enhancing the revenue to the State of Alaska.

North Star No. 1, 6,000 to 7,000 barrels of oil/day; 42-52 degree gravity oil.

North Star No. 2, listed as abandoned, probably 6,500 to 7,500 barrels/day, 42-48 degree gravity oil.

Seal No. 1, 7,800 to 9,800 barrels of oil/day; 40 degree gravity oil.

Seal No. 2, 5,200 to 5,400 barrels of oil/day; 40 degree gravity oil.

Seal No. 3, 5,000 to 8,000 barrels of oil/day; 42 degree gravity oil.

The well step-outs of the wells that they admit as productive are about a mile, except for Seal No. 3, 8,500 feet (1.6 miles). The area served by the island with a mile step-out is 3.6 square miles or 6.3 square miles for North Star and Seal Islands. So why do the leases cover 60 square miles for only 6.3 square miles if there's nothing there? Even if one assumes a 1.6-mile radius, you have eight square miles for each island, or a total of 16 square miles for both islands. But the leases are 60 square miles for a possible 16-square-mile reservoir? It's a poker game, and they have their skills in the Legislature.

Remember the 9.6 billion they said were recoverable from Prudhoe Bay, when it was really 15 billion barrels? And now they say 13 billion barrels are recoverable when it's really 17 billion barrels? Can you really believe them when they underestimate it like that, by five billion barrels of oil? Why did Public Document 95-73 disappear out of the Alaska Oil & Gas Commission office? Did it leave with a departing employee? With a brand new 3D model, why didn't the Oil & Gas Conservation Commission ever turn it on to find out how to maximize oil recovery from Prudhoe Bay? Why didn't the Oil & Gas Conservation Commission ever turn on that new 3D model they had to find out how much oil was producible when there was a gross difference between what the oil companies were telling Alaska and what the oil companies were telling their bankers? Couldn't they have turned it on with a five-billion-barrel discrepancy?

We have also found that the North Star OOIP (original oil in place) is twice what BP says it was, some 200 million barrels more than BP and 100 million barrels more than the 300-plus that some state employee said. Four hundred million barrels of oil, and high quality oil at that.

If the 45 percent rate BP said is recoverable, then 180 million barrels are recoverable with an OOIP of 400 million. However, the crude is 42 degree gravity oil (like solvent), and with lots of gas to use in recovery. The recoverable oil should approach 80 percent or better, 300 million barrels-plus, about two and a half times what Knowles/BP have been telling the Legislature.

A 130 million barrels versus 320 million barrels, or 190 million barrels more at \$6.00 a barrel is 1.1 billion dollar difference. Since the state's take on the extra 50 million barrels raises the state's share per barrel by \$6.00 over and above what the Knowles' contract and the investment in the leases is then paid for, the next 50 million may make that a difference of \$10.00 per barrel. Subtracting 180 million from the 320 million is 140 million at \$10.00 a barrel for 1.4 billion. Add the 300 million for the first 50 million barrels over Knowles' projection of 130 million, and you have 1.4 billion plus 300 million for a total of 1.7 billion lost to the State of Alaska under the Knowles/British Petroleum proposal.

What if Seal Island No. 4 isn't dry? Then what is the recoverable oil? What is the probable loss to the state? Billions! Where are the 12 North Slope offshore structures that are larger than Prudhoe Bay? Why don't we know? Why isn't there a graph showing the gain or loss of dollars as the barrels of recoverable oil are less than or greater than the Knowles' projection of 130 million?

In summary, the OOIP is twice what BP says it is from Amerada-Hess' numbers, and it is a very high grade crude that is probably twice as recoverable as BP says. And why does BP want to double the size of Seal Island, according to an EIS that's being done?

Speculation why BP won't show the contract with Amerada-Hess? Most probably BP didn't buy the leases. Probably BP gets a share commensurate with BP's ability to beat down the state. There's probably an Alaska contract and an offshore contract (Caribbean?) between BP and Amerada-Hess that calls for BP to give its Columbian oil for Amerada-Hess' North Slope oil. Amerada-Hess' Caribbean refinery is 500,000 barrels a day, if my memory serves me correctly. It's a big one. BP's Columbian oil going to Amerada-Hess, which would relieve its excess oil in the Caribbean, Gulf Coast and East Coast; BP would then take Amerada-Hess' oil and sell it to Japan, Korea or Taiwan. So if BP can't pull off the scam on the state, BP probably doesn't get in on the North Star leases.

Supposedly Amerada-Hess, et al., has 288 million dollars invested in North Star, and you can bet your bottom dollar BP hasn't coughed up any 288 million dollars, nor would Amerada-Hess sell. Two hundred eighty-eight million represents about one-third of the development costs, and they'd have to spend another 50 to 100 million dollars to abandon North Star and Seal Islands, leaving behind at least five wells that can produce over 37,500 barrels a day. No way in a warm place. They'd have to be blooming idiots. I wish they would abandon North Star, and I bet Arco does, too. The next bidder would get 280 million dollars' worth of improvements and five wells able to produce 37,500 barrels of oil/day, plus a good shot that it is much larger than that, that all 60 square miles are valuable, not just six square miles or 16 square miles. Nothing like thinking in terms of the people's oil company or the Permanent Fund Dividend oil company. After all, the oil companies hire independent experts for all the work they do - what would be the difference if a corporation was set up to hire the same independent experts they do to develop the North Star project?

Jerry McCutcheon
P. O. Box 241623
Anchorage, Alaska 99524

4/30/96

April 23, 1996

APR 23 1996

Gov. Tony Knowles
Rep. Joe Green
Rep. Sean Parnell
Rep. Con Bunde
Sen. Judy Salo
Sen. Loren Leeman

Re: BP lease negotiations at Northstar

Dear Governor, Senators, and Representatives:

I would like to express my strong opposition to the recent negotiations with BP concerning renegotiation of the net profits and royalty terms of the Northstar oil field. I believe renegotiating the terms for this field is a bad deal for the Alaskan resource owner and is unfair to the larger oil industry. I work as a petroleum geologist in Alaska and my objections to the Northstar deal are these two:

1. Probable reserve growth at Northstar

The proposed terms reported in the press show Alaska losing much income from Northstar if eventual reserves are much larger than estimated and receiving more income if the field is smaller than expected. However, a typical oil field increases reserves between 2 and 3 times from the time of first discovery to last eventual production. This reserve growth occurs because of initial conservative estimates mandated by the SEC, by conservative estimates by the company itself, by application of unexpected, new technology to existing fields, and sometimes by unexplained superior performance of the reservoir. Many companies count on reserve growth and work it into their future expectation and upside, even though these are not officially booked reserves. Reserve growth of 2 to 3 times the original estimate is typical for the worldwide industry and not unusual. On the North Slope of Alaska, every field of which I am aware has experience dramatic reserve growth, with the possible exception of the Lisburne Field, discussed below.

Oil recovery from Prudhoe Bay, Kuparuk, and Endicott Fields are now far in excess of original expected recovery. Kuparuk is an example of a field that has nearly doubled the expected producible reserves and

yields more oil than reservoir parameters would predict. A "fudge factor" is used to increase expected output from wells because experience has shown that the reserves are systematically underestimated, even with very good reservoir data. These fields that perform so well are clastic (sandstone) reservoirs and Northstar is of this type. It is a reasonable, based on past experience, for the Northstar reserves to increase over its life and this increase will likely be in the range of 2 to 3 times today's estimate. This would be the expected case. It is exactly in this scenario that the State of Alaska is giving up the most value in the current renegotiation and I fear Alaska will lose much income in the long run.

The only exception to reserve growth for North Slope fields that I know of is the Lisburne field, which is a carbonate (limestone) reservoir, which is significantly different from the clastic reservoirs. So far the Lisburne Field has been a disappointment and limestone horizons have under performed. However, lower dolomite zones in the Lisburne were drilled in 1994 and the first well in these lower zones has produced far more oil from dolomites than previous wells in the limestone. This well (NK-26) has produced 1.2 million barrels of oil in about 2 years and more wells are planned for this interval. It remains to be seen if the Lisburne Field in the end will remain a disappointment.

2. Level Playing Field

Exploration in Alaska is based on all companies having an equal opportunity to bid and participate in the process. I find the process of renegotiating freely bid lease terms offensive to fair play and I fear it will in the long run tend to undermine the leasing process. Amerada and BP were both well aware of the implications of the lease terms at Northstar and willingly agreed to the lease stipulations. If these companies made a poor business decision, Alaska has no obligation to be a safety net for them.

I find it particularly offensive that BP is using a political process to circumvent agreed lease terms. This approach rewards companies that can muster the most political pressure and has the sharpest negotiators. It also opens the political process to immense pressure from the oil industry. If BP is successful I would expect every other company to come with requests for relief and the State will be hard pressed to deny these requests. We have already seen Unocal at the

table with relief requests for Cook Inlet fields. The renegotiation with BP feels like special treatment and a cozy relationship.

I feel if BP cannot develop Northstar under the very onerous lease terms, the lease should return to the State and be reoffered under new terms to all parties, including BP. This insures that everyone has equal opportunity to participate and bid the value they feel is appropriate. This system of leasing at both State and Federal levels has historically been highly successful in generating high value for lease tracts.

I appreciate the opportunity to express my views and thank you for your consideration.

Sincerely yours



Gerry Van Kooten
4551 East 135th Ave.
Anchorage, Ak 99516
907-345-7900

4/30/96 PM 11:01

FOR: Rep. Kay Brown
& ALL LEGISLATORS:

Mike Bruner
341 E. 23rd Ave
Anch., Ak. 99503

4/28/96

To whom it may concern:

Does the Northstar legislation resemble the Teapot Dome oil scandal?

From: The Worldbook Encyclopedia 1996, "Teapot Dome was one of the most notorious government scandals in United States history. It occurred in the Administration of President Warren G. Harding and contributed to his low standing among U.S. Presidents.

Committees of the U.S. Senate and a special commission investigated the scandal from 1922 to 1928. The investigators found that Secretary of the Interior Albert B. Fall had persuaded Harding to transfer control of three naval oil reserves from the Navy Department to the Department of the Interior in 1921. Fall leased the reserves, at Elk Hills, Calif., and Teapot Dome, Wyo., mostly *without competitive bidding* to the private oil companies of Edward L. Doheny and Harry F. Sinclair in 1922. For helping to arrange the Elk Hills transfer, Fall received a "loan" of \$100,000 from Doheny. For the Teapot Dome transfer, Fall received more than \$300,000 in cash, bonds, and valuable livestock from Sinclair. Fall resigned in 1923 and joined Sinclair's oil business.

In 1927, the government successfully sued to cancel the leases. In 1929, Fall was convicted of accepting a bribe, fined \$100,000, and sentenced to a year in prison. He was the first Cabinet member ever to go to jail for crimes committed while in office." end of quotation.

Facts and history: the Northstar oil leases were competitively leased between 1979 and 1983. The leases were set up with fixed cash bonuses of \$875 per acre. \$3 million per lease or \$15 million was required for all the leases as a fixed bid bonus. The sole competitive bid variable was how much the winning bidder was willing to give the state. The winning bidders agreed to give this state an average of 90% of the net profits from the Northstar oil field. One year ago British Petroleum entered into the contract with the state when it acquired the leases from Amerada Hess.

Some direct quotes from the Senate Resources Committee Substitute for SB 318 (Northstar Lease Amendment) : BP Exploration (Alaska) Inc's, president Mr Morgan, has testified, "In making that acquisition [purchase of the Northstar leases] we did understand and it was clear to us that the issue of net profit leases presented a problem, and a problem would need to be overcome with the state if development was to proceed." (Page 5 draft). "Both BP Exploration (Alaska) Inc.'s President, Mr. Morgan, and Department of Natural Resources Commissioner Shively have testified that at sometime between January and April 1995, *before the Department of Natural Resources' approval of BP Exploration (Alaska) Inc.'s revised Plan of Development and extension for the Northstar Unit, BP Exploration (Alaska) Inc. approached the administration, asking that it support the incorporation of provisions that would allow the commissioner of the Department of Natural Resources to modify net profit share terms of oil and gas leases in the royalty modification legislation that the administration had requested last session (HB 207).*" (Page 11 draft). However, under

Post-It brand fax transmittal memo 7671		Pages: 3	
To	House Finance	From	Clark TC
Co		Co	Alan
Dept	Whitten (T)	Phone #	258-8174
Fax #	465-2418	Fax #	

the bill, this strategy only works if the oil company shows clear and convincing evidence that development would be uneconomically feasible. "According to BP Exploration (Alaska) Inc.'s President, Mr. Morgan, "We have never argued that development of Northstar could not be profitable under the terms including the net profit arrangements. In profitability in terms of return on capital, this would be possible. This is not a marginal oil field." (Page 8 draft). BP Exploration (Alaska) Inc.'s President, Mr. Morgan, has testified " ... that with the net profit arrangement in place, at the level that it exists, BP would not be prepared to go ahead with the development of a Northstar project, even though, if you run the economics, you can show that the return is a sound sort of return on investment." (Page 8 draft). Does this sound like bargaining in good faith and honoring their contract or a premeditated breach of contract to you?

Our Governor and BP entered into an agreement that must then be ratified by our legislature. The original contract is to be replaced. Alaska will give up all of the net profit share in return for replacing our current royalty share of 20% for a new royalty share of 20% escalating upto 27.5% based upon oil price increases. "As to whether the Department of Natural Resources, in the course of its negotiations with BP Exploration (Alaska) Inc. had considered whether to add some sort of corrective factor to the agreement to compensate if the reserves ultimately prove to be considerably larger than estimated, Commissioner Shively has testified "we did have a proposal at one time on the table that would have taken that into account. That's not where we ended up." (Page 17 draft). The Federal Government owns two of the leases in the Northstar Unit. These Federal Government oil leases require BP to give them a 16 2/3% royalty escalating upto a maximum of a 65% royalty as the price of oil increases. Northstar is estimated to contain 130 million barrels of oil, if the field yields 180 million barrels and were produced under the existing profit-sharing provisions the state would receive \$900 million dollars, or 50 % more than the \$600 million under the BP - Knowles proposed agreement. The BP - Knowles legislation represents a potential loss to the state of \$300 million.

What happens if the price of oil or production goes up? Kevin Banks, state petroleum economist, explained that the net-profit sharing arrangement would be a gusher for the state if Northstar does better than expected - if oil prices should head skyward or if the field produced a lot more oil than the 130 million barrels projected. "The net-profit share really pours in," Banks said. (Page 16 Draft). For example, 130 million barrels of oil multiplied by each \$10 price increase in oil yields \$1.3 billion dollars. Alaska would get 90% (after BP's expenses) of any increases in the price of oil if the original contract remains in place. This new Northstar legislation proposed by the administration and the commissioner of revenue clearly fails to protect the states upside and therefore best interests.

What happens if the state does nothing and waits for BP's new development agreement to expire in April of 1998? Alaska could require BP to develop the leases and either start producing oil or the leases would revert back to the state. How much money would Alaska make if we released Northstar? Alaska originally charged a fixed bonus of \$15 million for the leases. Without this fixed bonus amount, and with a competitively bid bonus: Alaska can make an analogy based upon the \$81 million dollars the Federal Government received as a competitively bid bonus in 1980 for its two Northstar leases. "Based upon its review of the bonus revenue received for the

federal leases within the Northstar Unit, which were leased with a 16 2/3 percent sliding scale royalty and the bonus bid as the variable, the Department of Natural Resources estimates the state's Northstar Unit leases could have brought \$268,406,052, as opposed to the \$15,469,000 actually received, had the leases been offered with a 12 1/2 percent royalty, no net-profit share and with the bonus bid as the bid variable." (Page 10 Draft). Ken Boyd, the director of the division of oil and gas, has testified that "BPXA currently estimates that 76.8 % of the recoverable reserves underlie the state leases in the Northstar Unit (NSU)." (Page 8 Draft). Then based upon the \$81 million the federal government received for 23.2 % of the oil, the state could receive three times the competitive bonus bid that the federal government's leases brought in 1980 or \$242 million under the same terms. The Northstar Legislative Bill, by request of the governor, states, "The legislature finds that because of the development account provisions of the net profit share leases, the later that these leases are developed, the less "net profits" the state receives." This statement is refuted in an April 3, 1996 memorandum from Kevin Banks, state petroleum economist, to Ken Boyd, director of division of oil and gas. "In response to Senator Halford's request about the effect on the economic benefits if a lawsuit delays development of the Northstar Unit, I analyzed the effect on economic benefits caused by a delay for any reason. *In short, any delay increases the economic benefits to the state while decreasing the economic benefits to BPXA.*" Besides the development account of \$262 million drawing interest at the prime rate of 8.25 % amounts to \$21 1/2 million. If BP jeopardizes oil production until their development plan expires in April of 1998, the future bonus bids will more than make up for the state's loss of \$43 million in interest accruing over these two years. Plus the state has the option of suing BP to recover this money, since BP obviously did not come into the contract they entered into with the state in good faith. BP is merely attempting extortion - by holding the state hostage unless we renegotiate these lease contracts for BP's further benefit. On page 122 of the 1995 report, "Review of International Competitiveness of Alaska's Fiscal System" (Little Report), the Arthur D. Little Co. concluded "[Oil] companies generally look for a rate of return of about 15 %..." (Page 8 Draft). Then Alaska could definitely rebid these oil leases for a 20 % royalty with 80 % - 85 % of the net profits going to the state. This would give any oil company over 15 % of the net profits. However, since it is a matter of record that two other oil companies besides BP entered into negotiations with Amerada Hess for the Northstar leases - oil companies are willing to develop and accept a profit of "10 % with the net profit share lease terms." (Page 10 Draft) Once again the administration and the commissioner of natural resources have failed to protect this state's best interests. The question is if the legislature is going to join them?

Are Alaska's oil fields competitive and profitable to the oil industry in a global environment? Alaska's oil fields are virtually the most profitable in the world because most of them were leased for only a 1/8 th share or a 12 1/2% state royalty with no net profits going to the state. Let's compare Alaska to Kuwait: Alaska produces almost 1.8 million barrels of oil per day and Kuwait produces 1.8 million barrels of oil per day. Alaska has a population of 600,000 people and Kuwait has a population of 2 million people, but only (39 %) 780,000 of them are Kuwaiti nationals. Kuwait offers its citizens free medical, college and government jobs etc.. Alaska now denies its impoverished senior citizens state funded eye glasses, hearing aids and dentures. Oil

companies can now make windfall profits by selling Alaska's oil in overseas markets like Japan where gasoline now retails for \$4.14 per gallon, since the export ban on Northslope crude oil was lifted. One third, but upto 1/2, of Alaska's oil is typically refined into gasoline. Over 50% of Alaskan crude is refined into gasoline, jet fuel and diesel fuel which all sell for over \$1.00 per gallon. BP, Arco and Exxon are all vertically integrated oil companies - meaning they make profits every step of the way in shipping, refining and marketing petroleum, upto and including when it reaches the consumer at the gasoline pumps. The amount of oil exported out of Alaska per day (1.8 million barrels) divided by its population (600,000 people) equals 3 barrels or 126 gallons of oil produced for each Alaskan every day. Furthermore, "Based upon BP Exploration (Alaska) Inc.'s estimates of recoverable reserves and project development costs, the Northstar Unit has a per barrel development cost of \$2.90. For comparison ... BP Exploration (Alaska) Inc.'s estimated per barrel costs of developing each are: Kuparak (1982) - \$6.65 per barrel; Endicot (1985) - \$5.40 per barrel; Prudhoe Bay Unit. GHX (1992) \$4.45 per barrel ..." (Page 9 Draft). The fact that Northstar oil is lighter crude oil, being almost half of the density of Prudhoe Bay crude also must be taken into consideration - this greatly enhances oil production and recoverability. A study published in 1993 by Richard Fineberg states, "If these operations were controlled by one firm (in fact, three companies control more than 90 % of Alaska's production and pipeline facilities), that company would rank among the five most profitable industrial corporations in the nation."

Is the Northstar legislation even legal? If this legislation is enacted, the Northstar oil leases change from being competitively bid oil leases to uncompetitively bid sole source awards of special interest legislation by the legislature. It will discourage independent oil companies because Alaskan oil leases are given to politically connected oil companies - oil companies that were outbid. If these initial oil companies whose bids would have brought the state more money than BP's proposed renegotiation litigate - then Alaska is liable to pay stupendous damages. How will the legislature reconcile the Northstar legislation with the Alaska Statutes? Will they put a BP disclaimer (ie. except BP) in the following statutes? AS 38.05.180 (a) The legislature finds that (1) the people of Alaska have an interest in the development of the states oil and gas resources to (B) maximize competition among parties seeking to explore and develop the resources. AS 38.05.920 Assignment. (b) ...the assignee or sublessee is subject to the provisions of laws and regulations applicable to the contract or lease. AS 38.05.180 (w) ... noncompetitive leasing is prohibited.

Is the Northstar legislation unconstitutional? Ak. Const.; Article 8; Sec. 2: "The legislature shall provide for the utilization, development, and conservation of all natural resources belonging to the State, including land and waters, for the maximum benefit of its people." In the aforementioned, shall does not mean may and conservation means wise use. The state leased the oil rights at the Northstar field pursuant to the constitutional mandate to obtain the maximum public benefit. There has to be some some equal exchange - or mutuality of consideration - in order to make a material change in a competitively bid contract, the benefits cannot be one sided. *The test is that if the people of Alaska receive the maximum public benefit then it is constitutional and if BP receives the maximum benefit from renegotiating these*

leases then it is unconstitutional. There can be no loss of state revenues. The Alaska Legislature has sworn to uphold the Alaska Constitution. Ak. Const.; Article 2, Sec. 19: "The legislature shall pass no local or special act if a general act can be made applicable." "Alaska's Constitution: A Citizen's Guide," by Gordon S. Harrison states, "For the most part, special and local acts amounted to legislative dispensation of favors and preferences to powerful interests - private, corporate, or municipal." "Laws should apply uniformly throughout the state. Provisions to ensure that they do not selectively benefit or discriminate against a particular community, corporation, or individual, are found in many state constitutions." Ak. Const.; Article 8; Sec. 8: "The legislature may provide for the leasing of the public domain ... and for forfeiture in the event of breach of conditions."

Was our now deceased former U.S. Senator and statesman clairvoyant? From, "Alaska's Constitutional Convention", by Victor Fisher (also a delegate to Alaska's constitutional convention and former state senator) at page #130 and 131, "Bartlett, Alaska's delegate in Congress, urged the convention to protect Alaska from the robber baron philosophy ... that had worked against Alaska in the past. He pointed out that while Alaska had experienced exploitation on a grand scale, the potential for future exploitation of natural resources of was infinitely greater than anything the state had ever seen to date. ... Two very real dangers are present. The first, and most obvious, danger is that of exploitation under the thin guise of development. *The taking of Alaska's mineral resources without leaving some reasonable return for the support of Alaska's governmental services and the use of all the people in Alaska will mean a betrayal in the administration of the people's wealth. The second danger is that outside interests, determined to stifle any development in Alaska which might compete with their activities elsewhere, will attempt to acquire great areas of Alaska's public lands in order NOT to develop them until such time as, in the omnipotence and the pursuance of their own interests, they see fit.*"

Does the uncompetitive bidding in the Teapot Dome oil scandal compare to the uncompetitive bidding in the Northstar oil scandal? Does it take a Harvard MBA to see the corruption involved? Rep. Kay Brown amply described the correct sentiment in a similar piece of oil legislation in a floor debate when she said, *Madam speaker, this is not a partnership. This is what a bull does to a cow!*"

Mike Bruner

Mike Bruner

(Reply requested.)

(11)

HOUSE COMMITTEE REPORT

Date Referred to Committee: April 30, 1996

FURTHER REFERRALS:

Date of Committee Action: 4/30/96

The FINANCE Committee considered:

HB 548

HOUSE BILL NO. 548

NORTH STAR OIL & GAS LEASE PAYMENT

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

recommends it be replaced with the following committee substitute CS HB 548 (WTR) the same title a new title

additional referral to _____ Committee
 attached amendment(s)

ADOPTS: _____ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) DNR
 fiscal note(s)

APPROVES PREVIOUS: (Dept/Date) DNR 4/30/96
 fiscal note(s)

zero fiscal note(s)

zero fiscal note(s)

SIGNING WITH RECOMMENDATIONS		DP	DNP	NR	AM
<i>[Signature]</i>	murder	X			
<i>[Signature]</i>	Martin	X			
<i>[Signature]</i>	Parnell	X			
<i>[Signature]</i>	Vohring	X			
<i>[Signature]</i>	Brown		X		
<i>[Signature]</i>	Therriault			X	
<i>[Signature]</i>	NAVARE			X	
<i>[Signature]</i>	Hanley	X			

CO- CHAIR'S SIGNATURE *[Signature]*

FISCAL NOT

No. 2
 Bill Version CSHB 548 (WTR)
 (H) Publish Date: 4/30/96

STATE OF ALASKA
1996 LEGISLATIVE SESSION

Revision Date: Original Dept Affected Natural Resources
 Title: An Act authorizing, approving, and ratifying BRU: Resource Development
the amendment of Northstar Unit oil and gas leases ... Component: Oil & Gas Development
 Sponsor: House Rules Committee
 Requestor: Governor Component Serial No. 439

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY97	FY98	FY99	FY00	FY01	FY02
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
CHANGE IN REVENUES (1004)	0.0	3,857.1	37,952.1	38,700.6	34,975.4	(3,686.3)

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GFMHTIA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY98) cost: \$ none

POSITIONS


FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)

The state will likely realize a significant increase in revenues from royalties and taxes from the Northstar Unit development over the next six years if this bill passes. Without the bill, the Department of Revenue predicts in its Fall 1995 Base Price forecast that the Northstar Unit will not commence full production until 2002. Assuming full production in 2002 (and some preliminary production starting in 4th quarter 2001), DNR predicts that the state will receive only \$5.5 million in tax revenues over the next six years, mostly from property taxes.

With passage of this bill, early development of the Northstar field is possible. Full oil production is anticipated by 1999. Within this same six-year period, state revenues will likely be an additional \$180 million over the \$5.5 million amount. These revenues will be in the form of royalties and "supplemental royalties," and severance, conservation, property, and corporate income taxes. The state will also receive nearly \$7 million as its share of federal royalties from the federal lease tracts in the Northstar Unit.

SEE ATTACHED TABLE FOR FULL FINANCIAL ANALYSIS...

Prepared by: Ken Boyd, Director Phone: 269-3800
 Division: Oil & Gas Date: 26-Mar-96
 Approved by Commissioner:  Date: 26-Mar-98
 Agency: Natural Resources

State Revenues (without Northstar Lease Amendments)								
State	State Royalty	State Supplemental Royalty	State Share of Federal Royalty	Severance Tax	Spill & Conserv. Tax	Property Tax*	Corporate Income Tax	Total State Revenues
(Thousands of 1996 Dollars)								
1996	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
1997	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1998	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1999	0.0	0.0	0.0	0.0	0.0	0.0	(477.1)	(477.1)
2000	0.0	0.0	0.0	0.0	0.0	228.3	(835.9)	(7.6)
2001	3,868.9	0.0	247.4	0.0	45.6	2,547.2	(1,173.8)	5,535.3
2002	35,778.5	0.0	2,287.7	16,171.7	407.2	4,245.3	2,784.3	61,674.6
	\$39,647.4	\$0.0	\$2,535.1	\$16,171.7	\$452.8	\$7,620.8	\$297.5	\$66,725.2

State Revenues (with Northstar Lease Amendments)								
State	State Royalty	State Supplemental Royalty	State Share of Federal Royalty	Severance Tax	Spill & Conserv. Tax	Property Tax*	Corporate Income Tax	Total State Revenues
(Thousands of 1996 Dollars)								
1996	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	(\$477.1)	(\$477.1)
1997	0.0	0.0	0.0	0.0	0.0	761.4	(834.1)	(72.7)
1998	3,625.3	0.0	231.8	0.0	50.1	2,343.9	(1,213.4)	5,037.7
1999	35,631.3	42.5	2,278.2	16,101.5	447.4	3,914.3	2,767.6	61,183.0
2000	35,735.8	680.0	2,284.9	13,487.8	432.1	4,771.2	2,994.3	60,386.1
2001	34,391.8	1,969.0	2,231.0	12,682.7	406.5	4,586.5	3,440.7	60,208.1
2002	29,599.9	2,387.4	1,892.6	7,949.5	330.6	4,293.8	3,234.1	50,187.9
	\$139,484.1	\$5,578.9	\$8,918.5	\$50,221.5	\$1,666.7	\$20,671.1	\$9,912.1	\$236,453.0

Change in State Revenues (with Northstar Lease Amendments)								
State	State Royalty	State Supplemental Royalty	State Share of Federal Royalty	Severance Tax	Spill & Conserv. Tax	Property Tax*	Corporate Income Tax	Total State Revenues
(Thousands of 1996 Dollars)								
1996	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	(\$477.1)	(\$477.1)
1997	0.0	0.0	0.0	0.0	0.0	761.4	(834.1)	(72.7)
1998	3,625.3	0.0	231.8	0.0	50.1	2,343.9	(1,213.4)	5,037.7
1999	35,631.3	42.5	2,278.2	16,101.5	447.4	3,914.3	3,244.7	61,659.9
2000	35,735.8	680.0	2,284.9	13,487.8	432.1	3,942.9	3,830.2	60,393.7
2001	31,022.9	1,969.0	1,983.6	12,682.7	361.0	2,039.3	4,614.5	54,673.0
2002	(6,178.6)	2,387.4	(395.1)	(8,222.2)	(76.5)	48.5	449.9	(11,486.7)
	\$99,836.7	\$5,578.9	\$6,383.4	\$34,049.8	\$1,214.1	\$13,050.3	\$9,614.7	\$169,727.8

*Approximately 75 percent of this amount may go to the North Slope Borough.

Title:

An Act authorizing the amendment of Northstar Unit oil & gas leases between st of Ak.....

Dept. Affected

Natural Resources

BRU:

Resource Development

Sponsor:

House Rules

Components:

Oil & Gas Development

Requestor:

Serial #

PENDITURES/REVENUES: (THOUSANDS OF DOLLARS)

OPERATING	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants, Claims						
Miscellaneous						
TOTAL OPERATING						

PITAL						
-------	--	--	--	--	--	--

VENUE						
-------	--	--	--	--	--	--

ENDING: (THOUSANDS OF DOLLARS)

General Fund						
Federal Fund						
Other						
TOTAL						

POSITIONS:

Full-Time						
Part-Time						
Temporary						

ANALYSIS: (ATTACH A SEPARATE PAGE IF NECESSARY)

Attached analysis

Prepared by:

The attached fiscal note by Natural Resources dated 3/26/96, with attachment is incorporated by reference. In addition, the attached letter dated 4-29-96, from John Morgan, President BP Alaska to Rep Barnes is here by incorporated by reference ^{Date} 4-29-96

House Special Committee on
World Trade and State Federal Relations Phone: 465-3438

Rep Ramona Barnes
Rep. Ramona Barnes, Phone:
Chair



BP EXPLORATION

John C. Morgan
President, Alaska

BP Exploration (Alaska) Inc.
900 East Benson Boulevard
P.O. Box 106612
Anchorage, Alaska 99519-8612
(907) 564-5422

April 29, 1996

The Honorable Ramona Barnes, Chair
House World Trade and State/Federal
Relations Committee
Alaska State Legislature
State Capitol
Juneau, Alaska 99801

Dear Representative Barnes:

The development of the Northstar field is an important project to the residents of Alaska and BP Exploration. Northstar development will provide jobs for Alaskans, new business opportunities for Alaskan businesses, and significant revenues to the state.

BP Exploration has voluntarily and publicly committed to recruit and hire qualified Alaska residents for the Northstar Development. We have also publicly committed to encourage Northstar contractors to recruit, hire, and train, when necessary, Alaska residents.

Furthermore, BP has voluntarily and publicly committed to use Alaska contractors to build in Alaska Northstar production and processing modules. BP has committed to spend \$30 - 40 million to build in Alaska the larger and more complex modules for assembly for sealift providing that suitable facilities to do this are available. We are working with our contractors to do everything possible to ensure the facilities will be available.

Our reputation depends on our honoring these commitments and reporting our results to the people of Alaska.

We appreciate the opportunity to provide comments to your committee.

Sincerely,

John C. Morgan

FISCAL NOTE

J. ...

STATE OF ALASKA
1996 LEGISLATIVE SESSION

BILL NO. HB548

Revision Date: Original Dept Affected: Natural Resources
 Title: An Act authorizing, approving, and ratifying BRU: Resource Development
the amendment of Northstar Unit oil and gas leases ... Component: Pipeline Coordinator
 Sponsor: House Rules Committee
 Requestor: House Resources Component Serial No. 1191

Expenditures/Revenues	(Thousands of Dollars)					
OPERATING EXPENDITURES	FY97	FY98	FY99	FY00	FY01	FY02
PERSONAL SERVICES	147.31	147.31	125.01			
TRAVEL	25.31	25.01	25.01			
CONTRACTUAL	243.31	243.31	75.01			
SUPPLIES	12.01	12.01	5.01			
EQUIPMENT	3.51	3.51				
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	431.71	431.71	237.01	****	****	****

CAPITAL EXPENDITURES	0.01	0.01	0.01	0.01	0.01	0.01
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CHANGE IN REVENUES ()						
------------------------	--	--	--	--	--	--

FUND SOURCE	(Thousands of Dollars)					
1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF-Program Receipts						
1006 GF-MHTIA						
1001 Designated Program Receipts	431.71	431.71	237.01			
TOTAL	431.71	431.71	237.01	****	****	****

Estimate of any current year (FY96) cost: \$ None

POSITIONS	FY97	FY98	FY99	FY00	FY01	FY02
FULL-TIME	01	01	01	01	01	01
PART-TIME	01	01	01	01	01	01
TEMPORARY	01	01	01	01	01	01

ANALYSIS: (Attach a separate page if necessary)

This request is an industry funded project under AS 38.35.140(b) for the development of a common carrier pipeline for the Northstar project near Prudhoe Bay.

The budget is based on the Lease Application moving forward from mid-April 1996 through September 1997 and construction beginning in November 1997. The Leasing Process and Statute require that the Commissioner of DNR make a decision that the Applicant is financially and technically FIT, WILLING and ABLE to construct, operate, maintain and terminate the pipeline. The funds for FY97 and some of the funds for FY98 will be expended on determining if the applicant has proposed a project that meets this requirement. The remainder of the funding will be expended for oversight of the construction of the pipeline by ADNR, ADEC, ADF&G and ADLabor. The FY99 funds will be used for conformation and oversight of the operational aspects of the project, such as Quality Assurance, Quality Control, and operational processes. *Continued on next page...*

Prepared by: Jerry Brossia, State Pipeline Coordinator Phone: 271-3601
 Division: State Pipeline Coordinator's Office Date: 29-Mar-96
 Approved by Commissioner: [Signature] Date: 29-Mar-96
 Agency: Natural Resources

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Fiscal Analysis Continued...

**** Beyond FY99 there will be a request for additional funds for the administration and oversight of the Leases that cannot be determined at this time. These funds will be based on the outcome of the previous years activities and findings. The State Pipeline Coordinator's Office will promptly notify the Governor's Office should this project schedule change.

EIDE & MILLER

A PROFESSIONAL CORPORATION

ATTORNEYS AT LAW

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425 G STREET, SUITE 930
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TELEPHONE (907) 279-0930
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April 26, 1996

Bill Allen
VECO Corporation
813 W. Northern Lights Blvd
Anchorage, AK 99503-2495

Re: Proposed changes to the Northstar legislation
regarding local hire

Dear Bill:

You have asked us to review the proposed changes to the Northstar legislation regarding the local hire provisions and comment on whether the provisions would be able to withstand a constitutional challenge. In our view, there is no question that the proposed local hire provisions would be found to be unconstitutional. In addition, it is unlikely that the local hire provisions, if found to be unconstitutional, could be severed from the remainder of the legislation. In that event, the entire legislation would be struck down.

I. Resident Hire Provisions Have Consistently Been Struck Down as Unconstitutional.

It is clearly illegal for public entities to discriminate against nonresidents. Numerous state and federal constitutional provisions prohibit a state from discriminating against nonresidents in employment and other matters for numerous rights and privileges. The right to earn a living is considered an important constitutional right and the state is prohibited from favoring residents over nonresidents in employment decisions. State v. Enserch Alaska Construction, Inc., 787 P.2d 624, 632 (Alaska 1989).

The constitutional provisions prohibiting discrimination on the basis of residency are numerous, including the Privileges and Immunities Clause, the Commerce Clause and the Equal Protection Clauses of both the United States and Alaska Constitutions. In recent years, Alaska has been at the forefront in passing laws (particularly employment laws) that favor Alaska residents. Almost without exception, these laws have been struck down as unconstitutional. Unconstitutional laws have included:

Copy on file
4/30/96A

Bill Allen
April 26, 1996
Page - 2

- * Former AS 38.40.010 et. seq., which required Alaska hire for work performed in the development of resources pursuant to Alaska oil and gas leases. The United States Supreme Court held that this law violated the Privileges and Immunities Clause and Commerce Clauses of the United States Constitution. Hicklin v. Orbeck, 437 U.S. 518 (1978).
- * Alaska Statute 36.10.010, requiring that public construction projects be performed almost entirely by Alaska residents, was held to violate the Privileges and Immunities Clause of the United States Constitution. Robison v. Francis, 713 P.2d 259 (Alaska 1986).
- * Alaska Statute 36.10.160, which provided a hiring preference for residents of economically distressed zones for certain public works employment projects was held to be unconstitutional because it violated Alaska's Equal Protection Clause. State v. Enserch Alaska Construction, Inc., 787 P.2d 624 (Alaska 1989).

We also note that because Alaska's legislature has tried on numerous occasions to establish employment laws favoring Alaska residents, Alaska laws and practices will likely be subject to a heightened level of scrutiny if a legal challenge is brought.

In sum, the state simply cannot mandate resident hire.

II. Any Requirement for BPXA to Adopt a Resident Hire Policy or Procedure Would Constitute Impermissible State Action.

As you know, the constitutional provisions discussed above do not ordinarily apply to private entities such as BPXA. However, given the current state of proposed changes to the Northstar legislation and the earlier negotiations with the Department of Natural Resources, the local hire requirements imposed on BPXA would constitute state action under the law. Thus, it would be unconstitutional for BPXA to base its employment decisions on state residency.

A private party can be deemed to be engaged in "state action" if the activity in question (local hire) bears a close relationship to state activity or direction. If it could be shown that the State of Alaska exercised coercive power or provided significant encouragement, either overt or covert, BPXA's actions would be deemed to be that of the state. Long v. Nat'l Football League, 870 F.Supp. 101, 105 (W.D. Pa. 1994), citing Jackson v. Metropolitan Edison Co., 419 U.S. 345 (1974).

Bill Allen
April 26, 1996
Page - 3

Additionally, a test known as the symbiotic relationship test allows a challenging party to review the overall relationship between the parties. Under this test, conduct will be considered state action if the state and the private party are in a position of interdependence such that the state must be recognized as a joint participant in the challenged activity. Courts will look at the overall relationship and determine whether there is evidence of an interdependent and mutually beneficial relationship and whether the relationship confers on each party "an incidental variety of mutual benefits." Long, supra, at 104, quoting Burton v. Wilmington Parking Authority, 365 U.S. 715 (1961).

Under the circumstances there is little question that a court will find BPXA's actions to be "state action," especially since the state has required the insertion of the local hire provisions into the leases. Assuming that to be the case, the local hire provisions would be struck down as unconstitutional.

II. ~~IV.~~ The Local Hire Provisions are not Severable.

I understand that several legislators have expressed the view that, even if the local hire language is unconstitutional, it should nevertheless be included in the bill, since the provision would be "severable" and the remainder of the bill would remain valid. However, in our view this is not correct.

The Alaska Statutes contain a provision stating generally that, if one part of a law is held to be invalid, the rest of the law will remain in effect. AS 01.10.030. However, in interpreting this rule, Alaska courts have stated that it expresses only a "weak" legislative intent in favor of severability. Williams v. Zobel, 619 P.2d 422 (Alaska 1980). The crucial question for a court reviewing a statute is whether the legislature intended for the whole statute to fail if one provision of it (such as a local hire provision) is held to be invalid. Lynden Transport, Inc. v. State, 532 P.2d 700, 711-715 (Alaska 1975).

Here, there is an extensive legislative record that a substantial motivation for the state in changing the lease terms is the fact that the Northstar project will create jobs and opportunities for Alaskans. For example, the "Legislative Findings and Intent" section of CSHB 548 states,

the mutual commitments made by the parties to the lease in these amendments to secure to state residents and businesses the advantages and benefits of both expanded

Bill Allen
April 26, 1996
Page - 4

resident hire opportunities and additional work by in-state businesses are in the best interests of the people of the state and are considerations of paramount importance to the legislature in its decision to conditionally approve the proposed amendments of the Northstar Unit leases.

CSHB 548 Sec. 1(b)(4) (emphasis added).

In fact, the legislature directs the Commissioner of Natural Resources to refrain from amending the leases until all of the representations made by BPXA and the state are substantially complied with. CSHB 548 Sec. 1(c).

Given these facts, a court would likely find that the entire bill must fail if the local hire provision fails.

For these reasons, we strongly believe that the local hire provisions would be found to be unconstitutional, and that the entire bill would fail as a result.

As we discussed, this is merely a summary of the applicable law. We can supplement the legal authority we have cited if that proves necessary. Give me or Rosy Jacobsen a call if you have any questions.

Very truly yours,

EIDE & MILLER C


John M. Miller

105/01/allen.ltr

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

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

1980 Leases

- 1) Paragraph 6(b) is replaced in its entirety as follows:
 - (b) Annual rental paid in advance is a credit on the royalty or supplemental royalty due under this lease for that year.
- 2) Paragraph 7 is replaced in its entirety as follows:

7. SUPPLEMENTAL ROYALTY. (a) In addition to the royalty paid and computed under paragraphs 8, 10, and 11 below, Lessee shall pay to the State a supplemental royalty ("supplemental royalty"). Lessee shall pay the supplemental royalty, if owed, upon the same production volume for which royalty is paid ("production volume"). The supplemental royalty payment for a given month equals the supplemental royalty value times the supplemental royalty percentage rate ("percentage rate") times the production volume for that month. The percentage rate shall be calculated monthly by reference to: (1) an ANS West Coast spot price ("spot price"); and (2) a supplemental royalty trigger price ("trigger price"). If the spot price is equal to or less than the trigger price, then the percentage rate equals zero. If the spot price is greater than the trigger price, then the percentage rate equals [the spot price per barrel minus the

trigger price per barrel] times 1.5 per cent per dollar per barrel. The percentage rate may never exceed 7.5 per cent.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(c) Notwithstanding any other provisions of this lease, the Northstar Unit Agreement, State statute, or State regulation, this lease shall terminate automatically without notice, an opportunity to be heard, or judicial proceeding, if the Lessee fails to comply with the project schedule set forth in Exhibit C ("project schedule"), attached and incorporated by reference. Automatic termination shall occur whether or not there is a well on the leased area capable of producing oil or gas in paying quantities, the lease is committed to a unit agreement, or the Lessee is drilling or conducting reworking operations, on the date performance under the schedule is due. Furthermore, upon termination BPXA shall promptly file of record appropriate lease relinquishments. The automatic termination shall occur at 11:59 P.M., Alaska Time, on the day performance of an obligation under the project schedule is due. The State may waive performance of an obligation required under the project schedule by prior written consent. The performance of any obligation

required under the project schedule is subject to the provisions of paragraph 32.

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

32. FORCE MAJEURE. If the State determines that Lessee has been prevented, after diligent efforts made in good faith, from complying with any express or implied promise, term, condition or covenant of this lease, from conducting drilling operations, or from producing or marketing oil or gas from the leased area, by reason of war, riots, acts of God, unusually severe weather, or any other cause beyond Lessee's reasonable ability to foresee or control (including delays caused by judicial decision or lack thereof or inability to obtain local, State, or federal permits or environmental impact statements), whether similar to those enumerated or not, Lessee's obligation to comply with such provision shall be suspended, but not voided, and Lessee shall not be liable for damages for failure to comply therewith. If Lessee's obligations to conduct drilling or reworking operations are suspended under this paragraph and the continuation of such operations without suspension would have had the effect of preventing the expiration or termination of this lease, this lease shall not terminate during the period which the obligation to perform such operations is suspended. Nothing in this paragraph shall be construed to suspend the obligation to pay rentals, or to suspend the obligation to pay royalties, supplemental royalties or other production payments from operations on the lease area which are not suspended or from operations which are not affected by any such suspension, to the State.

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

41. EMPLOYMENT OF ALASKAN RESIDENTS. Lessee shall comply with all valid federal, State and local laws in hiring Alaska residents and contractors and shall not discriminate against Alaska residents or contractors. Within the constraints of law, Lessee shall employ Alaska residents and contractors to the extent they are available and qualified. Subject to the foregoing:

Lessee voluntarily agrees to adopt a program to hire residents of Alaska. Lessee shall advertise for available positions locally and use Alaska job service organizations to notify the Alaskan public. For work in connection with this lease, Lessee shall use best efforts to contract with Alaska firms and fabricate modules in Alaska, whenever feasible. Lessee shall encourage its contractors to employ and train, when necessary, residents of Alaska. In determining feasibility, Lessee shall consider commercial, health, safety, and environmental conditions and requirements to ensure maintenance of Lessee's operational standards. Lessee shall submit annually to the Director, Division of Oil and Gas, for transmission to the Department of

Labor, a report that details the specific measures Lessee and its contractors and subcontractors have taken or are planning to take to recruit qualified Alaska residents for available jobs, describes on-the-job training opportunities, and describes Lessee's efforts to hire Alaska firms for work in connection to this lease. Lessee shall furnish the Department of Labor a quarterly report regarding the employment of Alaska residents on the leased area in compliance with regulations by the Commissioner of Labor. The report must also include statistical data concerning the number of resident personnel hired within the past year for this lease.

1983 Lease

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

(f) FORCE MAJEURE. If the state determines that lessee has been prevented, after diligent efforts made in good faith, from complying with any express or implied promise, term, condition or covenant of this lease, from conducting drilling operations, or from producing or marketing oil or gas from the leased area, by reason of war, riots, acts of God, unusually severe weather, or any other cause beyond lessee's reasonable ability to foresee or control (including delays caused by judicial decision or lack thereof or inability to obtain local, state, or federal permits or environmental impact statements), whether similar to those enumerated or not, lessee's obligation to comply with such provision shall be suspended, but not voided, and lessee shall not be liable for damages for failure to comply therewith. If lessee's obligations to conduct drilling or reworking operations are suspended under this paragraph and the continuation of such operations without suspension would have had the effect of preventing the expiration or termination of this lease, this lease shall not terminate during the period which the obligation to perform such operations is suspended. Nothing in this paragraph shall be construed to suspend the obligation to pay rentals, or to suspend the obligation to pay royalties, supplemental royalties or other production payments from operations on the lease area which are not suspended or from operations which are not affected by any such suspension, to the state.

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

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

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

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

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

(c) Notwithstanding any other provisions of this lease, the Northstar Unit Agreement, state statute, or state regulation, this lease shall terminate automatically without notice, an opportunity to be heard, or judicial proceeding, if the lessee fails to comply with the project schedule set forth in Exhibit C ("project schedule"), attached and incorporated by reference. Automatic termination shall occur whether or not there is a well on the leased area capable of producing oil or gas in paying quantities, the lease is committed to a unit agreement, or the lessee is drilling or conducting reworking operations, on the date performance under the schedule is due. Furthermore, upon termination BPXA shall promptly file of record appropriate lease relinquishments. The automatic termination shall occur at 11:59 P.M., Alaska Time, on the day performance of an obligation under the project schedule is due. The state may waive performance of an obligation required under the project schedule by prior written consent. The performance of any obligation required under the project schedule is subject to the provisions of paragraph 4(f).

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

31. EMPLOYMENT OF ALASKAN RESIDENTS. Lessee shall comply with all valid federal, state and local laws in hiring Alaska residents and contractors and shall not discriminate against Alaska residents or contractors. Within the constraints of law, lessee shall employ Alaska residents and contractors to the extent they are available and qualified. Subject to the foregoing:

Lessee voluntarily agrees to adopt a program to hire residents of Alaska.
Lessee shall advertise for available positions locally and use Alaska job

service organizations to notify the Alaskan public. For work in connection with this lease, lessee shall use best efforts to contract with Alaska firms and fabricate modules in Alaska, whenever feasible. Lessee shall encourage its contractors to employ and train, when necessary, residents of Alaska. In determining feasibility, lessee shall consider commercial, health, safety, and environmental conditions and requirements to ensure maintenance of lessee's operational standards. Lessee shall submit annually to the Director, Division of Oil and Gas, for transmission to the Department of Labor, a report that details the specific measures lessee and its contractors and subcontractors have taken or are planning to take to recruit qualified Alaska residents for available jobs, describes on-the-job training opportunities, and describes lessee's efforts to hire Alaska firms for work in connection to this lease. Lessee shall furnish the Department of Labor a quarterly report regarding the employment of Alaska residents on the leased area in compliance with regulations by the Commissioner of Labor. The report must also include statistical data concerning the number of resident personnel hired within the past year for this lease.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

37. ROYALTY IN VALUE. Unless the state elects to receive all or a portion of its royalty or supplemental royalty in kind as provided in paragraph 38, lessee shall pay to the state the value of all royalty and supplemental royalty oil, gas and associated substances as determined under paragraph 36. Royalty and supplemental royalty paid in value shall be free and clear of all lease expenses (and any portion of such expenses which is incurred away from the leased area), including, but not limited to, expenses for separation, cleaning

dehydration, gathering, saltwater disposal, and preparing the oil, gas or associated substances for transportation off the leased area. All royalty and supplemental royalty that may become payable in money to the state shall be paid on or before the last day of the calendar month following the month in which the oil, gas or associated substances are produced. Royalty and supplemental royalty payments shall be accompanied by copies of run tickets or such other information relating to valuation of royalty and supplemental royalty as the state may require, which may include, but is not limited to, evidence of sales, shipments, and amounts of gross oil, gas and associated substances produced.

9) The following provision shall be added to the end of paragraph 38:

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

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

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

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

40. SUPPLEMENTAL ROYALTY. (a) In addition to the royalty paid and computed under paragraph 35, 36, 37 above, lessee shall pay to the state a supplemental royalty ("supplemental royalty"). Lessee shall pay the supplemental royalty, if owed, upon the same production volume for which royalty is paid ("production volume"). The supplemental royalty payment for a given month equals the supplemental royalty value times the supplemental royalty percentage rate ("percentage rate") times the production volume for that month. The percentage rate shall be calculated monthly by reference to: (1) an ANG West Coast spot price ("spot price"); and (2) a supplemental royalty trigger price ("trigger price"). If the spot price is equal to or less than the trigger price, then the percentage rate equals zero. If the spot price is greater than the trigger price, then the percentage rate equals [the spot price per barrel minus the trigger price per barrel] times 1.5 per cent per dollar per barrel. The percentage rate may never exceed 7.5 per cent.

(b) The spot price is the price per barrel calculated in Article 3.3 of and Exhibit 4 to the ANS Royalty Litigation Settlement Agreement ("ANS Agreement"), dated December 31, 1991, between the State and BPXA, for the crude oil referred to

as "ANS (USWC)" in the ANS Agreement. The trigger price is \$17.35 per barrel through April 30, 1997. On May 1, 1997, and each May 1 thereafter, the trigger price shall be adjusted by an inflation factor equal to fifty percent of the "inflation rate" defined as the Producer Price Index for Industrial Commodities ("PPI") for December of the previous year, as reported by April 30 of the current year, divided by the PPI for December of 1995, as reported by April 30, 1996. The supplemental royalty value for oil, gas, natural gas liquids and associated substances is defined in paragraphs 36 and 37 above. Exhibit B is a sample calculation to demonstrate the method of calculating supplemental royalty for oil.

These amendments do not affect: (1) any future agreements which may be reached for the handling of outside substances as that term is used in the Northstar Unit Agreement effective January 24, 1990 or (2) the current valuation methodology for royalty for any other Alaska Net Profit Share leases between the State and BPXA or any affiliates or any future agreements which may be reached regarding a future valuation methodology for Alaska Net Profit Share leases. These amendments take effect when and if an Act(s) substantially similar to the act, attached as Exhibit D and incorporated by reference, takes effect. This amendment is dated for reference purposes as of March 22, 1996.

LESSEE:

BP EXPLORATION (ALASKA), INC.



E. M. Luttrell, Vice President

LESSOR:

STATE OF ALASKA



John T. Shively, Commissioner
Department of Natural Resources

STATE OF ALASKA)
) ss.
Third Judicial District)

On March 22, 1996, before me appeared John T. Shively, Commissioner, State of Alaska, Department of Natural Resources, and who executed this lease and acknowledged voluntarily signing it on behalf of the State of Alaska, as lessor.

Dianne A. Pitts
Notary Public in and for the State of Alaska
My Commission Expires: 1/16/99



STATE OF ALASKA)
) ss.
Third Judicial District)

On March 22, 1996, before me appeared E. M. Lutrell, Vice President of BP Exploration (Alaska), Inc., and who executed this lease and acknowledged voluntarily signing it on behalf of the BP Exploration (Alaska), Inc., as lessee.

Dianne A. Pitts
Notary Public in and for the State of Alaska
My Commission Expires: 1/16/99



Exhibit B
Calculation of the Supplemental Royalty Payment for Oil

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

Date	Platt's Reported Daily Assessment (\$/barrel)		ANSWC Daily Average	ANSWC Daily Average (After Rounding) ¹
	ANSWC Low	ANSWC High		
01/02/96	\$17.97	\$18.06	\$18.015	\$18.02
01/03/96	\$17.94	\$18.03	\$17.985	\$17.98
01/04/96	\$17.96	\$18.03	\$17.995	\$18.00
01/05/96	\$18.60	\$18.64	\$18.620	\$18.62
01/09/96	\$18.23	\$18.29	\$18.260	\$18.26
01/10/96	\$17.99	\$18.05	\$18.020	\$18.02
01/11/96	\$17.10	\$17.17	\$18.135	\$17.14
01/12/96	\$16.64	\$16.71	\$18.675	\$16.68
01/15/96	\$16.75	\$16.83	\$16.690	\$16.79
01/16/96	\$16.60	\$16.66	\$16.730	\$16.63
01/17/96	\$16.91	\$16.97	\$16.940	\$16.94
01/18/96	\$17.46	\$17.54	\$17.500	\$17.50
01/19/96	\$17.28	\$17.37	\$17.325	\$17.32
01/22/96	\$17.02	\$17.08	\$17.050	\$17.05
01/23/96	\$17.10	\$17.16	\$17.150	\$17.13
01/24/96	\$17.35	\$17.41	\$17.380	\$17.38
01/25/96	\$16.76	\$16.81	\$17.785	\$16.78
01/26/96	\$16.43	\$16.53	\$17.480	\$16.48
01/29/96	\$16.16	\$16.24	\$16.200	\$16.20
01/30/96	\$16.30	\$16.38	\$16.340	\$16.34
01/31/96	\$16.46	\$16.56	\$16.510	\$16.51

Monthly Average calculated from ANSWC Daily Average (After Rounding) =	\$17.2271 per barrel
ANS West Coast spot price for the January 1996 month of production =	\$17.23 per barrel

2) The inflation factor shall be calculated as follows: Assume that by April 30, 1996, the U.S. Department of Labor reports a PPI for December 1995 as 126.2. Assume that by April 30, 1998, the PPI for December 1997 is 134.2. The inflation factor for 1998 is calculated according to the following formula:

¹ All source and calculated numbers shall be rounded as required by the Agreement.

Inflation Factor for May 1, 1998 through April 30, 1999
= [(PPI December of the previous year ÷ PPI December 1995) - 1] x 0.5
= [(134.2 ÷ 126.2) - 1] x 0.5 = 0.0317 = 3.17 percent

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

$$\begin{aligned}\text{Trigger price for the current year} &= \$17.35 \text{ per barrel} \times (1 + \text{inflation factor}) \\ &= \$17.35 \text{ per barrel} \times (1 + 3.17 \text{ percent}) \\ &= \$17.35 \times 1.0317 \\ &= \$17.90 \text{ per barrel}\end{aligned}$$

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

$$\begin{aligned}\text{Supplemental royalty percentage rate} &= (\text{ANSWC spot price} - \text{trigger price for the current year}) \\ &\quad \times (1.5 \text{ percent per dollar per barrel}) \\ &= (\$21.40 \text{ per barrel} - \$17.90 \text{ per barrel}) \times 1.5 \text{ percent per dollar per barrel} \\ &= (21.40 - 17.90) \times 0.015 \\ &= 0.05250 = 5.25 \text{ percent}\end{aligned}$$

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

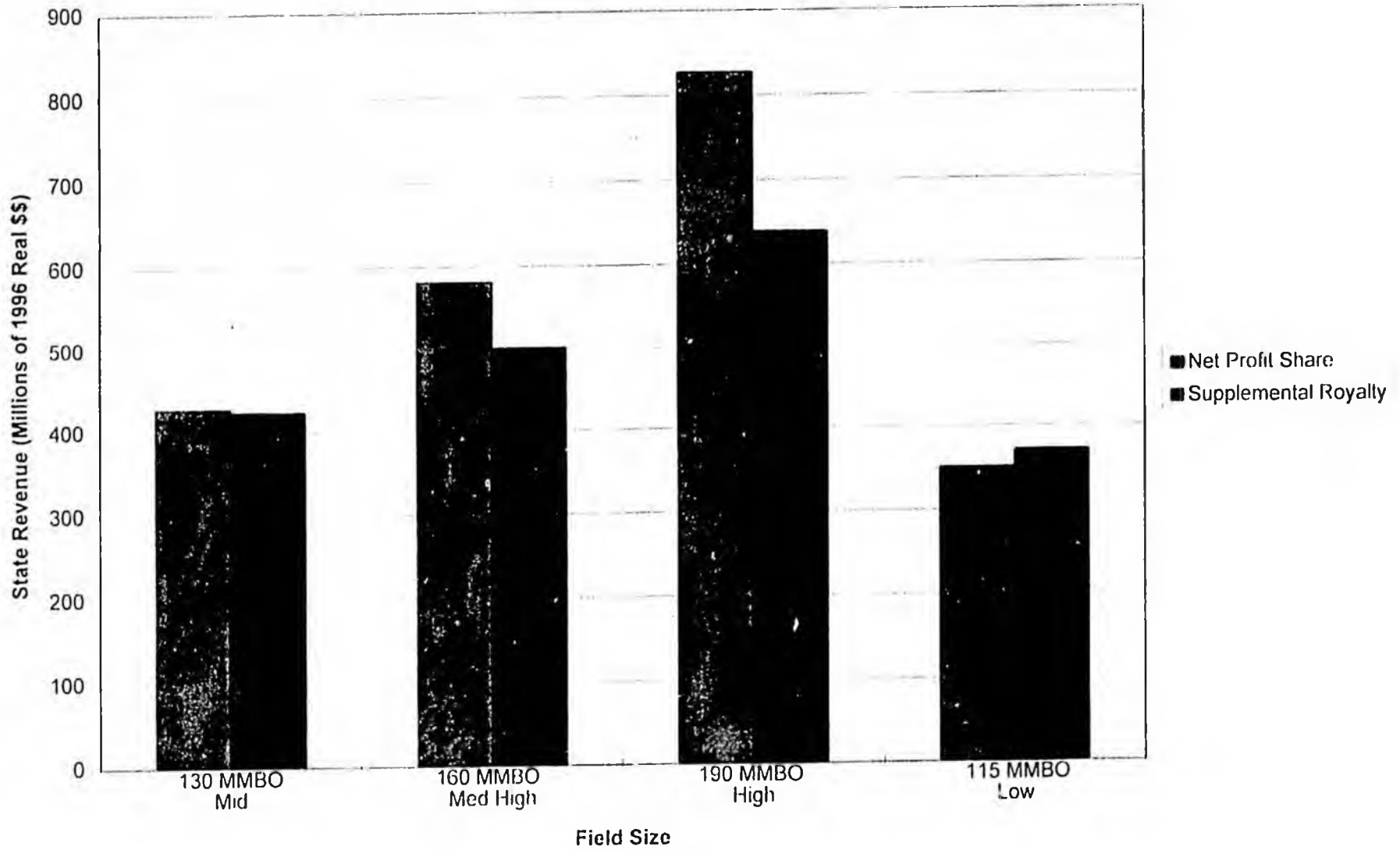
$$\begin{aligned}\text{Supplemental royalty payment} &= \text{production volume} \times \text{royalty value} \times \text{supplemental royalty} \\ &\quad \text{percentage rate} \\ &= 1,550,000 \text{ barrels} \times \$17.71 \text{ per barrel} \times 5.25 \text{ percent} \\ &= \$1,441,151.25\end{aligned}$$

EXHIBIT C
PROJECT SCHEDULE

The Northstar Development Project ("the Project") is described in the document titled "Northstar Development Project, Conceptual Engineering Report" dated February 1996. BPXA shall comply with the following schedule for the Project and shall provide satisfactory evidence of compliance within fifteen days of the date performance is due under the schedule:

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

Northstar Economic Evaluation



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Northstar Economic Evaluation

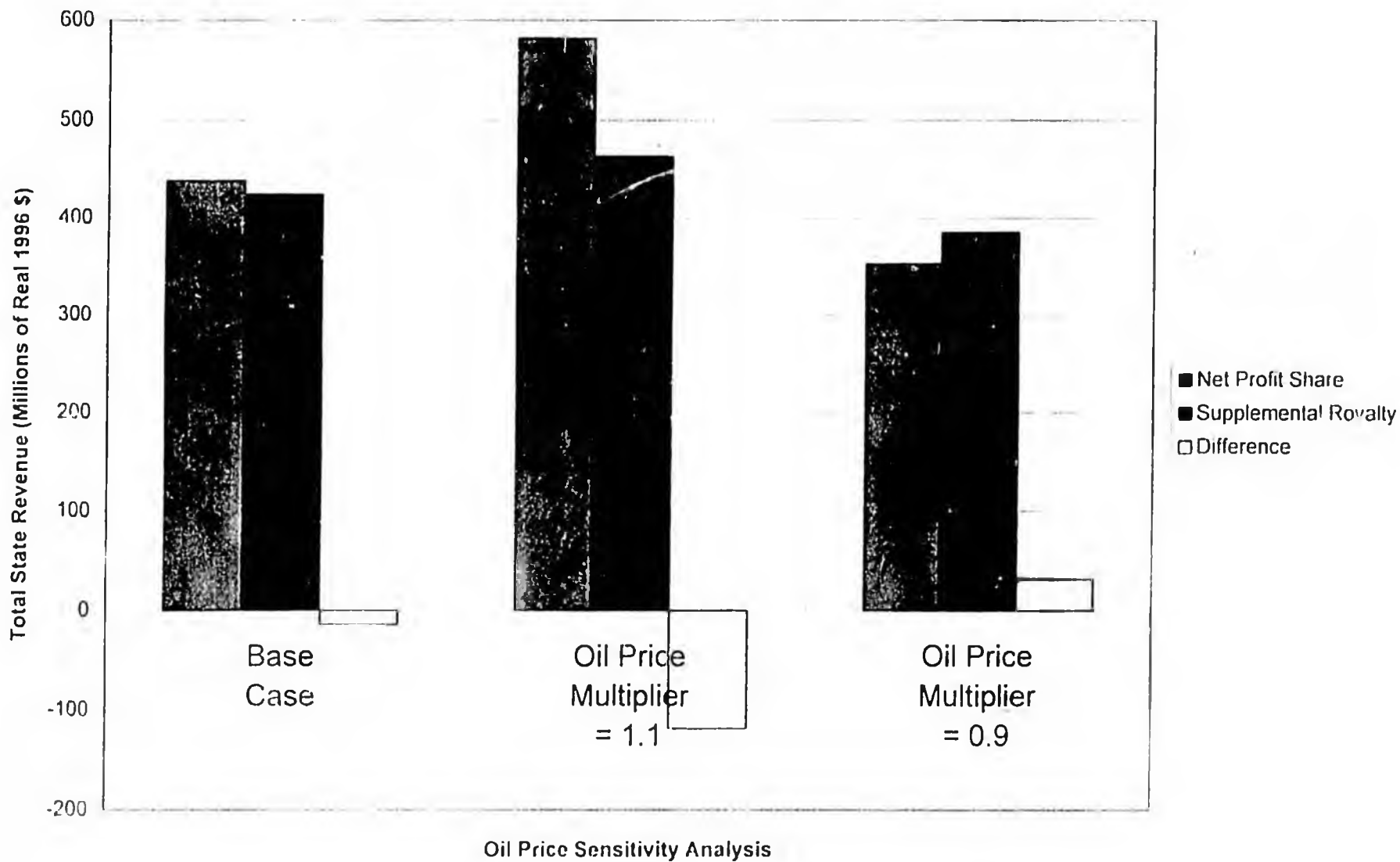
Estimated Total Revenues for the State of Alaska
(Real 1996 Dollars)

	Net Profit Share and 2002 Development	Supplemental Royalty and 1999 Development	Difference
<u>Reserves</u>			
Mid Case: 130 MMBO	428	424	-4
Medium High: 160 MMBO	581	501	-80
High: 190 MMBO	827	639	-188
Low: 115 MMBO	350	371	21

Per Memorandum from DNR to Senator Leman

Rep. Brown

Northstar Economic Evaluation



Rep Brown

Northstar Economic Evaluation

Estimated Total Revenues for the State of Alaska
(Millions of Real 1996 Dollars)

	Net Profit Share	Supplemental Royalty	Difference
Base Case	438	424	-14
Oil Price Multiplier = 1.1	582	463	-119
Oil Price Multiplier = 0.9	353	385	32

North Star

	State of Alaska	British Petroleum
What do you get?	Modest acceleration in startup of production	Assume more risks associated with variation in field size and price
	State income less dependent upon variation in field size and price	May provide more timely utilization of existing facilities and personnel
	Promise of Alaskan construction, local hire	No sharing of net profits
		Precedent for renegotiation of an existing lease
What do you give up?	Upside associated with larger field size and higher prices, downside associated with smaller field size and lower prices	Ability to share more risks with the State
	Undermines competitive bid process: sets precedent for renegotiations on other leases	Appears to contradict arguments that the State should assume more risk in its basic tax and royalty structure
	State gives up \$80 million - 190 million (per Senator Leman's requested runs on larger field sizes)	

MEMORANDUM

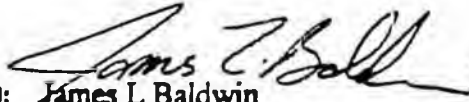
State of Alaska
Department of Law

TO: Honorable John T. Shively
Commissioner
Department of Natural Resources

DATE: March 26, 1996

FILE NO.: 663-96-0441

TELEPHONE NO.: 465-3600

FROM: 
James L. Baldwin
Assistant Attorney General
Governmental Affairs - Section

SUBJECT: Necessity for legislation to
implement net profit share
reduction

We were asked whether the Commissioner of Natural Resources has the statutory authority to reduce the net profit share payments required under the Northstar leases held by BP Exploration (Alaska) Inc. After considering that question, we conclude it would be prudent to seek express statutory authority for this action. We also discuss other legal issues that bear on proposed remedial legislation.

1. Authority Under Existing Law.

Alaska Statute 38.05.180 is a comprehensive statute which sets out the Commissioner of Natural Resources' authority regarding oil and gas leasing. Section 180 contains express authority in two subsections for the commissioner to modify the royalty provisions of an oil and gas lease. However, neither section 180 nor the Alaska Land Act (AS 38.05) defines the meaning of the term "royalty." To add to the difficulty of statutory construction, section 180 lacks express authority for reduction of a net profit share interest.

The Northstar leases are within the Northstar unit. To implement unitization of a field,

The commissioner may, with the consent of the holders of the leases involved . . . change . . . royalty requirements of the leases

AS 38.05.180(p); (emphasis added). Section 180(p) provides that a change may be made "in connection with the institution and operation of a cooperative unit plan." The Department of Natural Resources (department) interprets section 180(p) to be applied only at the institution of a unit. For this reason, section 180(p) is not germane to the instant transaction. In any case, section 180(p) was amended during the first session of the Nineteenth Alaska State legislature to provide in part that the commissioner

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"may not decrease royalty on leases in connection with a cooperative or unit plan except as provided in (j) of this section.

Sec. 3, ch. 85, SLA 1995. Section 180 (j) permits the commissioner to

provide for an increase or decrease or otherwise modify royalty, to allow for production that would not otherwise be economically feasible. . . .

Section 180(j) contains intrinsic evidence that the legislature meant only to cover the royalty share in amount or value of production removed from the lease. For example, in section 180(j)(3)(C)(i) and (4)(A) limits are imposed on the commissioner's power to reduce a royalty using the terms "royalty percentage" or "royalty rate." The use of these terms is evidence that the legislature meant section 180 (j) to apply only to a share in the amount or value of production, not to a reduction of a share of the net profit derived from the lease. The foregoing intrinsic evidence of meaning is consistent with your testimony given when section 180(j) was under consideration before enactment by the legislature. You testified, "there was no reference made in [SB 207] to 'net profits leases'. . . . There could be negotiation on the base royalty, but not the net profit portion." Senate Finance Committee Minutes, SB 207, May 11, 1995. Senate Bill 207 was never subsequently amended to cover the omission highlighted by the commissioner. Senate Bill 207 was passed by the legislature and signed into law by the governor and became ch. 85, SLA 1995.

There is no commonly understood definition of a net profit share.¹ A net profits interest may be interpreted to be either the equivalent of a royalty which is an interest in land, or it could be considered only a contract right which is severable from an interest in realty. We would be remiss if we did not acknowledge that the department has without discussion, on occasion, interpreted the term "royalty requirements" in section 180 (p) to include a net profit share interest. Similarly, the Minerals Management Service, the federal agency equivalent to the Division of Oil & Gas, has interpreted the term "royalty," in the context of a royalty reduction, to include net profit share payments. See 30 C.F.R. § 203.50. The past administrative interpretations of the department are limited in number and of fairly recent origin. For this reason, we are unable to conclude there has been a contemporaneous construction that a net profit share is included within the meaning of "royalty." For these reasons and the analysis of the relevant provisions discussed above, we believe there is substantial doubt that section 180 prescribes a method for reducing a net profit share interest.

We believe that it would not be prudent to assume that the term "royalty," as used in subsection (p), includes net profit share payments. If that were the case, the commissioner's only statutory authority to reduce the net profit share payments required under the Northstar Unit leases

¹ See Christy v. Petrol Resources Corp., 691 P.2d 59, 61 (N.M. App. 1984) ("net profits interest" has no independent meaning, and nature of the interest must be determined from provisions of the instrument creating it).

is set out in AS 38.05.180(j). For the reasons stated above, we believe that a decision to reduce a net profit share using the authority contained in section 180(j) would be vulnerable to a judicial challenge. Further, under section 180 (j), the commissioner may reduce royalty on unitized leases if the lessee makes a "clear and convincing showing that a modification of royalty meets the requirements of this section and is in the best interests of the state." AS 38.05.180(j)(2). The purpose of subsection (j) is "to allow for production that would not otherwise be economically feasible." You have informed us that the Northstar Unit development does not meet this standard. It would be preferable to seek independent authority for the Northstar net profit share reduction in a way that would bring certainty to the state and the leaseholder while avoiding these difficult legal issues.²

2. Local or Special Legislation

The department intends to seek the narrowest possible provision to specifically authorize amendments to only the Northstar leases. Consistent with your instructions, we have prepared a bill to accomplish this goal. You ask whether such a bill would violate the Alaska Constitution. The prohibition against local or special legislation provides:

The legislature shall pass no local or special act if a general act can be made applicable. Whether a general act can be made applicable shall be subject to judicial determination.

Alaska Const. Art. II, Sec. 19.

Section 19 has not been recently applied by the Alaska Supreme Court. In 1975, section 19 was applied to invalidate a statute that mandated the creation of an Eagle River-Chugiak Borough. Abrams v. State, 534 P.2d 91 (Alaska 1975). In Abrams, the court recognized that a statute may affect only one of a few areas and yet relate to a matter of statewide concern or common interest.

In 1977, section 19 was again applied to validate a statute authorizing a trade of land between the federal government, the state, and a Native regional corporation. State v. Lewis, 559 P.2d 630 (Alaska 1977), cert. denied, 432 U.S. 901 (1977). The court found that the land trade was unique, but of statewide concern. The Lewis court propounded a test to be used in determining whether a statute violates the special or local prohibition. It was substantially the same as the test used to determine the validity of nonsuspect classifications challenged as violative of equal protection. The state merely had to show a rational basis, a good reason, to justify the special treatment.

² There may be implied authority to amend the net profit share term of an oil and gas lease granted under AS 38.05.180. While that authority may exist, it has never been used to reduce a net profit lease. On a matter of such significance, this transaction should not become the test case.

In 1978, the court articulated a unified equal protection analysis that avoids distinguishing between suspect and nonsuspect classifications by using a sliding scale to weigh the interests involved in any classification. State v. Erickson, 574 P.2d 1 (Alaska 1978). The court applies a single test that is flexible and dependent on the importance of the rights involved. The more fundamental the right involved, the more compelling the interest the state must have for preferring one classmember over another. Commercial Fisheries Entry Commission v. Apokedak, 606 P.2d 1255 (Alaska 1980).

There has not been a case involving the local or special legislation prohibition since the unified equal protection test was adopted by the court. It remains to be seen how the court will apply an equal protection analysis to a statute claimed to violate section 19.

According to the department, there are approximately 39 leases carrying net profit share provisions. It is possible that other leaseholders will claim discrimination if they are not also given relief from a corresponding net profit share provision. We doubt that a leaseholder would prevail in a claim that a statute permitting the reduction of a leaseholder's net profit share interest implicates a fundamental right. It is not a foregone conclusion that the other leaseholders are similarly situated to the Northstar leaseholder. We doubt there is a class of similarly situated leaseholders who would be discriminated against by a bill that only applies to the Northstar leases. The effect of a net profit share on a specific field will be subject to different economic assumptions (except price).

The state's interest advanced by the proposed statute is to bring the Northstar leases into production in a way that also encourages other employment and economic activity in the state. The state depends on petroleum revenues for approximately 85 percent of its general fund revenues. For this reason, a statute specifically directed to the Northstar leases can be said to have statewide significance. The reduction in net profit sharing is tied to promises of local manufacture and assembly of facilities to develop the leases. This will lead to substantial economic activity in the railbelt region of the state in which over half of the population of the state resides. There will be a direct economic benefit to the North Slope Borough derived from increased tax revenues. Production from the Northstar Unit will decrease the TAPS tariff for all existing North Slope fields and will likely extend the life of TAPS thereby making it more likely that fields not currently in production can be brought into production.

It will be the department's responsibility to carefully articulate the state's interest during legislative hearings on the bill proposing the net profit share reduction. This must be done with the goal in mind of establishing a detailed legislative history supporting the interests of the state. The legislative history will be important because the ultimate decision "whether a general act can be made applicable" rests with the Alaska Supreme Court.

3. Public Purpose.

The proposed reduction in the net profits share provisions of the Northstar leases raises the question of whether there might be an expenditure of future state revenues without a valid public purpose. It is debatable how much revenue, if any, would be foregone if the reduction in net profit share takes effect. The amount is dependent on when the leases go into production, the value of oil and other production from the lease, and when the leases become profitable under 11 A.A.C. 83.210 - .295.

The Alaska Constitution requires that state money be expended only for public purposes. Alaska Const. art. IX, sec. 6. To satisfy the public purpose doctrine, the benefit to the public must be the direct and primary purpose of an expenditure. ~~It is permissible if the expenditure also has an indirect private benefit. However, the reverse (direct private benefit with only secondary, indirect public benefit) constitutes violation of the public purpose doctrine.~~

The analysis is similar to a determination whether there is adequate consideration to support a contract. If there is valuable consideration received by both the state and the leaseholder, the benefit to the state may be characterized as direct. In the case of the Northstar leases, there is a trade-off between expedited development of the leases and the loss of uncertain future revenue. The expedited development comes combined with in-state manufacture and assembly of production facilities. The magnitude of the loss in revenue is highly speculative because the value of production from the leases depends on the whims of the marketplace.

Because the State leased the oil rights at the Northstar field pursuant to the constitutional mandate to obtain the maximum public benefit, an effort to expedite production vitally affects the public interest. See Swindel v. Kelly, 499 P.2d 291, 298 n.27 (Alaska 1972) (ruling that State Constitution recognizes value of all public lands); Alaska Ski Corp. v. Holdsworth, 426 P.2d 1006, 1011 (Alaska 1967) (ruling that "our constitution reflects . . . the importance of our land resources and of the concomitant necessity for observance of legal safeguards in the disposal or leasing of state lands.") See also Trustees For Alaska v. State, 736 P.2d 324, 335 (Alaska 1987) (finding that State was granted large land holdings under the Statehood Act to "ensure the economic and social well-being of the new state.") Given the public's vital interest in deriving the maximum benefit from the leasing of state lands, the court would likely liberally construe the proposed net profit share reduction provisions in the State's favor. See State v. Moncrief, 720 P.2d 470, 475 (Wyo. 1986) (stating that if a governmental mineral lease is ambiguous, a court must then recognize that the government officials' duty "to realize the largest possible proceeds is a surrounding circumstance which must be considered when interpreting these leases.")

The Alaska Supreme Court tends to give a certain amount of deference to the judgment of the legislature concerning whether and how state resources may be expended for a particular purpose. See DeArmond v. Alaska State Development Corporation, 376 P.2d 717, 721

(Alaska 1962)(court will not set aside finding of public purpose unless it clearly appears that such finding is arbitrary and without any reasonable basis in fact). To be sure, there will be some uncertainty if this question is litigated. The Alaska Supreme Court has stated that the phrase "public purpose" represents a concept which is not capable of precise definition. DeArmond, 376 P.2d at 721; Walker v. Alaska State Mortgage Association, 416 P.2d 245 (Alaska 1966). The concept is an evolving one for which "it would be a disservice to future generations for [the Supreme Court] to attempt to define" Id. The court will examine the "entire factual and governmental context to determine whether a particular plan of action serves a public purpose." Wright v. City of Palmer, 468 P.2d 326, 330 (Alaska 1970)(citation omitted). In essence, a determination of public purpose must be made in each case on the basis of the particular facts and circumstances. DeArmond, 376 P.2d at 721.

We believe that a compelling case can be made that there is adequate consideration to support a finding of a direct and substantial public benefit flowing from the reduction of the net profit share. We assign a low probability to the possibility of a successful challenge based on the public purpose doctrine.

4. Competitive Bidding Principles

It may be possible to consider a net profit share to be a contract right of the leaseholder. A public contract can be amended by the contracting parties. The power to amend a public contract is a necessary element of contract administration. It is not certain that judicial constructions of the ability of an administrative officer to amend a public contract will apply to the power to amend a contract right conveyed along with an oil and gas lease.

The power of amendment has its limits. The ability to amend is greatly restricted if the contract was awarded through the competitive bidding process. The reason for this is the premise that a material change in a competitively bid contract amounts to a new contract. McKinnon v. ALPETCO, 633 P.2d 281, 287 (Alaska 1981). A new contract can only be awarded through another round of competitive bids. Id.

The rule against material amendments was applied in Kenai Lumber Co., Inc v. LeResche, 646 P.2d 215 (Alaska 1982). In Kenai Lumber, the Alaska Supreme Court offered factors for determining when an amendment is material. These factors include:

- (1) the legitimacy of the reasons for the change;
- (2) whether the reasons for the change were unforeseen at the time the contract was made;
- (3) the timing of the change;

- (4) whether the contract contains clauses authorizing modifications; and
 - (5) the extent of the change relative to the original contract.
- 646 P.2d at 221.

It may be possible to formulate an argument that the reasons for amending the Northstar leases are legitimate and were unforeseen at lease formation. The timing of the change is sufficiently distant from formation of the leases to negate any claim that it is a pretext to avoid resolicitation of the leases. However, the extent of the change is substantial enough to raise serious questions as to whether factor (5) above can be satisfied. Other persons who competed for the leases may claim that since the net profit share was the sole variable in the lease sale, it is such a material term that a change cannot be made without violating the competitive bidding statute. Uncertainty concerning the state's prospects for prevailing in any litigation on this issue gives an additional basis for our advice that the department seek independent statutory authority for the Northstar transaction. The Alaska Supreme Court has held that competitive bidding is not necessary unless "required by constitution, statute, ordinance or regulation." McKinnon, 633 P.2d at 287. If the legislature were to directly authorize the amendments to the Northstar leases, that authorization would take precedence over any other statute requiring competitive bids, just as section 180(j) takes precedence over any other competitive bidding statute.

We hope that the foregoing memorandum adequately addresses the reasons why it would be prudent to seek specific authority from the legislature to reduce the net profit share provisions applicable to the Northstar leases. We are prepared to assist the Department of Natural Resources in seeking passage of a bill to accomplish this purpose.

JLB/clh



BP EXPLORATION

M. Luttrall
ice President
Exploration, Alaska

BP Exploration (Alaska) Inc
900 East Benson Boulevard
PO Box 196612
Anchorage, Alaska 99519-6612
(907) 564-4892

April 5, 1996

Rep. Ramona Barnes
Alaska State Legislature
State Capitol Rm. 403
Juneau, AK 99801-1182

Dear Representative Barnes,

Last Sunday the Anchorage Daily News ran an editorial on the DNR/BP Northstar contract which was both misleading and oversimplified in its analysis. I would like to set the record straight.

The negotiations between BP and the Department of Natural Resources (DNR) resulted in an agreement which is both a good deal for the state and BP. Period. The agreement maximizes the state's return, nurtures new business and creates the opportunity for new jobs for Alaskans.

That's a far cry from the News' characterization of the agreement as "a trust-me deal."

Here are the facts.

- The agreement DNR reached with BP will pump about \$1 billion into the state's economy over the next 15 years. About half will flow directly into the state treasury through the highest royalty rates of any producing field in Alaska, along with state severance tax, income tax and property tax. The state estimates that Northstar's 20 percent royalty rate will generate up to \$170 million more than the state's standard 1/8th royalty.
- The agreement contains a supplemental royalty clause pegged to the price of oil, one that would have already kicked in with today's market price. The state estimates this supplemental royalty, which could rise to as much as 27.5 percent, will add another \$37 million to the state's treasury.
- The agreement includes a strong commitment to hire Alaskan workers, a commitment BP takes very seriously. While the courts have prohibited binding Alaska hire agreements, we outlined specific actions which will help to ensure that as many of the more than 500 Northstar construction jobs, and the more than 50 direct permanent jobs, go to Alaskans. We have met with our contractors to reinforce their commitment to local hire, and we are working with the state's colleges and craft schools to make sure we have enough trained Alaska workers to fill the new jobs.

- The agreement binds BP to spend as many of Northstar's development dollars as possible right here in Alaska. This may be the most valuable portion of the agreement as it moves a part-time industry into a full-time business employing hundreds of highly skilled Alaskans to manufacture large production modules we need to bring Northstar on-line.

Let me divert for a moment.

The News raised concerns about the precedent set in retroactively changing lease terms. In fact, precedents already exist. In 1992, DNR unilaterally agreed to drop net profits terms at Thetis Island in exchange for higher royalties and immediate development. Last year the Alaska Legislature passed SB 207 giving the DNR commissioner the power to change royalty terms without legislative approval. In these two instances, changes were made or authorized which enable the state to respond to opportunities. Our economic environment is an ever-changing one which requires some measure of flexibility to remove obstacles to development, even those which at one time seemed to have merit.

You, as our state's policy makers, will hold the Northstar agreement to the most stringent of reviews, and we believe you will conclude that the agreement is in the best interests of everyone.

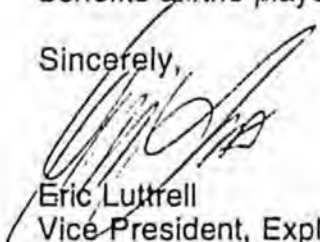
The bottom line is that Northstar will never be developed under its existing net profits terms. Its prior owners could not bring it to production, and the state's own studies show that the present net profits requirement discourages development. In fact, the state revised its net profit leasing policies following the Northstar sale.

The News suggests letting the Northstar leases expire so they can be put out to rebid, thus delaying the field's development for several years. While this is a gross oversimplification in itself, it also demonstrates a disturbing disregard for the importance of time. Oil production -- and revenues -- are declining, and the only way to temper this decline is through new development and production. BP has already invested the \$28 million needed to prove this field, and is ready to begin development next year.

The News readily admits there are no guarantees the state will get a better deal next time. In fact, all the evidence points to the contrary. A new lessee is unlikely to agree to a royalty as high as 27.5 percent, the stringent Alaska hire agreements and the commitment we made to pay a multimillion-dollar premium to help develop a promising new industry in Alaska.

The new agreement with Northstar truly sets a new course for Alaska -- one that benefits all the players. We hope you will speedily approve it.

Sincerely,



Eric Luttrell
Vice President, Exploration

Northstar



Key Messages

- **New field development is essential to the future of Alaska's oil industry**
 - Northstar is the first such development
 - Northstar is fully offshore and will prove-up technology for other offshore developments
- **Northstar development will benefit all Alaskans**
 - New economic development and fabrication jobs
 - Potential \$1 billion into the State's economy and treasury
 - Renewed commitment to Alaska hire
- **Agreement is not an incentive or give-away**
 - Win-win agreement that unlocks the value to Alaska and BP
 - Fully aligns the interests of Alaska and BP
 - Provides certainty to the State that Northstar will be developed ASAP

Northstar



Benefits to Alaska

- **Certainty of near term Northstar development**
 - Significant expenditures beginning in 1997; production in 1999
- **Economic development and jobs with Alaska fabrication**
- **First fully offshore development; technology**
- **Highest State revenue per barrel**
- **Potential \$1 bn into State economy and State treasury**
 - \$200+ mm capex; \$200+ mm opex; \$550+ mm State revenue
- **Supplemental royalty estimated value of \$37-65 mm**
- **Clear signal that the State and industry will work together to encourage development**

Northstar



Alaska Fabrication

- **New jobs and economic development of Alaska's support industry**
- **Potentially 75% of facilities could be fabricated in Alaska involving:**
 - **Increase number and complexity of modules fabricated at existing yards in Anchorage**
 - **Assembly of two meg-modules at Port of Anchorage for sea lift to Northstar**
 - **Requires commitment to Port assembly yard by mid-year 1996**

Northstar



Settlement Agreement

- NPSL terms removed from State leases
- Base State royalty of 20% remains unchanged
 - Highest of any Alaska field
- Northstar will pay a Supplemental Royalty (SR)
 - Proxy for a profits based tax
- BP must sanction Northstar within 12 months or drop leases
- BP commitment to Alaska build and Alaska hire

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MEMORANDUM

April 29, 1996

SUBJECT: Concerning CSHB 548(RES), relating to the modification of the Northstar Unit oil and gas leases

TO: Representative Kay Brown

FROM: Jack Chenoweth
Legislative Counsel 

I view these as potentially significant problems with respect to the legislation:

I. To the extent that it proposes changes to existing leases that are "material," reformation of the Northstar unit leases is arguably impermissible:

There is no explicit statutory or regulatory authority to renegotiate an oil and gas lease as is contemplated in the Northstar unit lease revisions. It is this explicit authority that the Administration is requesting, with respect to the Northstar unit leases, in sec. 2(b) of the original bill (sec. 2(b)(1) of CSHB 548(RES)).

Without regard to specific statutory authority, as a matter of general law, negotiations may be initiated to amend a competitively bid public contract. 72 C.J.S. Supp., "Public Contracts," sec. 24. However, reformation of a contract entered into after public notice and use of competitive lease procedures is regarded with disfavor. State of Hawaii v. Kahua Ranch Ltd., 384 P.2d 591 (Hawaii 1963), on rehearing, dec. aff'd., 390 P.2d 737 (Hawaii 1964), reh. den. 391 P.2d 872 (Hawaii 1964) (reformation of lease of public land sold at public auction pursuant to statutorily required notice of contents of lease denied by court). Moreover, competitively bid contracts may not be materially amended. McKinnon v. Alpetco, 633 P.2d 281, 287 (Alaska 1981). Kenai Lumber Company v. LeResche, 646 P.2d 215, 221 (Alaska 1982). Amendments to a contract are "material" if they involve the alteration of factors that influence the judgment or decision on the award of the contract. Brown v. Ward, 593 P.2d 247, 250 (Alaska 1979). Cousineau v. Walker, 613 P.2d 608, 613 (Alaska 1980). See also King v. Alaska State Housing Authority, 512 P.2d 887, 892 (Alaska 1973), op. after remand, 571 P.2d 1010 (Alaska 1977) (in the context of responses to public bids, a variance from the invitation to bid is "material" "if the bidder a substantial advantage over other bidders, and thereby restricts or stifles competition." 512 P.2d at 892).

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Representative Kay Brown

April 29, 1996

Page 2

II. Legislative approval in the form set out in the bill may be invalid as a violation of the "Uniform Application Clause," article VIII, section 17 of the Alaska Constitution:

Article VIII, section 17 is identified as the "Uniform Application Clause," Shepherd v. Department of Fish & Game, 897 P.2d 33, 43, n. 11 (Alaska 1995). The constitutional provision reads:

UNIFORM APPLICATION. Laws and regulations governing the use or disposal of natural resources shall apply equally to all persons similarly situated with reference to the subject matter and purpose to be served by the law or regulation.

The Alaska Supreme Court has indicated that, in its application to the disposition of state resources, the provision establishes a standard that is more stringent than the equal protection standard of the state constitution's article I, section 1. Alaska Fish Spotters Assn. v. State, 838 P.2d 798, 804 (Alaska 1992); Baker v. State, 878 P.2d 642, 644 (Alaska App. 1994).

Under the state constitution, the equal protection standard is, as you may know, a sliding scale. In cases involving economic endeavor, the Alaska Supreme Court, applying an equal protection analysis, suggests that, where government involvement affects a right to engage in an economic endeavor affecting use of state natural resources, the legislation on which the government involvement is based should exceed rational basis scrutiny.¹ Commercial Fisheries Entry Commission v. Apokedak, 606 P.2d 1255, 1266 (Alaska 1980), app. after remand 680 P.2d 486; Baker v. State, 878 P.2d 642, 644 (Alaska App. 1994). The evaluation standard applicable under the Uniform Application Clause of art. VIII, sec. 17 surely may not be less stringent. It probably requires not the minimum requirement of a fair and substantial relationship but rather at least a close nexus, or fit, between the proposed enactment and the interest sought to be served by it.²

¹ Under the minimal, rational basis test, the legislation need only indicate a classification or distinction that is reasonable, not arbitrary, and that rests upon some basis having a fair and substantial basis to the object of the legislation.

² On the nature of the relationship, in its Baker decision, the Court of Appeals has written:

The supreme court's pronouncements on Article VIII might be interpreted to create a distinct constitutional analysis for challenges based on the uniform application clause. However, we think it is noteworthy that, in McDowell [v. State], 785 P.2d 1 (Alaska 1989)], the [supreme] court tracked the equal protection test, speaking of the importance of the legislative purpose and the means used to

(continued...)

Representative Kay Brown

April 29, 1996

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Section 2(c) of the original bill confines itself to the Northstar unit leases. The authorization provision is dropped from CSHB 548(RES) but the effect of the revised bill is similar to the original in that only Northstar unit leases held by BP Exploration (Alaska) Inc. are addressed. Only those are held out for reform. No mention is made of other lessees having interests burdened by net profit share leasing provisions--maybe there are none--but the bill makes no effort or attempt to authorize the commissioner of natural resources to treat all persons similarly situated so that net profit share leases other than those held by BP Exploration (Alaska) Inc. may be considered, if circumstances warrant, for reformation. If there are other net profit share lessees that face burdens substantially comparable to those described in the bill's first "Findings" section, the legislature needs to consider reform of those provisions in sec. 2 so that all persons similarly situated with reference to this subject matter may obtain similar treatment.

III. The material inserted by the House Resources Committee, particularly the requirements of the committee substitute's section 2(b)(2)(A) that revises and toughens the requirements relating to state resident hire, almost certainly are unconstitutional as a violation of the privileges and immunities clause, article IV, section 2, Constitution of the United States.

The objection is ably discussed in the April 26 memo of John Miller, Eide and Miller, to Bill Allen, a copy of which is enclosed.

*

Please contact me should you have additional questions.

JBC:glc
96-261.glc
Enclosures

(...continued)

accomplish it. It appears that, when the supreme court analyzes legislation under article VIII, the court uses the same approach employed in its equal protection cases, but, in recognition of the high importance of citizens' equal access to natural resources, the court requires the government to demonstrate both an "important" legislative purpose and means narrowly tailored to accomplish that purpose. This analysis comports with the court's statements that legislation "impairing the important right to engage in economic endeavor" must be supported by a legislative purpose that is "not only legitimate, but important", and that "the nexus between the enactment and the . . . interest it serves [must] be close." [State v. Enserch Alaska Construction, Inc.], 787 P.2d [(Alaska 1989)] at 633.

Baker v. State, 878 P.2d 642 (Alaska App. 1994) at 644 - 645 (footnote omitted).

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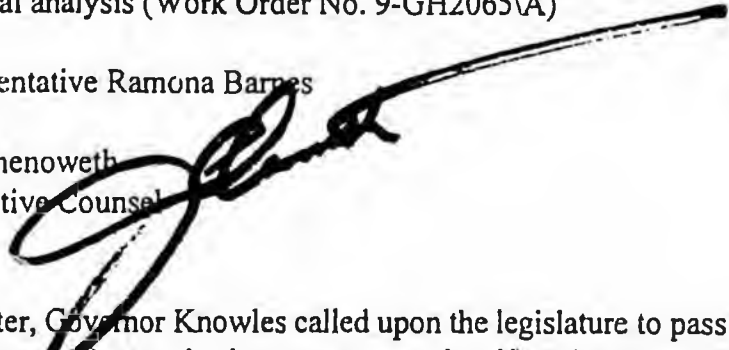
MEMORANDUM

April 2, 1996

SUBJECT: House Bill 548, authorizing, approving, and ratifying amendment of Northstar Unit oil and gas leases between the State and BP Exploration (Alaska), Inc., and providing for an effective date -- sectional analysis (Work Order No. 9-GH2065\A)

TO: Representative Ramona Barnes

FROM: Jack Chenoweth
Legislative Counsel



In his March 25 transmittal letter, Governor Knowles called upon the legislature to pass this bill (or a companion Senate measure) to authorize, approve, and ratify a document that is identified as the "First Amendment to the Northstar Unit Leases Between the State of Alaska and BP Exploration (Alaska), Inc.," the lessee. HB 548 is, with its identical Senate counterpart, legislation responsive to the governor's request.

Bill section 1 enumerates a series of legislative findings offered as justification for the bill.

Bill section 2: This is the measure's operative provision. Of the section's three provisions --

-- subsection (a) identifies, by ADL number, the specific leases that comprise the Northstar Unit;

-- subsection (b) authorizes the commissioner of the natural resources to amend the Northstar unit leases consistent with the provisions of the "First Amendment . . ." dated March 22, 1996; and

-- subsection (c) gives the legislature's approval and ratification of the "First Amendment . . ." dated March 22, 1996.

Bill section 3 gives the measure an immediate effective date.

*

More details about the "First Amendment . . ." are set out in Senate and House Joint Journal Supplement No. 21 of March 28, 1996. The House version is summarized by the Governor's

Representative Ramona Barnes

April 2, 1996

Page 2

March 25 transmittal letter reprinted at House Journal, pages 3434 and 3435 (March 28, 1996).

I have no other information about the measure.

JBC:klb

96-251.klb

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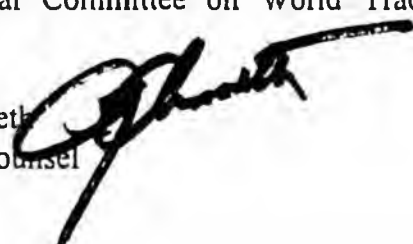
MEMORANDUM

April 27, 1996

SUBJECT: Response to the April 26 Eide & Miller memo analyzing the local hire requirements of CSHB 548 (Resources) (Work Order No. 9-GH2065\G)

TO: Representative Ramona Barnes, Chair
House Special Committee on World Trade and State/Federal Relations

FROM: Jack Chenoweth
Legislative Counsel



I cannot disagree with the analysis set out in the above-referenced memo and believe, with its author, that the mandatory resident hire provision would almost certainly be found unconstitutional as a violation of the privileges and immunities clause, article IV, sec. 2 of the United States Constitution. I also agree that, since the more stringent resident hire requirement derives from state legislation, adherence to the provision by B P Exploration (Alaska) Inc. would in fact be found to be "state action."

*

The tougher call is Mr. Miller's assertion that the resident hire provision is not severable from the remainder of the measure. For reasons set out below, I disagree with his conclusion on the point.

From his reading of the early decisions, Mr. Miller concluded that the test that would be applied by the courts is this:

. . . The crucial question for a court reviewing a statute is whether the legislature intended for the whole statute to fail if one provision of it (such as a local hire provision) is held to be invalid. Lynden Transport, Inc. v. State, 532 P.2d 700, 711 - 715 (Alaska 1975).

April 26 memo, at page 3.

Representative Ramona Barnes

April 27, 1996

Page 2

The Alaska Supreme Court's more recent discussions regarding the severability of invalid statutes leads me to believe that the test is not exactly as stated by Mr. Miller. In Sonneman v. Hicel, 836 P.2d 936 (Alaska 1992), a challenge to the Marine Highway Fund brought under the "no dedicated funds" provision of article IX, section 7, the Alaska Supreme Court reached back to a 1974 decision and formulated this test:

... The key question is whether the portion remaining, once the offending portion of the statute is severed, is **independent and complete in itself so that it may be presumed that the legislature would have enacted the valid parts without the invalid part.** Jefferson v. State, 527 P.2d 37, 41 (Alaska 1974).

Sonneman v. Hicel, at 941 (emphasis added). Subsequently, in State v. Kenaitze Indian Tribe, 894 P.2d 632 (Alaska 1995), involving an attack on a 1992 enactment in which the "proximity of the domicile" standard appears as a factor in determining eligibility for subsistence tier II status, the court re-emphasized the formulation that it had reached in Sonneman.

In the Kenaitze Indian Tribe decision, after quoting the Sonneman formulation, the court went on to apply it. On the strength of the general severability clause, AS 01.10.030, the court first determined that the unconstitutional language of the measure in question could be removed or severed from the statute, leaving the remainder "logically complete and capable of being given legal meaning." Kenaitze Indian Tribe, at 639.

The test, then, no longer appears to be the one, as described by Mr. Miller, "whether the legislature intended for the whole statute to fail if one provision of it (such as a local hire provision) is held to be invalid." Rather, under Sonneman and Kenaitze Indian Tribe, it is one that looks to whether, after removal of the material found to be unconstitutional, that which remains is "logically complete and capable of being given legal meaning." In other words, acknowledging that the resident hire provisions of CSHB 548 (Resources) are unconstitutional, is the remainder of the measure one that is, under the Sonneman formulation, "independent and complete in itself so that it may be presumed that the legislature would have enacted the valid parts without the invalid [parts]."

In its Kenaitze Indian Tribe decision, as an aid to trying to ascertain whether the legislature would have proceeded with the subsistence enactment knowing that the "proximity of the domicile" clause was unconstitutional, the court considered the legislative findings attached to the 1992 enactment. It then concluded that, because the legislature found the general theme or subject matter of the enactment--subsistence--so important, determining that the unconstitutional "proximity of the domicile" provision was not severable would doom the entire enactment, leaving "individuals needfully dependent on subsistence . . . deprived of an opportunity to harvest fish or game . . ." To avoid an outcome that it perceived would

Representative Ramona Barnes

April 27, 1996

Page 3

work a real hardship, in order to save the general statute, the court determined that the challenged provision was severable.

In my view, no similar probability exists that the court would bend over backwards to sustain the Northstar Unit lease modification measure. Quite the contrary. This legislation has problems apart from the question of the constitutionality of the more stringent resident hire requirement. It is possible that, in the event of litigation, to avoid dealing with the other problems, the court could readily determine that the resident hire provisions were unconstitutional and, finding on the record to date that the legislature was, as I think Mr. Miller has correctly observed, intent on taking the expanded resident hire opportunities beyond those recited in the draft lease modifications, conclude that the legislature would not have enacted the valid parts without inclusion of the invalid resident hire provisions.

I would recommend that your committee not give the court that opportunity.

Your options, it seems to me, are these:

First, your committee could revise sec. 2(b)(2)(A) of CSHB 548 (Resources) to make the resident hire and in-state contracting requirements conform in substance to what the parties have already agreed to in the contract modifications. References to "at least 85 percent of the jobs" and "fabricat[ion of] all modules," for example, should be deleted and replaced by a more accurate summary of the language of the contract modifications. That may not eliminate the constitutional question but it would allow the state to contend that the provisions are no stronger than what the parties were already prepared to agree to, and no additional employment or contracting burden is placed by this measure on the lessee.

Alternatively, if your committee sees the need to retain the stringent resident hire and in-state contracting requirements, I would urge it to add to the bill a specific severability clause. Mr. Miller's memo identifies the cases from which he concludes that the requirements would not survive constitutional challenge. If your committee believes that the legislature should communicate to the court that the legislature wants to authorize and endorse the lease modifications, that it is prepared to push the executive and the lessee harder on obtaining resident hire, but that it is prepared to back away from calling for a more stringent resident hire requirement if insistence on inclusion of that requirement would jeopardize the contract modifications, then the committee should provide some mechanism to signal that a conclusion that the resident hire provisions are constitutionally invalid does not cause the entire enactment to fail. With the range of questions raised about the propriety of these lease modifications, the legislature needs to speak quite clearly in defense of what it is proposing to insert into the agreements and whether or not the probable invalidity of inserted materials should or should not cause the entire modification approval to fail.

While I am satisfied that the general severability clause, AS 01.10.030, provides a basis for the court--if it wants to so find--to sever the unconstitutional parts of the measure but save

Representative Ramona Barnes

April 27, 1996

Page 4

the remainder, it is, as Mr. Miller notes, a "weak presumption" and there is no certainty as to how the court may conclude. Consequently, I cannot advise you to rely on the general statutory severability clause. If you want to frame and send a stronger message, a special severability clause should be added to the measure. ^{1/}

Please contact me if you should have additional questions.

JBC:pl

96-140.plm

^{1/} The inclusion of a specific severability clause is not itself a guarantee that the invalid provision will be set aside and the remainder of the Act sustained. Rather, it serves as an aid to the court in determining the weight to be given the parts of the enactment:

Because a separability clause purports to be an expression of the legislature's intent, it is logical to view the presence of a separability clause not so much with discovering legislative intent, but rather with determining only whether the valid portion is sufficiently independent to justify separate enforcement.

2 C. Sands, Sutherland, Statutory Construction, sec. 44.06, at page 522, quoted in Vik v. Commercial Fisheries Entry Commission, 636 P.2d 597, 601 (Alaska 1981).

Lease	Sale	Lease	Unit	Bonus	Royalty	Bid	Unit	Allocated
		Date		Bid	Percent	Type	Acres	Production?
Duck Island Unit								
ADL 312828	30	01-Feb-80	Duck Island	\$7,524,545.00	79.59350%	20.0% Fixed Royalty an NPS	3,068.49	Yes
ADL 312834	30	01-Feb-80	Duck Island	\$6,266,120.00	48.87031%	20.0% Fixed Royalty and Variable NPS	1,610.13	Yes
Kuupik Unit								
ADL 355029	39	01-Aug-83	Kuupik	\$55,515.20	30.00000%	12.5% Fixed Royalty and fixed NPS	1,903.00	
ADL 355031	39	01-Aug-83	Kuupik	\$64,395.00	30.00000%	12.5% Fixed Royalty and fixed NPS	5,724.00	
ADL 355034	39	01-Aug-83	Kuupik	\$64,800.00	30.00000%	12.5% Fixed Royalty and fixed NPS	5,760.00	
ADL 355035	39	01-Aug-83	Kuupik	\$102,000.00	30.00000%	12.5% Fixed Royalty and fixed NPS	5,699.87	
ADL 355036	39	01-Aug-83	Kuupik	\$117,216.00	30.00000%	12.5% Fixed Royalty and fixed NPS	5,760.00	
ADL 355037	39	01-Aug-83	Kuupik	\$4,081,212.00	30.00000%	12.5% Fixed Royalty and fixed NPS	5,724.00	
ADL 355038	39	01-Aug-83	Kuupik	\$241,920.00	30.00000%	12.5% Fixed Royalty and fixed NPS	5,760.00	
ADL 355039	39	01-Aug-83	Kuupik	\$2,054,867.36	30.00000%	12.5% Fixed Royalty and fixed NPS	5,645.24	
ADL 355040	39	01-Aug-83	Kuupik	\$102,580.00	30.00000%	12.5% Fixed Royalty and fixed NPS	1,280.00	
ADL 364470	43A	01-Aug-84	Kuupik	\$112,700.70	30.00000%	12.5% Fixed Royalty and fixed NPS	3,180.00	
ADL 364471	43A	01-Aug-84	Kuupik	\$119,153.71	30.00000%	12.5% Fixed Royalty and fixed NPS	5,759.00	
ADL 364472	43A	01-Aug-84	Kuupik	\$294,682.00	30.00000%	12.5% Fixed Royalty and fixed NPS	4,480.00	
ADL 364473	43A	01-Aug-84	Kuupik	\$294,682.00	30.00000%	12.5% Fixed Royalty and fixed NPS	4,480.00	
ADL 364474	43A	01-Aug-84	Kuupik	\$2,586.00	30.00000%	12.5% Fixed Royalty and fixed NPS	3,819.00	
ADL 364475	43A	01-Aug-84	Kuupik	\$587,158.00	30.00000%	12.5% Fixed Royalty and fixed NPS	5,748.00	
ADL 364476	43A	01-Aug-84	Kuupik	\$1,233,216.00	30.00000%	12.5% Fixed Royalty and fixed NPS	3,840.00	
ADL 364477	43A	01-Aug-84	Kuupik	\$3,102,720.00	30.00000%	12.5% Fixed Royalty and fixed NPS	3,840.00	
ADL 364478	43A	01-Aug-84	Kuupik	\$1,255,680.00	30.00000%	12.5% Fixed Royalty and fixed NPS	3,840.00	
Kuparuk River Unit								
ADL 355023	39	01-Jun-83	Kuparuk River	\$2,365,233.75	30.00000%	12.5% Fixed Royalty and fixed NPS	5,175.00	Yes
ADL 355024	39	01-Jun-83	Kuparuk River	\$984,758.40	30.00000%	12.5% Fixed Royalty and fixed NPS	5,580.00	Yes
ADL 355030	39	01-Jul-83	Kuparuk River	\$273,190.40	30.00000%	12.5% Fixed Royalty and fixed NPS	4,480.00	Yes
ADL 355032	39	01-Jul-83	Kuparuk River	\$262,295.80	30.00000%	12.5% Fixed Royalty and fixed NPS	5,108.00	Yes
Milne Point Unit								
ADL 355016	39	01-Aug-83	Milne Point	\$63,691.76	40.00000%	12.5% Fixed Royalty and fixed NPS	5,071.00	
ADL 355017	39	01-Aug-83	Milne Point	\$351,000.00	40.00000%	12.5% Fixed Royalty and fixed NPS	4,480.00	Yes
ADL 355018	39	01-Aug-83	Milne Point	\$808,000.00	30.00000%	12.5% Fixed Royalty and fixed NPS	5,083.00	Yes
ADL 355021	39	01-Aug-83	Milne Point	\$257,177.60	30.00000%	12.5% Fixed Royalty and fixed NPS	5,120.00	Yes
Northstar Unit								
ADL 312798	30	01-Feb-80	Northstar	\$3,843,717.50	93.20000%	20.0% Fixed Royalty and Variable NPS	4,392.82	
ADL 312799	30	01-Feb-80	Northstar	\$3,913,323.75	91.20000%	20.0% Fixed Royalty and Variable NPS	4,472.37	
ADL 312808	30	01-Feb-80	Northstar	\$3,003,805.00	85.25978%	20.0% Fixed Royalty and Variable NPS	3,432.92	
ADL 312809	30	01-Feb-80	Northstar	\$4,638,707.50	85.25978%	20.0% Fixed Royalty and Variable NPS	5,301.38	
ADL 355001	39	01-Aug-83	Northstar	\$72,144.64	40.00000%	12.5% Fixed Royalty and fixed NPS	5,744.00	

Lease	Sale	Lease Date	Unit	Bonus Bid	NPS Percent	Royalty Percent	Bid Type	Unit Acres	Allocated Production?
Pt. Thomson Unit									
ADL 312866	30	01-Feb-80	Pt. Thomson	\$4,318,536.25	52.35200%	20.0%	Fixed Royalty and Variable NPS	4,935.47	
ADL 343109	36	01-Aug-82	Pt. Thomson	\$4,224,852.00	40.00000%	12.5%	Fixed Royalty and fixed NPS	4,263.88	
ADL 343110	36	01-Aug-82	Pt. Thomson	\$4,109,750.00	40.00000%	12.5%	Fixed Royalty and fixed NPS	1,920.00	
ADL 343111	36	01-Aug-82	Pt. Thomson	\$15,355,000.00	40.00000%	12.5%	Fixed Royalty and fixed NPS	2,400.00	
ADL 343112	36	01-Aug-82	Pt. Thomson	\$2,570,026.80	40.00000%	12.5%	Fixed Royalty and fixed NPS	3,446.00	
Not Utilized									
ADL 312827	30	01-Feb-80		\$9,880,867.50	74.83000%	20.0%	Fixed Royalty and Variable NPS	0.00	

MEMORANDUM
DEPARTMENT OF NATURAL RESOURCES

State of Alaska
DIVISION OF OIL AND GAS

TO: Ken Boyd
Director

DATE: April 25, 1996

FILE NO:

THRU:

TELEPHONE: 269-8799

FROM: Kevin Banks
Petroleum Economist

SUBJECT: HB 548 Northstar

During yesterday's meeting of the House Resources Committee, Co-Chairman Green asked that I run the Northstar model changing assumptions about reserves, production rates, prices, and capital costs.

Attached are several tables that should illustrate for Representative Green and the committee the sensitivity of the supplemental royalty and net profit share to these assumptions. Table 1 is the "most likely" case that assumes the Department of Revenue (DOR) base price case (Fall 1995), reserves of 130 million barrels, and capital costs of \$350 million. In Table 2, I have assumed reserves of 160 million barrels, peak production rate of 50,000 barrels per day (the same assumption in the most likely case), and I have extended this plateau rate for two more years in order to reach total production of 160 million barrels.

Table 3 shows the impact of the DOR high price forecast on supplemental royalty and net profit shares. DOR assumed that the inflation rate in its high price forecast was 4 percent per year, somewhat higher than the 3.2 percent in the base price forecast. More importantly, DOR assumed that real prices would grow at 1.1 percent over today's price, almost three times DOR's base price forecast. Table 4 shows the impact of reducing capital costs. Here all of the "most likely" case assumptions are held constant, only capital costs are reduced by 25 percent.

As I speculated in the hearing, if the Northstar development exceeds all expectations, there is a bigger impact on the net profit share than on the supplemental royalty. Be that as it may, under-performance of the field because of higher than expected capital costs, lower oil prices, or lower reserves, can each cause net profit shares to drop to zero while the supplemental royalty may still be paid to the state. The "low-side" is shown in Table 5, 6, and 7. With reserves at just 105 million barrels (Table 5), the state will still receive \$26 million in supplemental royalty. Similarly, Table 7 shows that with just a 25 percent increase in capital cost, the net profit share falls to zero.

Representative Davies asked a few questions about the so-called "misalignment of interests" BP Exploration (Alaska) Inc. (BP) says results from the net profit share on late life production. My answer focused on disincentives on incremental capital investments caused by the net profit share terms. If the lessee's internal hurdle rate exceeds the prime rate earned by the development account, the lessee may decide to make no further investments in the field.

Representative Davies followed this question with another that I misunderstood in the hearing. This question focused on the impact on late life production created by the net profit share payment where no additional capital expenditures are planned. BP has testified that, because of the low income per barrel at the point the net profit share kicks in, it would be compelled to shut in the field. As an economist, I believe that a lessee would continue producing the field as long as its revenues exceed costs. Since the model predicts that the lessee's cash flow remains positive, though sharply reduced, even after it has to pay net profit shares, production should not be shut in "prematurely" because of the net profit share payment.¹

Depending how BP views the financial value of the field or how it may calculate the return generated by the field's assets at the point net profit shares begin to pay out, it might instead try to sell the development to another operator. In fact, such a trend seems to have taken place in the Gulf of Mexico Outer Continental Shelf, where many of the big company players have been displaced by operators who work on smaller margins. After such a sale the state would still benefit from the net profit share paid by the new lessee.²

Attachments.

¹ The same situation arises in the royalty "holiday" proposed under HB 325. After five years the royalty will rise and the lessee's cash flow takes a similar "hit." Will the lessee shut in the well at this point?

² This analysis ignores the impact of abandonment cost. Faced with the decision at the end of field life to go on producing or pay for abandonment and assuming that abandonment costs can be forecasted with some certainty, a lessee may seek to postpone shut in of the field to the extent that the discounted present value of the abandonment cost is greater than the discounted present value of any operating losses incurred to keep the field in production beyond its expected field life.

Abandonment also has a part in the decision to sell the field. For example, the Department of Natural Resources might not approve the sale of the field if it found that the new lessee was financially incapable of properly dismantling and restoring the leases at the end of field life.

Northstar Economic Evaluation

Estimated Total Revenues



Table 1:

Most Likely Case:
130 MMBO Reserves

(Questions from House Resources--4/24)

	Supplemental Royalty and 1999 Development	Net Profit Share and 2002 Development	Net Profit Share and 1999 Development
	(Real 1996 Dollars)		
State Revenues			
State Royalty	256	257	256
State Supplemental Royalty	37	0	0
NPSL	0	41	85
State Share of Federal Royalty	16	16	16
Severance Tax	58	59	58
Spill & Conserv. Tax	3	3	3
Ad Valorem Tax	42	46	42
Income Tax	24	23	22
Total	435	444	481
Federal Revenues			
Royalty (Net of State Share)	44	44	44
Income Tax	215	213	198
Total	259	258	243
BPXA Cash Flow			
After Tax Funds Flow	349	346	318
Real Rate of Return	20.0%	20.4%	19.9%

Totals may not add due to rounding.

(This table is based on BPXA's most likely estimate of reserves, capital and operating costs, and DOR's Fall '95 Base Price Forecast. These assumptions have been changed as requested.)

Northstar Economic Evaluation



Estimated Total Revenues

Table 2:

**160 MMBO Reserves-50,000 BOPD Peak
Rate**

(Question 20, Alaska House Resources--4/24)

**Supplemental Royalty
and
1999 Development**

**Net Profit Share
and
2002 Development**

**Net Profit Share
and
1999 Development**

(Real 1996 Dollars)

State Revenues

State Royalty	327	328	328
State Supplemental Royalty	59	0	0
NPSL	0	250	290
State Share of Federal Royalty	21	21	21
Severance Tax	88	90	90
Spill & Conserv. Tax	4	3	4
Ad Valorem Tax	48	52	48
Income Tax	33	26	24
Total	579	770	804

Federal Revenues

Royalty (Net of State Share)	57	57	57
Income Tax	303	237	223
Total	259	294	280

BPXA Cash Flow

After Tax Funds Flow	510	390	364
Real Rate of Return	23.4%	22.3%	21.6%

Totals may not add due to rounding.

(This table is based on BPXA's most likely estimate of reserves, capital and operating costs, and DOR's Fall '96 Base Price Forecast. These assumptions have been changed as requested.)

Northstar Economic Evaluation

Estimated Total Revenues



Table 3:

130 MMBO Reserves--DOR High Price Case
(Questions from House Resources--4/24)

	Supplemental Royalty and 1999 Development	Net Profit Share and 2002 Development	Net Profit Share and 1999 Development
	(Real 1996 Dollars)		
<u>State Revenues</u>			
State Royalty	290	308	290
State Supplemental Royalty	109	0	0
NPSL	0	289	251
State Share of Federal Royalty	19	20	19
Severance Tax	60	67	63
Spill & Conserv. Tax	2	2	3
Ad Valorem Tax	40	44	40
Income Tax	27	24	22
Total	546	753	687
<u>Federal Revenues</u>			
Royalty (Net of State Share)	50	53	50
Income Tax	255	219	203
Total	305	272	253
<u>BPXA Cash Flow</u>			
After Tax Funds Flow	416	350	320
Real Rate of Return	22.0%	23.3%	21.5%

Totals may not add due to rounding.

(This table is based on BPXA's most likely estimate of reserves, capital and operating costs, and DOR's Fall '95 Base Price Forecast. These assumptions have been changed as requested.)

Northstar Economic Evaluation

Estimated Total Revenues



Table 4:

130 MMBO Reserves--Capex -25%
(Questions from House Resources--4/24)

	Supplemental Royalty and 1999 Development	Net Profit Share and 2002 Development	Net Profit Share and 1999 Development
--	---	---	---

(Real 1996 Dollars)

State Revenues

State Royalty	256	257	256
State Supplemental Royalty	37	0	0
NPSL	0	152	191
State Share of Federal Royalty	16	16	16
Severance Tax	58	58	58
Spill & Conserv. Tax	3	3	3
Ad Valorem Tax	32	34	32
Income Tax	27	23	21
Total	428	543	577

Federal Revenues

Royalty (Net of State Share)	44	44	44
Income Tax	248	210	196
Total	293	254	240

BPXA Cash Flow

After Tax Funds Flow	423	351	326
Real Rate of Return	29.5%	29.0%	28.2%

Totals may not add due to rounding.

(This table is based on BPXA's most likely estimate of reserves, capital and operating costs, and DOH's Fall '95 Base Price Forecast. These assumptions have been changed as requested.)

Northstar Economic Evaluation

Estimated Total Revenues



Table 5:

105 MMBO Reserves
(Questions from House Resources--4/24)

	Supplemental Royalty and 1999 Development	Net Profit Share and 2002 Development	Net Profit Share and 1999 Development
--	---	---	---

(Real 1996 Dollars)

State Revenues

State Royalty	206	207	206
State Supplemental Royalty	26	0	0
NPSL	0	0	0
State Share of Federal Royalty	13	13	13
Severance Tax	40	41	40
Spill & Conserv. Tax	2	2	2
Ad Valorem Tax	42	46	42
Income Tax	17	17	17
Total	346	326	321

Federal Revenues

Royalty (Net of State Share)	36	36	36
Income Tax	151	160	159
Total	186	194	195

BPXA Cash Flow

After Tax Funds Flow	279	244	245
Real Rate of Return	15.8%	16.4%	16.3%

Totals may not add due to rounding.

(This table is based on BPXA's most likely estimate of reserves, capital and operating costs, and DOR's Fall '96 Base Price Forecast. These assumptions have been changed as requested.)

Northstar Economic Evaluation

Estimated Total Revenues



Table 6:

130 MMBO Reserves--DOR Low Price Case
(Questions from House Resources--4/24)

	Supplemental Royalty and 1999 Development	Net Profit Share and 2002 Development	Net Profit Share and 1999 Development
--	---	---	---

(Real 1996 Dollars)

State Revenues

State Royalty	169	150	169
State Supplemental Royalty	0	0	0
NPSL	0	0	0
State Share of Federal Royalty	11	10	11
Severance Tax	42	37	42
Spill & Conserv. Tax	3	3	3
Ad Valorem Tax	44	48	44
Income Tax	9	9	9
Total	277	252	277

Federal Revenues

Royalty (Net of State Share)	29	26	29
Income Tax	80	47	80
Total	109	73	109

BPXA Cash Flow

After Tax Funds Flow	103	99	103
Real Rate of Return	7.8%	3.4%	7.8%

Totals may not add due to rounding.

(This table is based on BPXA's most likely estimate of reserves, capital and operating costs, and DOR's Fall '95 Base Price Forecast. These assumptions have been changed or requested.)

Northstar Economic Evaluation

Estimated Total Revenues



Table 7:

130 MMBO Reserves--Capex + 25%
(Questions from House Resources--4/24)

	Supplemental Royalty and 1999 Development	Net Profit Share and 2002 Development	Net Profit Share and 1999 Development
	(Real 1996 Dollars)		
State Revenues			
State Royalty	256	257	256
State Supplemental Royalty	37	0	0
NPSL	0	0	0
State Share of Federal Royalty	16	16	16
Severance Tax	58	58	58
Spill & Conserv. Tax	3	3	3
Ad Valorem Tax	53	57	53
Income Tax	20	21	21
Total	442	412	407
Federal Revenues			
Royalty (Net of State Share)	44	44	44
Income Tax	182	194	194
Total	226	238	240
BPXA Cash Flow			
After Tax Funds Flow	274	296	296
Real Rate of Return	13.6%	14.2%	14.2%

Totals may not add due to rounding.

(This table is based on BPXA's most likely estimate of reserves, capital and operating costs, and DOR's Fall '95 Base Price Forecast. These assumptions have been changed as requested.)

State Revenues (without Northstar Lease Amendments)								
State	State Royalty	State Supplemental Royalty	State Share of Federal Royalty	Severance Tax	Spill & Conserv. Tax	Property Tax*	Corporate Income Tax	Total State Revenues
(Thousands of 1996 Dollars)								
1996	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
1997	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1998	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1999	0.0	0.0	0.0	0.0	0.0	0.0	(477.1)	(477.1)
2000	0.0	0.0	0.0	0.0	0.0	828.3	(835.9)	(7.6)
2001	3,868.9	0.0	247.4	0.0	45.6	2,547.2	(1,173.8)	5,535.3
2002	35,778.5	0.0	2,287.7	16,171.7	407.2	4,245.3	2,784.3	61,674.6
	\$39,647.4	\$0.0	\$2,535.1	\$16,171.7	\$452.8	\$7,620.8	\$297.5	\$66,725.2

State Revenues (with Northstar Lease Amendments)								
State	State Royalty	State Supplemental Royalty	State Share of Federal Royalty	Severance Tax	Spill & Conserv. Tax	Property Tax*	Corporate Income Tax	Total State Revenues
(Thousands of 1996 Dollars)								
1996	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	(\$477.1)	(\$477.1)
1997	0.0	0.0	0.0	0.0	0.0	761.4	(834.1)	(72.7)
1998	3,625.3	0.0	231.8	0.0	50.1	2,343.9	(1,213.4)	5,037.7
1999	35,631.3	42.5	2,278.2	16,101.5	447.4	3,914.3	2,767.6	61,183.0
2000	35,735.8	680.0	2,284.9	13,487.8	432.1	4,771.2	2,994.3	60,386.1
2001	34,391.8	1,969.0	2,231.0	12,682.7	406.5	4,586.5	3,440.7	60,208.1
2002	29,599.9	2,887.4	1,892.6	7,949.5	330.6	4,293.8	3,234.1	50,187.9
	\$139,484.1	\$5,578.9	\$8,918.5	\$50,221.5	\$1,666.7	\$20,671.1	\$9,912.1	\$236,453.0

Change in State Revenues (with Northstar Lease Amendments)								
State	State Royalty	State Supplemental Royalty	State Share of Federal Royalty	Severance Tax	Spill & Conserv. Tax	Property Tax*	Corporate Income Tax	Total State Revenues
(Thousands of 1996 Dollars)								
1996	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	(\$477.1)	(\$477.1)
1997	0.0	0.0	0.0	0.0	0.0	761.4	(834.1)	(72.7)
1998	3,625.3	0.0	231.8	0.0	50.1	2,343.9	(1,213.4)	5,037.7
1999	35,631.3	42.5	2,278.2	16,101.5	447.4	3,914.3	3,244.7	61,659.9
2000	35,735.8	680.0	2,284.9	13,487.8	432.1	3,942.9	3,830.2	60,393.7
2001	31,022.9	1,969.0	1,983.6	12,682.7	361.0	2,039.3	4,614.5	54,673.0
2002	(6,178.6)	2,887.4	(395.1)	(8,222.2)	(76.5)	48.5	449.9	(11,486.7)
	\$99,836.7	\$5,578.9	\$6,383.4	\$34,049.8	\$1,214.1	\$13,050.3	\$9,614.7	\$169,727.8

* Approximately 75 percent of this amount may go to the North Slope Borough.

Assumptions Used in the Illustrative Northstar Model

- **Project Life:** Production ramp-up in 4th Quarter 1998; full production in 1999; end of field life in 2012.
- **Wells:** 15 producers.
- **Original Oil in Place (OOIP):**

P(90) =	310 MMBO
Mean =	260 MMBO
P(10) =	210 MMBO
- **Reserves:**

P(90) =	160 MMBO
Mean =	130 MMBO
P(10) =	105 MMBO
- **Peak Production rate:** 50,000 bbl/day
- **Capital Expenditures (real 1996 dollars):**

Facilities:	Low =	\$205	MM
	Base =	\$237	MM
	High =	\$278	MM
Drilling	Low =	\$75	MM
	Base =	\$85	MM
	High =	\$110	MM
Pipeline	Low =	\$25	MM
	Base =	\$28	MM
	High =	\$53	MM
Total	Low =	\$305	MM
	Base =	\$350	MM
	High =	\$441	MM
- **Appraisal Costs**

Low =	\$25	MM
Base =	\$28	MM
High =	\$30	MM
- **Operating Costs**

Low =	\$1.40/bbl
Base =	\$1.50/bbl
High =	\$2.00/bbl
- **Initial Abandonment Costs:**

5% Facility Capex	(estimate provided by DNR Petroleum Engineering)
10% Drilling Capex	
- **BPXA's Working Interest:** 98 % (Murphy Oil owns 10% of OCS Y-181)

- **Tract Allocation:** 76.8% State (No production allocated to ADL 355001)
23.2% Federal
- **State royalty rate:** 20%
- **Supplemental royalty:** As proposed.
- **Federal royalty rate:** 16.67% (sliding scale not calculated; state receives 27% share of Federal royalty)
- **Net profit share:** 89.4% (average of the five state leases)
- **Development Account beginning balance (1996):** \$262 MM
- **Severance Tax:** 12.25% for first five years production, 15% thereafter; subject to ELF.
- **Conservation and oil spill tax:** \$0.034/bbl
- **Ad valorem tax rate:** 2%
- **State income tax rate:** 2% (estimate provided by DOR Petroleum Economist)
- **Federal income tax rate:** 35%
- **Oil Price Forecast:** DOR's Fall 1995 Base Price Forecast .
PS-1 price = Northstar wellhead and derived from DOR's forecast of TAPS tariffs and marine costs. No adjustment made for quality, pumpability, infrastructure charges, or upstream tariffs.
- **Inflation Rate:** DOR's Fall 1995 Base Price Forecast
3.0% in 1997; 3.2% thereafter.
- **Real Prime Rate:** 8.25% (Anchorage Daily News, 4/8/96)
- **Nominal Discount Rate:** 10% (A.D. Little Report)
- **General:** Stand-alone project, no facility sharing. Involves water flood and gas injection; process sales quality crude for delivery to TAPS. Expansion of the existing man-made Seal Island exploration island. Undersea, buried 12" pipeline to shore, 5 miles offshore/11 miles onshore; tie-in to Kuparuk Pipeline just west of TAPS Pump Station #1

Kevin Banks, ADNR
April 12, 1996

"SIMPLE" Discounted Cash Flow Model					
Year	1	2	3	4	5
Gross Oil (MMBO/Y)	0	5	10	6	2
State Royalty Rate	12.5%	12.5%	12.5%	12.5%	12.5%
Royalty Oil	0	0.625	1.25	0.75	0.25
WIO Oil	0	4.375	8.75	5.25	1.75
Oil Price	12.00	12.10	12.15	12.20	12.25
WIO Revenue	0.00	52.94	106.31	64.05	21.44
Capex	100.00	75.00	0.00	0.00	0.00
Opex	0.00	7.50	15.00	9.00	3.00
Total Cost	100.00	82.50	15.00	9.00	3.00
Net Revenue	-100.00	-29.56	91.31	55.05	18.44
Income Tax Rate	0.35	0.35	0.35	0.35	0.35
Income Tax	-35.00	-10.35	31.96	19.27	6.45
After Tax Cash Flow	-65.00	-19.22	59.35	35.78	11.98
NPV @10% =	\$1.50				
ROR =	11%				

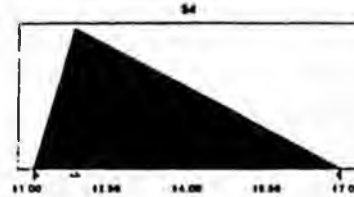
Assumptions

Assumption: S4

Cell: S4

Triangular distribution with parameters:

Minimum	\$1.00
Likeliest	\$1.80
Maximum	\$7.00



Selected range is from \$1.00 to \$7.00

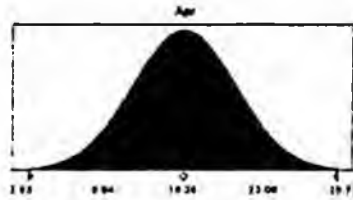
Assumption: Apr

Cell: B93

Normal distribution with parameters:

Mean	16.35	(= B80)
Standard Dev.	4.47	(= \$S\$4)

Selected range is from -21.51 to 402.42



End of Assumptions

Forecast: AKSUPP-REAL

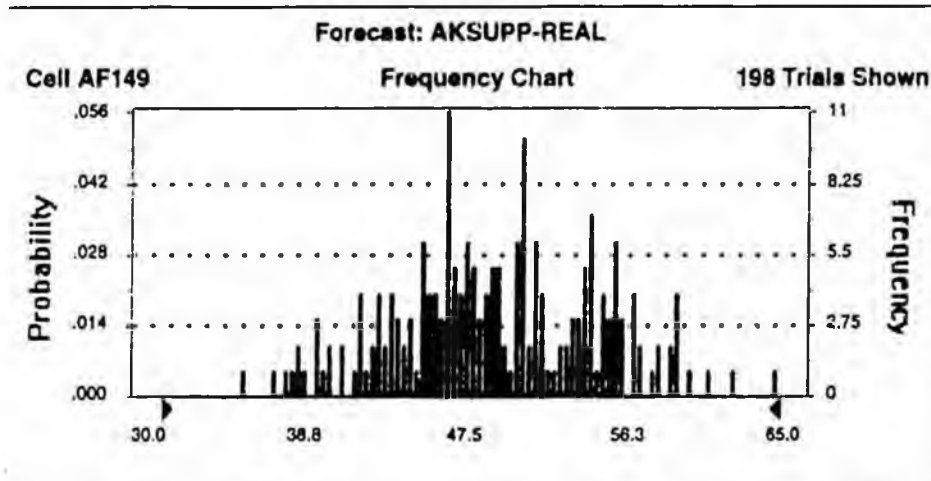
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Summary:

Display Range is from 30.0 to 65.0
 Entire Range is from 34.7 to 67.8
 After 200 Trials, the Std. Error of the Mean is 0.4

Statistics:

	<u>Value</u>
Trials	200
Mean	49.2
Median (approx.)	48.8
Mode (approx.)	50.4
Standard Deviation	6.0
Variance	35.8
Skewness	0.23
Kurtosis	3.00
Coeff. of Variability	0.12
Range Minimum	34.7
Range Maximum	67.8
Range Width	33.2
Mean Std. Error	0.42



Forecast: AKSUPP-REAL (cont'd)

Cell: AF149

Percentiles:

<u>Percentile</u>	<u>Value (approx.)</u>
0%	34.7
10%	41.6
20%	44.2
30%	46.1
40%	47.2
50%	48.8
60%	50.5
70%	52.1
80%	54.4
90%	56.7
100%	67.8

End of Forecast

Northstar Economic Evaluation



Estimated Total Revenues

Effect of Delay	Supplemental Royalty and 1999 Development	Net Profit Share and 1999 Development	Supplemental Royalty and 2002 Development	Net Profit Share and 2002 Development
(Real 1996 Dollars)				
State Revenues				
State Royalty	256	256	257	257
State Supplemental Royalty	37	0	67	0
NPSL	0	85	0	41
State Share of Federal Royalty	16	16	16	16
Severance Tax	58	58	56	59
Spill & Conserv. Tax	3	3	3	3
Ad Valorem Tax	42	42	46	46
Income Tax	24	22	22	23
Total	435	481	469	444
Federal Revenues				
Royalty (Net of State Share)	44	44	44	44
Income Tax	215	198	205	213
Total	259	243	249	258
BPXA Cash Flow				
After Tax Funds Flow	349	318	331	346
Real Rate of Return	20.0%	19.9%	19.2%	20.4%

Totals may not add due to rounding.

- Tract Allocation: 76.8% State (No production allocated to ADL 355001)
23.2% Federal
- State royalty rate: 20%
- Supplemental royalty: As proposed.
- Federal royalty rate: 16.67% (sliding scale not calculated; state receives 27% share of Federal royalty)
- Net profit share: 89.4% (average of the five state leases)
- Development Account beginning balance (1996): \$262 MM
- Severance Tax: 12.25% for first five years production, 15% thereafter; subject to ELF.
- Conservation and oil spill tax: \$0.034/bbl
- Ad valorem tax rate: 2%
- State income tax rate: 2% (estimate provided by DOR Petroleum Economist)
- Federal income tax rate: 35%
- Oil Price Forecast: DOR's Fall 1995 Base Price Forecast .
PS-1 price = Northstar wellhead and derived from DOR's forecast of TAPS tariffs and marine costs. No adjustment made for quality, pumpability, infrastructure charges, or upstream tariffs.
- Inflation Rate: DOR's Fall 1995 Base Price Forecast
3.0% in 1997; 3.2% thereafter.
- Real Prime Rate: 8.25% (Anchorage Daily News, 4/8/96)
- Nominal Discount Rate: 10% (A.D. Little Report)
- General: Stand-alone project, no facility sharing. Involves water flood and gas injection; process sales quality crude for delivery to TAPS. Expansion of the existing man-made Seal Island exploration island. Undersea, buried 12" pipeline to shore, 5 miles offshore/11 miles onshore; tie-in to Kuparuk Pipeline just west of TAPS Pump Station #1

Sheet1

"SIMPLE" Discounted Cash Flow Model					
Year	1	2	3	4	5
Gross Oil (MMBO/Y)	0	5	10	6	2
State Royalty Rate	12.5%	12.5%	12.5%	12.5%	12.5%
Royalty Oil	0	0.625	1.25	0.75	0.25
WIO Oil	0	4.375	8.75	5.25	1.75
Oil Price	12.00	12.10	12.15	12.20	12.25
WIO Revenue	0.00	52.94	106.31	64.05	21.44
Capex	100.00	75.00	0.00	0.00	0.00
Opex	0.00	7.50	15.00	9.00	3.00
Total Cost	100.00	82.50	15.00	9.00	3.00
Net Revenue	-100.00	-29.56	91.31	55.05	18.44
Income Tax Rate	0.35	0.35	0.35	0.35	0.35
Income Tax	-35.00	-10.35	31.96	19.27	6.45
After Tax Cash Flow	-65.00	-19.22	59.35	35.78	11.98
NPV @10% =	\$1.50				
ROR =	11%				

Report2

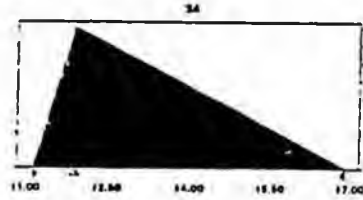
Assumptions

Assumption: S4

Cell: S4

Triangular distribution with parameters:

Minimum	\$1.00
Likeliest	\$1.80
Maximum	\$7.00



Selected range is from \$1.00 to \$7.00

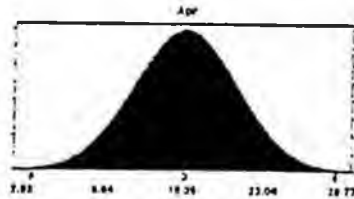
Assumption: Apr

Cell: B93

Normal distribution with parameters:

Mean	16.35	(=B80)
Standard Dev.	4.47	(= \$\$S\$4)

Selected range is from -21.51 to 40.142



End of Assumptions

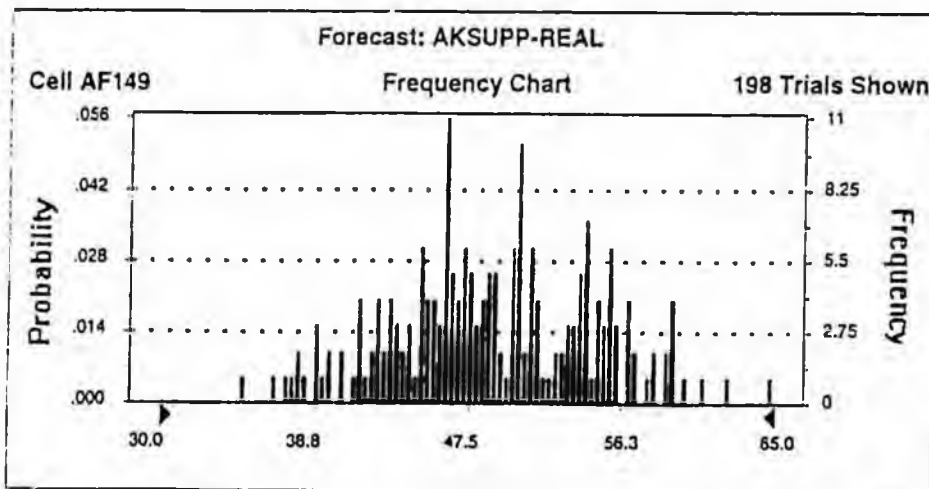
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60%	50.5
70%	52.1
80%	54.4
90%	56.7
100%	67.8

End of Forecast

See Baldwin's Opinion - Healy Wrong Assesses Co.
COOK INLET REGION, INC.

April 24, 1996

VIA FAX: (907) 465-4316

Honorable Joe Green
Co-Chairman
House Resources Committee
State Capitol
Juneau, Alaska 99801-3810

Dear Representative Green:

I am writing to you today as a follow up to my earlier testimony to the Committee and my conversations with you about House Bill 548. As you are aware, CIRI is heavily involved in the oil industry in Alaska through our own developments on the Kenai, as a working interest owner in Endicott, and through our three subsidiary companies, PEAK Oilfield Services, Construction Machinery, Inc. and Alaska Interstate Construction. So we benefit from more than our alliances and partnerships as a contractor on Alaska's North Slope.

It is our belief that HB 548, which would allow the development of Northstar, is a most vital piece of legislation. It will do more than just put hundreds of Alaskans to work and inject millions of private sector dollars into our economy. It will maintain flow in the Trans Alaska Pipeline. Clearly, the State must continue to support these smaller field developments or we will reach a point where it is uneconomic to transport oil through the pipeline. If the pipeline shuts down we can forget any future developments such as ANWR.

① We believe the Executive Branch is properly empowered under the Constitution to negotiate deals within a general statutory framework established by the Legislature. And while the Legislative Branch may read into the record what it believes should be or should have been included in a contract, it is bad constitutional precedent and poor practical policy for the Legislature to get into the business of rewriting or re-negotiating contracts carefully negotiated by the Executive Branch.

I fully understand the role of the Legislature in our system of checks and balances and your duty to review what the Administration is proposing in terms of lease amendments. You have made it clear that -- had you negotiated the deal -- it would have been somewhat different. But this is the agreement that was hammered out between the State of Alaska and BP Exploration and should be the only agreement on the table.

Representative Green
April 24, 1996
Page 2

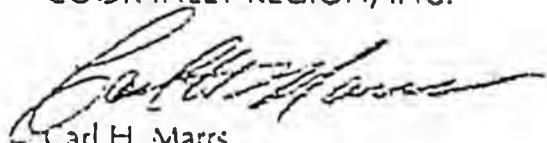
Cook Inlet Region, Inc. fully supports this negotiated agreement. For our part, we are satisfied that BP will do everything in its power to fulfill its commitments on local hire and local business participation in Northstar's development. We do not base this belief on misguided optimism, but on cold political reality. If, for any reason, BP does not live up to its commitments, they will find scarce support among Alaska businesses and public officials for any future development opportunities. Moreover, I am advised that there is a real danger, from a legal perspective, that this well-intentioned attempt to put more "teeth" into the Alaska hire and contracting provisions could amount to "throwing out the baby with the bath water." It also may substantially increase the chance that this entire piece of legislation will be ruled illegal or unconstitutional under state and federal law.

In summary, we believe BP means what they say and that the Northstar project is our best opportunity to forge a new standard for Alaskan's participation in oil development. It also sends the right message to other companies thinking about investing in Alaska. The legislature worked hard to pass HB 207 last year to send the message that Alaskans are willing to work with the industry on issues critical to the future development of Alaska's resources. This is one of those issues so let's -- as Alaskans live up to the intent of HB 207 and pass HB 548 as recieved from the Administration.

Accordingly, on behalf of Cook Inlet Region, Inc., I strongly urge you to support HB 548 as it was introduced and keep this vital legislation moving forward. Thank you.

Sincerely,

COOK INLET REGION, INC.



Carl H. Marrs
President & CEO

CHM/DP
00223

cc: Representative Gail Phillips, via Facsimile: (907) 465-3472



General Teamsters Local 959 State of Alaska

Affiliated with the International Brotherhood of Teamsters

ANCHORAGE, ALASKA 99504 4300 DONYFACE PKWY 907) 283-4122 FAX (907) 337-5653 GERALD L. MOGD Secretary/Treasurer

FAIRBANKS, ALASKA 99707, P.O. Box 70800 (907) 452-2937 FAX (907) 452-5051
 JUNEAU, ALASKA 99801 308 WILGUGHBY (907) 986-3275 FAX (907) 535-1227

April 11, 1996

Representatives Joe Green and
 Bill Williams
 Co-Chairmen, House Resource Committee
 Alaska State House
 Juneau, AK 99801

Dear Co-Chairmen and Committee Members,

I am writing to the Committee to express my deep concern with regard to the Administration's proposal on the North Star leases.

While my concerns cover a broad range of subjects, I want to confine my comments here to the issues of Alaska hire.

As you know, in my position as Chief Executive Officer for the Teamsters Union in Alaska, I have often been an advocate for the oil industry. We strongly support the environmentally sound development of our natural resources. We have been in the forefront in the fight for lifting the oil export ban, royalty relief, and the opening of ANWR for hydro carbon exploration and production.

We did so in the belief this was good for all Alaskans and would enhance benefits to the Alaska workforce. To date, what we have seen is a continuing decline of employment opportunities for Alaskan workers in the oil patch. Statistics tell us Alaskans participating in North Slope construction projects has dropped to its lowest level since the pipeline was built.

The North Star agreement before you is extremely deficient when it comes to strengthening the potential for Alaskan workers. Therefore, neither I nor my organization can support it in its present form.

We need greater assurances that Alaskans will be put to work. We need greater assurances to affirm employment opportunities are made available to rural and native Alaskans. Utilizing the employment of Alaskans not only ensures that maximum benefits accrue to the state from economic development, it also reduces demands upon the state

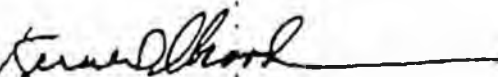
April 11, 1996

Page 2.

such as unemployment insurance and public assistance. Therefore, we urge stronger language to ensure Alaska hire is placed in HB548 and any other oil industry bills that grant economic relief or production incentives. To not grant such assurance is an economic downfall for all Alaskans.

Respectfully,

TEAMSTERS LOCAL 959



Gerald L. Hood
Secretary-Treasurer

/kk
JH\North.2

Donald W. Ince
3121 Capstan Dr.
Anchorage, AK 99516

April 23, 1996

Representative Ramona Barnes
State Capitol, Room 403
Juneau, AK 99801-1182

RE: Northstar Lease Terms

Dear Honorable Ramona Barnes,

I am writing this letter to voice my opposition to changing the Northstar lease terms as proposed by British Petroleum and Governor Tony Knowles. I have been following closely the developments regarding the Knowles-BP proposal and I am convinced this is a terrible deal for Alaskans. I read in complete disbelief the manner in which Commissioner of Natural Resources John Shively has analyzed this deal. He essentially says we should trust his analysis that this is a good deal for Alaska. Unfortunately, examination of this deal simply does not support his statement.

There are basically three Northstar production scenarios put forth for analysis as summarized in the chart below.

Northstar Oil Production	Earnings for Alaskans (\$ millions)		BP Pays Alaska (\$/barrel)	
	with net profit	without net profit	with net profit	without net profit
Case 1 = 130 million barrels	\$444 MM	\$435 MM	\$3.42	\$3.35
Case 2 = 105 million barrels	\$312 MM	\$340 MM	\$2.97	\$3.24
Case 3 = 180 million barrels	\$934 MM	\$639 MM	\$5.19	\$3.55

In Case 1, if BP believes Northstar will produce 130 million barrels it is not clear why they would lobby so vigorously to change the lease terms. The difference they must pay to Alaska is only \$9 million or 7¢/barrel. In Case 2, where Northstar produces only 105 million barrels, BP should negotiate to keep the net profit sharing provision. They would actually pay \$28 million (27¢/barrel) less in revenues than if net profits were removed. BP obviously does not believe Northstar will produce only 105 million barrels. So, Alaskans must ask why BP is spending so much time, money and effort

to change these lease terms? The answer is clear when Case 3 is examined. BP believes Northstar will produce significantly more oil than 130 million barrels. It is not difficult to understand why BP concludes Northstar will become an over-achiever considering the past forecasts for other Alaska oil fields. Prudhoe Bay reserves have increased 35% from 9.6 billion to 13 billion barrels, BP's Niakuk field has increased 85% from 54 million to 100 million barrels since production began. BP's Endicott field has increased 200% from 300 million barrels in 1987 to 600 million barrels today.

BP is fighting hard to negotiate this upside potential away from Alaskans. If they succeed, BP could earn an additional \$295 million profit as shown in Case 3. They could earn even more if Northstar performs like Endicott or Niakuk. If their negotiations fail to remove the net profit sharing provision, they will pay \$1.64/barrel more in revenues to Alaska. This is why BP has attempted to intimidate Alaskans by threatening not to develop Northstar unless we give them our net profit share. When our Senate Resource Committee tried to modify the agreement BP's vice-president, Eric Luttrell said, "BP will not reopen the negotiations and cannot agree to the changes." I would respectfully suggest that Alaskans tell Mr. Luttrell and BP that, "Alaskans will not reopen the negotiations at Northstar and won't agree to any lease term changes because we believe a deal is a deal."

Some legislators and other officials may conclude this upside potential at Northstar is speculative and has no value. Obviously, BP believes exactly the opposite. In fact, the value of this upside is exactly what has motivated BP to seek these negotiations. They are not in business to pay taxes and royalties to Alaska, provide jobs to Alaskans or build production modules here. BP is in the oil business to make money. They are betting Alaska will change the lease terms so they can make more money at Northstar. But, examine their proposal carefully. BP makes no binding commitments to construct modules in Alaska or hire Alaskans. The fifty permanent jobs BP estimates will be created by Northstar development will be needed regardless of what the lease terms are or who develops the field. It is very difficult to recognize anything tangible BP is offering Alaska residents in return for us giving them our net profit share of Northstar's upside potential.

As a co-owner of Northstar oil along with all other Alaskans, I urge you to do the right thing and vote against changing Northstar lease terms.

Very truly yours,

Donald W. Ince
via fax

**

OPINION SECTION.

*

NORTHSTAR DEAL
LEGISLATORS DEMAND THEIR SAY

By Daily News Editorial Staff

The Northstar deal Gov. Tony Knowles cut with BP Exploration is a bad deal. It would significantly alter the way the state handles oil leases, reward a powerful company for a political end run, and perhaps cost the state millions of dollars.

Northstar is a rich oil field. It can and will be developed without the exceptional arrangement championed by the governor.

The combined clout of the oil giant and the state's chief executive have legislators considering some kind of concessions on Northstar. But that's not enough for BP. It wants lawmakers to pass the administration bill virtually untouched.

When Sen. Loren Leman's resources committee reviewed a committee substitute with firmer Alaska hiring and contracting provisions, BP vice president Eric Luttrell told the committee, "Effectively you have not presented an option which would lead to development."

BP's "my way or the highway" rhetoric is simply unacceptable. The Legislature clearly has a responsibility to review the Northstar proposal and offer changes that will benefit Alaskans.

Lawmakers have been concerned about how to enforce BP's local-hire promises since the governor unveiled the deal. They know the dismal history of local hiring, especially of Alaska Natives. Why wouldn't they - why wouldn't Alaskans - have more faith in a legislative statute than in BP promises? And why should BP object to the state writing its promises into law?

"My way or the highway" also is a form of psychological warfare that almost always blows up in the face of those who use

Nov 27
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it on the Legislature. The moment anyone attempts to impose an ultimatum on them, legislators ripple their muscles. When Gov. Steve Cowper called a special session for a subsistence amendment to the Constitution, they rejected him. When Gov. Wally Hickel insisted on a revision of the statute of limitations on oil taxes, they repeated the performance.

When it comes to protecting its prerogatives, the Legislature will fight friendly campaign contributors like the oil companies just as fiercely as its traditional media critics. And they will fight together, on a bipartisan basis, old rivalries momentarily forgotten.

We wish the Legislature would realize the fundamental flaws in the Northstar deal and turn it down. But we appreciate what lawmakers are doing to protect local hiring - and to protect the integrity of the legislative process from a powerful company and a powerful governor.

*

HOUSE PUSHES BP ON LOCAL HIRE

By STAN JONES

Daily News reporter

JUNEAU - The growing legislative sentiment to force British Petroleum to live up to its Alaska hiring and contracting pledges at the Northstar oil prospect boiled up in the state House on Friday.

Rep. Joe Green's Resources Committee wrote stiff hiring and contracting requirements into its version of the Northstar bill and passed the measure along to the World Trade and State/Federal Relations Committee.

The thrust of the Anchorage Republican's bill is similar to a companion measure that passed out of the Senate Resources Committee this week, though some of the details are different - and tougher - in the new version.

Both bills give the Knowles administration the permission it wants to abandon the state's 89 percent share of the profits at Northstar, a 130 million-barrel offshore prospect a few miles north of Prudhoe Bay. In return, BP Exploration (Alaska) Inc. would agree to give the state a modestly higher share, or royalty, of the oil produced from the field.

But both bills attempt to add some teeth to the nonbinding Alaska hiring and contracting provisions in the deal negotiated by John Shively, Knowles' commissioner of natural resources.

The Department of Natural Resources estimates the deal would cost the state \$9 million in revenue, with the only payoff being slightly earlier development of the field and BP's nonbinding promises on Alaska hiring and contracting.

Several legislators have wondered whether the deal as written

M. J. Jones

satisfies a requirement in the Alaska Constitution that natural resources be managed for maximum benefit to the state's people. Green's Northstar bill, like the Senate version, calls on BP to hire Alaskans and requires the oil giant to contract with Alaska companies to build facilities for the field and to supply goods and services for the project.

But Green's version is more specific and more stringent. It demands that BP ensure at least 85 percent of its Northstar workers are Alaskans. In 1994, the most recent year for which figures are available, only 70 percent of BP employees were Alaska residents, according to a state study released in January.

And Green's bill forbids the state from giving BP its Northstar tax break until Gov. Tony Knowles certifies the company will meet the 85 percent Alaska-hire target and has signed the mandated construction and supply contracts with Alaska companies.

BP and the Knowles administration have warned that any tinkering with the deal they negotiated could sink the whole arrangement. BP says it won't develop Northstar if the deal falls through; the state says that could delay development by three years.

Jim Palmer, a BP spokesman, said the company still doesn't want to be tied down by provisions as specific as those the Legislature has come up with.

He repeated the company's intent to hire Alaskans for the project, but said its lawyers were worried that language making that goal mandatory might collide with court rulings that torpedoed past efforts to enforce local hire.

Palmer said he didn't quite know what to make of the Green bill's requirement that BP sign up its Northstar contractors and ensure 85 percent local hire before the state formally approved the deal. BP's Alaska office won't be allowed to proceed with the project until its board of directors in London endorses it, and that might not be possible until the state signs the Northstar tax deal.

"The simpler the better, usually, in all these things," Palmer said.

Knowles spokesman Bob King said the governor is also worried the legislation won't stand up in court.

"The Department of Law was very careful in writing the Alaska-hire provisions to make sure they comply with the law and were concerned that Rep. Green's provisions may have gone too far," King said.

Several members of Green's committee said they were worried the local-hire provisions were too tight to stand up in court or that, even if they did, they were unenforceable. Rep. John Davies, D-Fairbanks, wondered if it wouldn't be better to replace the mandatory requirements with incentives. Perhaps, he

suggested, the state royalty share at the field could be tied to BP's success in hiring Alaskans.

Davies didn't try to put such a provision in Green's bill, but said he might try it later as it moves through other committees or when it reaches the House floor.

Palmer said it was probably too late to make such a change to the Northstar bill this year, but said he likes the idea. "It's too bad we couldn't have thought about this a year ago," he said.

The Northstar deal has become one of the most contentious and high-profile issues in the Legislature.

BP has had several of its own lobbyists and executives in and out of Juneau over the past few days. Some of its main contractors for the project have also been prowling the Capitol, sitting through long, slow committee meetings and jawboning lawmakers when a chance arises.

On Wednesday, before the bill came out of the Senate Resources Committee, Veco chairman Bill Allen buttonholed Sen. Loren Leman, R-Anchorage, the committee's chairman, in the busy second-floor hallway that runs between the House and Senate chambers. Allen wanted the Northstar bill as introduced by Knowles, with none of the local-hire or other new provisions added by the Legislature.

"We need a clean bill," Allen said.

"I have to have a bill I can get four votes for," Leman said.

The Senate bill is now in Sen. Rick Halford's Finance Committee. Halford, R-Anchorage, hasn't signaled what he plans to do with it.

In the House, the bill's next stop is with Rep. Ramona Barnes, the Anchorage Republican who chairs the World Trade Committee. Barnes said Friday she's concerned the bill may be unconstitutional if the state doesn't get a clear and certain return for the cash it's giving up in the Northstar agreement.

"In every line that speaks to developing modules in Alaska or hiring Alaskans, it says 'may' or ... that they 'commit,'" Barnes said. "Most of those words, in legislative terms, mean nothing."

STATE SHOULDN'T GIVE UP NET-PROFITS DEAL FOR NORTHSTAR

By JACK RODERICK

In 1995, BP made the business decision to buy Amerada Hess and Shell's lease interest in Northstar for an undisclosed price against unnamed competitors.

BP felt it could persuade the governor to abolish net-profit provisions in Northstar leases and renegotiate the lease terms. It was a business decision that BP now wishes to justify.

Under net-profits leasing, government has access to financial data not usually available. Sometimes more difficult to administer than bonus and royalty bid leases, net-profit operations greatly circumscribe the operator's immediate net income.

In exploration, a company prefers to take most of the risk so if a discovery is made, immediate income (compared to net profits) is received. The risk inherent in exploring for commercial amounts of oil is high, so large rewards should be given. This makes good business sense for both the operator and the state.

However, Northstar is not an exploration project. It is a development project. Northstar is a discovered oil field. It is at least partially developed. Five wells at Northstar are capable of producing oil. BP estimates that at least 130 billion barrels of oil can be produced from the field.

Being a development and not an exploration project, the ideal way to develop Northstar - from the state's perspective - is by net profits. Using net-profit bidding on a partially discovered oil field was an approach the legislature contemplated when, in 1978-79, it passed the leasing amendment that included net profits.

Under net-profits leasing, the landowner (state) willingly postpones its income until the operator recovers his costs. The operator thus has the incentive to increase his development and operating costs, thereby lessening the landowner's (state's) net-profit share. This so-called "gold-plating" - the operator's incentive to increase costs - when applied to a known oil field like Northstar works very much in the landowner's favor.

This project needs to be done right. Spending a few more

dollars to do it right will benefit everyone. Even contractors like Veco - and even labor unions - will do better under net profits than under straight royalty leases.

An example of how net profits works for government can be seen at the Wilmington oil field offshore the City of Long Beach, Calif. When this giant oil field was discovered some three decades ago, five oil companies bid more than 90 percent net profits to develop and operate it.

The City of Long Beach and the State of California (and some 6,000 uplands owners) have for more than thirty years been sharing net-profit income from the field. No premature production shutdown has happened at Long Beach. Arco now owns the field, which is still producing more than 40,000 barrels of oil a day, and the field is expected to continue producing for another 10 to 15 years.

BP claims it won't develop Northstar unless all net profits are dropped. I think that if the Legislature turns this deal down, BP would either rethink its decision not to proceed or find a successor to develop the field. I don't believe that BP would totally abandon its already substantial investment in Northstar.

The company already has reduced Amerada Hess and Shell's original estimate of the development costs by two-thirds. Any successor would be able to take advantage of these cost reductions. I believe another company or group of companies could develop 130 million barrels of North Slope oil and make a profit.

The proposed BP-state agreement is sometimes presented as an all-or-nothing deal. Either BP develops the field or no one will. A more win-win scenario might be for BP to produce the field under net profits for two years and then go back to the commissioner and seek a reduction in its royalty. This scenario is already possible under existing law.

If the BP-state deal is turned down by the Legislature and BP fails to proceed at Northstar and its leases are returned to the state, competitive re-bidding of these tracts will reveal the leases' true worth.

BP says its main objection to net profits is that it would force the company to prematurely shut down the Northstar field once the state's net profit share kicked in. Rather than produce oil netting it 50 cents a barrel (after all its costs) BP would stop its activities. The company says it doesn't want to be in a position to shut down an oil field prematurely, because such an act would hurt BP's worldwide reputation.

I don't believe BP would shut down a field still making a net profit. I think it would first find a successor (perhaps carrying less overhead than BP's) so that production would be allowed to continue. BP would rather own the North Slope oil than give it to

a competitor. (Arco must be making some profit at Long Beach; at least it owns the oil being produced.)

In any event, Alaska's government would take an interest in any proposed premature shut down of Northstar. If the field were still capable of producing a profit for the state, it would make sure its natural resources were not "wasted."

Jack Roderick, a former mayor of Anchorage, drafted the oil and gas leasing amendment, which included net-profit leasing, that lead to the 1979 sale.

BUSINESS SECTION:

*
BP WORRIES LOCAL VENDORS
ALLIANCE EXPRESSES CONCERN OVER OIL GIANT'S USE OF OUTSIDE
SUPPLIERS

By LISA SCAGLIOTTI
Daily News reporter

Anchorage vendors who supply the oil industry with everything from work gloves to motors find the debate over BP's proposed Northstar oil field bittersweet.

They support the idea of more oil development in the state, but they're worried about how much benefit their companies will see if a new field comes on line.

That's because many vendors have seen their business with the oil giant drop dramatically over the past year and half since BP Exploration (Alaska) Inc. hired an Outside company to manage its purchasing operations.

"The vendor community supports Northstar. We think it will be good for Alaska hire and fabrication," said Mitch Robison at Debenham Electric Supply Co. "We support the opening of marginal oil fields. But there's another issue - BP's outsourcing of everyday purchases is not good for Alaska."

Robison and other vendors have met through the Alaska Support Industry Alliance, a statewide trade group of companies that do business in the oil patch. They have shared their worries and formed a committee, which Robison co-chairs, to figure out if there are ways to get Alaska companies more business.

"Ultimately, we want to win back these purchases," Robison said.

In August 1994, BP signed a five-year contract with Fairmont Supply Co. to oversee its purchase of \$25 million in supplies, according to BP spokesman Paul Laird. The contract also calls for Fairmont to directly supply BP with an additional \$5 million of goods, Laird said.

BP anticipated this outsourcing would save \$4 million to \$6 million a year, he said. The idea was to eliminate BP's overhead on purchasing and to streamline the company's buying to encourage fewer suppliers, he said.

A Fairmont representative on the North Slope referred inquiries to company officials Outside. Fairmont officials in Washington,

Handwritten: 27

Pa., and Price, Utah, did not return five telephone calls Friday to discuss details of their operation in Alaska for this story.

Local vendors say they're uncomfortable with Fairmont's role as purchasing manager and supplier because they hand over to Fairmont sensitive details about their products and prices. "We don't have any reason to doubt their integrity," Laird said.

More important, vendors said, the loss of supply business to Fairmont already has been crippling, and they fear Fairmont's share of the BP supply pie will only grow - at their expense.

Josef Boehm, president of Anchorage-based Alaska Industrial Hardware, said he has seen his BP business practically disappear. In 1994, he counted more than \$600,000 in sales to the oil company; that dropped by half last year and likely won't see six figures this year.

Although AIH hasn't had layoffs, Boehm said, he has eliminated about a half dozen jobs through attrition.

Alaska Bearing Corp. won't hire three or four extra people this summer as it usually does. "And we're looking at a wage reduction to just try and weather this," said owner Bruce Wilkins. The company has a staff of nine, down two through attrition because Wilkins said, his costs aren't falling, but his sales are.

"We sell BP some stuff, maybe once a week where it once was daily," he said. "BP is buying better because it's buying from a bigger distributor, but that sure doesn't help me pay the property taxes."

Jim Borrow owns Bearing Engineering & Supply Co., which has two locations in Alaska and two in Washington state. He said his company had its best year ever with BP in 1994 with sales of more than \$200,000. "Then we did zero last year," he said.

He's bitter; his company has supplied the oil industry since its beginnings in Alaska. "I'm not even sure if there is a BP anymore," he said. "It wouldn't surprise me even if the president of the company is a contract employee."

Boehm called it a contradiction for BP to tout Alaska hire in seeking breaks from the Legislature on its new oil prospect, while its buying policies are pinching Alaska companies.

"As it stands now, the local people are losing," Boehm said.

BP president John Morgan has met twice with the Alliance's vendor committee. Company spokesman Jim Palmer said Morgan described how BP hopes to increase the portion of spending it does in state but that the company wants to work with fewer suppliers.

"There will be winners and losers, but we want to be fair," Palmer said.

Vendors have had some political success in trying to secure

future business opportunities with BP. Both the House and Senate versions of legislation dealing with BP's Northstar oil prospect contain language to require BP to purchase goods and services for the project from Alaska vendors.

The Fairmont arrangement is part of a wider BP effort to cut costs in Alaska by outsourcing work. BP recently contracted with Andersen Consulting to handle BP's accounting functions.

The company also sparked protests from the Oil Chemical and Atomic Workers union for its desire to contract out to Veco a handful of what are now union jobs at a Prudhoe Bay maintenance shop. Palmer added that the company also plans to decide this summer whether to outsource another 24 telecommunications jobs.

"We produce oil and gas. We don't run telephone systems," Palmer said.

*

Agreement between BP, state leads to earlier development of Northstar oil field, jobs

By John C. Morgan, President
BP Exploration (Alaska) Inc.

If Alaskans have to wait several more years for the jobs, revenues and business that development of the Northstar oil field will stimulate ... if you settle for less money and fewer benefits ... if you forgo the opportunity to launch a new Alaskan industry building large oil-field facilities in-state ... well, "so be it."

That was the recent editorial opinion of the Anchorage Daily News. But before we all summarily dismiss the benefits of BP's plan to develop Northstar, here's what's at stake:

- Half a billion dollars in new government revenues at a time when lawmakers and the administration are struggling to close the state budget gap — revenues that will flow by early 1999;
- The highest royalty rate paid by any field

in Alaska, and a supplemental royalty whenever North Slope oil prices exceed a \$17.35-per-barrel West Coast benchmark;

• 500 construction jobs, 50 permanent jobs and hundreds of indirect jobs they'll support — coupled with BP's commitment to hire Alaskans whenever possible;

• \$200-\$250 million in development spending in Alaska, highlighted by BP's commitment to build Northstar facilities in-state;

• An opportunity to launch a new industry, manufacturing large, "sea-lift" scale modules in Alaska — afforded by BP's willingness to

pay a premium to do so for Northstar as long as capacity is available in-state and technical challenges are overcome;

• BP's commitment to begin development in 1997 and production by 1999 if we secure the necessary permits;

• Access to new development opportunities through technology and infrastructure developed for Northstar.

Between direct spending in Alaska and government revenues, Northstar will have a \$1 billion impact on Alaska's economy under BP's plan.

But before we can enjoy the shared benefits of Northstar development, we first need a change in lease terms. Present terms include a "net-profits tax" averaging 89 percent that's imposed, in addition to royalties and other taxes, once costs are recovered.

Critics suggest BP may be "bluffing" when we say we won't develop under these terms.

Between direct spending in Alaska and government revenues, Northstar will have a \$1 billion impact on Alaska's economy under BP's plan.

Common sense suggests otherwise.

They also imply BP gave the Alaska Department of Natural Resources a "take-it-or-leave-it" ultimatum and persist in misrep-

resenting our agreement with DNR to fix problems with Northstar terms as a "concession" by the state.

Both assertions are untrue. We approached DNR in a spirit of cooperation, to work together to identify a mutually beneficial solution to a mutual problem. The agreement we negotiated achieves that end.

Net-profits leasing began nearly two de-

cade ago, when oil prices were soaring and were expected to continue increasing. The state scrapped the experiment in 1984.

The BP-DNR agreement restores net-profit tax provisions from Northstar leases in exchange for tangible benefits to Alaskans — jobs, business, the highest royalty rates in Alaska, a supplemental royalty and early de-

velopment.

It almost inevitably will be more than a few extra years until Alaskans reap these benefits if lease terms aren't adjusted now. There's no guarantee it will ever be developed.

The Daily News seems fundamentally disin-

Continued on Page 11

Northstar would generate Alaska jobs

Continued on Page 11

interested in these benefits, however, and it wants the Legislature to reject the agreement. Its single-minded focus is the effect on the state's oil price process, and on the political intrigue surrounding the issue.

Consider these facts:

• The leases were issued 17 years ago, and BP acquired them in 1995 and began working to reduce development costs. They were nearly worthless. Many companies involved in the original bidding have gone out of business or pulled out of Alaska.

• There was competitive bidding in 1994 when Amerasia Hess and Shell decided to sell their interests. BP won.

• A similar law (the Conservation and Development Act) was passed in 1984, but it was never used. Without that law, the state would have had to wait until the late 1990s to issue leases.

The agreement is a change in legal, not legislative, jurisdiction. It's been done before in 1975. It restored net-profit tax terms from the 1975 leases held by Esso and Shell. It also allowed for an increase in the royalty rate.

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Inputs

NPSL: OFF

Working Interest	98%
Royalty Interest	18%
Split/Conversion Tax (f/bid)	0.04
AVI Tax Rate	2%
Fuel Life (yr)	2012
Reserves (mmbbl)	130
Drilling Costs (f/bid, Real)	88 '02 03 '07 08 '12
State Income Tax Rate	1.50 1.50 1.50
Federal Tax Rate	2.00% (DOR not over 20% cost)
Inflation Rate*	34.3% (after state income tax)
Real Discount Rate	3.0% *Used if sum of Real and Input Blank
Prime Interest Rate NPSL	7.0% (AD Line Paper)
Beginning Balance (m)	8.25% (ADN 4/9/00)
Oil Production Multiplier	-282
Oil Price Multiplier	1
Drilling Cost Multiplier	1
Facility Cost Multiplier	1
Abandonment Cost (% of)	1
Starting Abandon Liability (\$MM)	23
Failure %	5% (DNR Petroleum)
Drilling (Mbl/d)	10% (Engine cost)

Supplemental Royalty: ON

Lease	Royalty	NPSL
312798	20.0%	93.20%
312799	20.0%	91.20%
312800	20.0%	85.28%
312801	20.0%	40.00%
Federal		
Y181	0.1887	0
Y0178	0.1887	0

Monte Carlo Simulation: OFF

Monthly Oil Price Std Dev	
Range	Low % High %
Drilling Capex	0.893 1.252
Facility Capex	0.854 1.172
Pipeline Capex	0.897 1.893
Reserves	0.806 1.231
Lifting Costs	0.925 1.335

NPSL and Supplemental Royalty Control Panel

NPSL ON/OFF	OFF
Supplemental Royalty ON/OFF	ON
NYMEX - All Base MOD Price (D/R annual)	60.00

DORA Information

Starting Walker's Assets (\$MM)	0
Starting Field Assets (\$MM)	0
Starting Purchase Price Balance (\$MM)	0

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total						
Gross Oil (Mbl) Produced	0.0	0.0	5.4	49.8	48.8	48.7	41.2	34.7	28.7	23.8	20.0	18.7	13.8	11.5	7.8	4.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	130.0						
Gross Water (MMbl) Produced	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0						
Gross Gas (MMscf) Produced	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0						
Sales NGLs (MMbl) Produced	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0						
Return Seawater Purchased	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0						
Return Gas Purchased	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0						
PSA1 NB Oil Price (f/bid, (f/real))	411.45	412.28	412.72	412.88	414.48	414.92	415.44	415.97	416.48	416.99	417.57	418.10	418.70	419.48	420.06	420.55	421.32	421.83	422.62	423.22	423.82	424.64	425.28	426.15	426.82	427.74	428.57	428.43	430.21	431.27	9690			
Pipeline Costs (f/bid, mod)	42.42	42.77	42.58	42.58	42.96	42.96	42.87	42.88	42.82	42.71	42.53	42.78	44.01	44.28	44.55	44.83	45.02	45.24	45.58	45.98	46.14	46.27	46.31	46.21	46.81	47.23	47.55	47.78	48.01	48.28	91.88			
Manne Costs (f/bid, mod)	11.49	11.28	11.28	11.47	11.47	11.55	11.82	11.71	11.79	11.87	11.92	11.98	12.04	12.12	12.18	12.23	12.41	12.48	12.54	12.64	12.77	12.80	12.88	12.97	13.04	13.15	13.25	13.24	13.44	31.68				
NGL Value as % of Oil Price (f/real)	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%			
Other Income (f/bid, mod)	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00			
Producing Well (d)	0	0	0	10	15	15	15	15	15	15	15	15	15	15	15	15	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0			
Oil Serv. Rate	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%			
Gas Serv. Rate	16.62%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%			
Abandonment (f/real)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Capex (m, Real)																																		
Drilling	16.0	0.0	14.0	29.0	28.0	15.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	89.0			
Facility	26.0	85.1	83.8	47.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	251.1			
Pipeline	5.0	13.0	18.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	29.0			
Oil Inflation Rate*	1.00	1.03	1.06	1.10	1.13	1.17	1.21	1.24	1.28	1.33	1.37	1.41	1.48	1.50	1.55	1.60	1.65	1.70	1.78	1.82	1.87	1.93	1.98	2.04	2.11	2.17	2.23	2.30	2.37	2.44	2.44			
* Constant																																		
Supplemental Royalty Rate																																		
Trigger Price (EANS WC)	0	17.81	17.80	18.18	18.47	18.78	19.04	19.37	19.68	19.98	20.31	20.64	20.87	21.31	21.88	21.99	22.34	22.70	23.07	23.43	23.81	24.18	24.36	24.97	25.37	25.78	26.18	26.61	27.03	27.47	27.47	27.47		
Linear Slope (%/ANS WC)		1.5%																																
Supplemental Royalty Cap		7.5%																																

Caution - Only change inputs on this page

Summary Output

Development Summary				MonteCarlo			
		M L	MIN	MAX	MONIE		
Reserves	Draw Oil (MMBO)		120	105	160	142	
	Draw NGLs (MMBO)		0	0	0	0	
Capex	DB (\$m/yr)		89	89	124	109	
	Facility (\$m/yr)		251	217	384	250	
	Pipeline (\$m/yr)		28	25	53	38	
	Total (\$m/yr)		378	331	471	393	
Dev Costs	(MM)		2.8			2.8	
Lifting Costs	(MM)		1.50	1.40	2.00	1.74	

State Revenue (\$m. M00)	
Royalty (incl. supplemental)	388.0
State Share of Federal Royalty	20.3
Severance Tax	86.5
Split & Conservation Tax	3.4
Ad Valorem Tax	52.8
NPSL	0.0
Income Tax	18.5
Total (\$ m M00)	627.5
Total (\$ m real)	624.3

Federal Revenue (\$m. M00)	
Royalty (Net of State Share)	54.8
Severance Tax	0.0
Split & Conservation Tax	0.0
Ad Valorem Tax	0.0
NPSL	0.0
Income Tax	287.8
Total (\$ m M00)	338.8
Total (\$ m real)	288.1

	1.00	1.02	1.04	1.10	1.12	1.17	1.21	1.24	1.28	1.32	1.37	1.41	1.44	1.50	1.55	1.60	1.65	1.70	1.78	1.82	1.87	1.92	1.98	2.04	2.11	2.17	2.23	2.30	2.37	2.44	2.44	Do not	
Cumulative Inflation	1.00	1.02	1.04	1.10	1.12	1.17	1.21	1.24	1.28	1.32	1.37	1.41	1.44	1.50	1.55	1.60	1.65	1.70	1.78	1.82	1.87	1.92	1.98	2.04	2.11	2.17	2.23	2.30	2.37	2.44	2.44		
PS#1 Oil Price (\$/bbl, real)	11.43	11.90	11.87	12.75	12.78	12.77	12.91	12.82	12.84	12.82	12.81	12.82	12.84	12.95	12.84	12.84	12.91	12.86	12.79	12.79	12.78	12.78	12.78	12.78	12.78	12.78	12.78	12.78	12.78	12.78	12.78	12.78	
AK WC Oil Price (\$/bbl MOD)	16.28	16.41	16.99	17.87	18.64	18.34	18.53	18.81	19.59	22.38	22.22	24.10	25.00	25.92	26.82	27.74	28.86	28.88	30.70	31.75	32.70	33.68	34.70	35.74	36.81	37.81	38.95	40.27	41.42	42.87	42.87		

ANS WC Oil Price Random generated month price forecast		1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Monthly Forecast Price		16.24	16.28	16.58	17.38	18.22	19.72	20.47	21.22	22.02	22.84	23.70	24.58	25.50	26.41	27.32	28.23	29.12	29.97	30.87	31.78	32.64	33.51	34.41	35.32	36.23	37.12	38.03	38.94	39.84	40.74	41.64	42.54	43.44	44.34	45.24	46.14	47.04	
Monthly MonteCarlo Price		16.24	16.28	16.58	17.38	18.22	19.72	20.47	21.22	22.02	22.84	23.70	24.58	25.50	26.41	27.32	28.23	29.12	29.97	30.87	31.78	32.64	33.51	34.41	35.32	36.23	37.12	38.03	38.94	39.84	40.74	41.64	42.54	43.44	44.34	45.24	46.14	47.04	
Jan		16.24	16.28	16.58	17.38	18.22	19.72	20.47	21.22	22.02	22.84	23.70	24.58	25.50	26.41	27.32	28.23	29.12	29.97	30.87	31.78	32.64	33.51	34.41	35.32	36.23	37.12	38.03	38.94	39.84	40.74	41.64	42.54	43.44	44.34	45.24	46.14	47.04	
Feb		16.24	16.28	16.58	17.38	18.22	19.72	20.47	21.22	22.02	22.84	23.70	24.58	25.50	26.41	27.32	28.23	29.12	29.97	30.87	31.78	32.64	33.51	34.41	35.32	36.23	37.12	38.03	38.94	39.84	40.74	41.64	42.54	43.44	44.34	45.24	46.14	47.04	
Mar		16.24	16.28	16.58	17.38	18.22	19.72	20.47	21.22	22.02	22.84	23.70	24.58	25.50	26.41	27.32	28.23	29.12	29.97	30.87	31.78	32.64	33.51	34.41	35.32	36.23	37.12	38.03	38.94	39.84	40.74	41.64	42.54	43.44	44.34	45.24	46.14	47.04	
Apr		16.24	16.28	16.58	17.38	18.22	19.72	20.47	21.22	22.02	22.84	23.70	24.58	25.50	26.41	27.32	28.23	29.12	29.97	30.87	31.78	32.64	33.51	34.41	35.32	36.23	37.12	38.03	38.94	39.84	40.74	41.64	42.54	43.44	44.34	45.24	46.14	47.04	
May		16.24	16.28	16.58	17.38	18.22	19.72	20.47	21.22	22.02	22.84	23.70	24.58	25.50	26.41	27.32	28.23	29.12	29.97	30.87	31.78	32.64	33.51	34.41	35.32	36.23	37.12	38.03	38.94	39.84	40.74	41.64	42.54	43.44	44.34	45.24	46.14	47.04	
Jun		16.24	16.28	16.58	17.38	18.22	19.72	20.47	21.22	22.02	22.84	23.70	24.58	25.50	26.41	27.32	28.23	29.12	29.97	30.87	31.78	32.64	33.51	34.41	35.32	36.23	37.12	38.03	38.94	39.84	40.74	41.64	42.54	43.44	44.34	45.24	46.14	47.04	
Jul		16.24	16.28	16.58	17.38	18.22	19.72	20.47	21.22	22.02	22.84	23.70	24.58	25.50	26.41	27.32	28.23	29.12	29.97	30.87	31.78	32.64	33.51	34.41	35.32	36.23	37.12	38.03	38.94	39.84	40.74	41.64	42.54	43.44	44.34	45.24	46.14	47.04	
Aug		16.24	16.28	16.58	17.38	18.22	19.72	20.47	21.22	22.02	22.84	23.70	24.58	25.50	26.41	27.32	28.23	29.12	29.97	30.87	31.78	32.64	33.51	34.41	35.32	36.23	37.12	38.03	38.94	39.84	40.74	41.64	42.54	43.44	44.34	45.24	46.14	47.04	
Sep		16.24	16.28	16.58	17.38	18.22	19.72	20.47	21.22	22.02	22.84	23.70	24.58	25.50	26.41	27.32	28.23	29.12	29.97	30.87	31.78	32.64	33.51	34.41	35.32	36.23	37.12	38.03	38.94	39.84	40.74	41.64	42.54	43.44	44.34	45.24	46.14	47.04	
Oct		16.24	16.28	16.58	17.38	18.22	19.72	20.47	21.22	22.02	22.84	23.70	24.58	25.50	26.41	27.32	28.23	29.12	29.97	30.87	31.78	32.64	33.51	34.41	35.32	36.23	37.12	38.03	38.94	39.84	40.74	41.64	42.54	43.44	44.34	45.24	46.14	47.04	
Nov		16.24	16.28	16.58	17.38	18.22	19.72	20.47	21.22	22.02	22.84	23.70	24.58	25.50	26.41	27.32	28.23	29.12	29.97	30.87	31.78	32.64	33.51	34.41	35.32	36.23	37.12	38.03	38.94	39.84	40.74	41.64	42.54	43.44	44.34	45.24	46.14	47.04	
Dec		16.24	16.28	16.58	17.38	18.22	19.72	20.47	21.22	22.02	22.84	23.70	24.58	25.50	26.41	27.32	28.23	29.12	29.97	30.87	31.78	32.64	33.51	34.41	35.32	36.23	37.12	38.03	38.94	39.84	40.74	41.64	42.54	43.44	44.34	45.24	46.14	47.04	
ANS WC Mean Annual Value		16.24	16.44	16.87	17.90	18.34	20.04	20.81	21.59	22.38	23.22	24.10	25.00	25.92	26.82	27.74	28.70	29.68	30.71	31.74	32.77	33.82	34.87	35.94	37.01	38.08	39.16	40.24	41.32	42.41	43.50	44.59	45.68	46.77	47.86	48.95	50.04	51.13	
PS#1 Mean Annual Value		11.43	12.29	12.85	13.91	14.48	15.87	16.45	16.99	17.57	18.10	18.71	19.45	20.28	21.13	22.00	22.87	23.74	24.61	25.48	26.35	27.22	28.09	28.96	29.83	30.70	31.57	32.44	33.31	34.18	35.05	35.92	36.79	37.66	38.53	39.40	40.27	41.14	42.01

Quantity Supplemental State Royalty %	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	
Jan	0.00%	0.00%	0.00%	0.00%	0.00%	0.28%	1.00%	1.84%	2.32%	2.84%	3.80%	4.58%	5.42%	6.20%	7.15%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Feb	0.00%	0.00%	0.00%	0.00%	0.00%	0.47%	1.09%	1.74%	2.42%	3.14%	3.90%	4.70%	5.54%	6.41%	7.28%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Mar	0.00%	0.00%	0.00%	0.00%	0.00%	0.59%	1.19%	1.82%	2.52%	3.24%	4.01%	4.81%	5.65%	6.52%	7.37%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Apr	0.00%	0.00%	0.00%	0.00%	0.05%	0.84%	1.27%	1.82%	2.52%	3.24%	4.11%	4.92%	5.78%	6.67%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
May	0.00%	0.00%	0.00%	0.00%	0.12%	0.72%	1.36%	2.02%	2.72%	3.44%	4.27%	5.02%	5.87%	6.78%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Jun	0.00%	0.00%	0.00%	0.00%	0.21%	0.82%	1.45%	2.11%	2.82%	3.54%	4.32%	5.16%	5.99%	6.89%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Jul	0.00%	0.00%	0.00%	0.00%	0.20%	0.81%	1.51%	2.21%	2.92%	3.65%	4.42%	5.25%	6.10%	6.99%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Aug	0.00%	0.00%	0.00%	0.00																																			

NPSL Calculation																														
	1986	1987	1988	1989	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Fixed Asset Factor	78.80%	78.80%	78.80%	78.80%	78.80%	78.80%	78.80%	78.80%	78.80%	78.80%	78.80%	78.80%	78.80%	78.80%	78.80%	78.80%	78.80%	78.80%	78.80%	78.80%	78.80%	78.80%	78.80%	78.80%	78.80%	78.80%	78.80%	78.80%	78.80%	
Fixed Ownership	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	
NPSL State Rate	89.29%	89.29%	89.29%	89.29%	89.29%	89.29%	89.29%	89.29%	89.29%	89.29%	89.29%	89.29%	89.29%	89.29%	89.29%	89.29%	89.29%	89.29%	89.29%	89.29%	89.29%	89.29%	89.29%	89.29%	89.29%	89.29%	89.29%	89.29%	89.29%	
Prime Interest Rate	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	
Revenue Account																														
Prod. Revenue	0.0	0.0	15.8	158.3	163.3	163.3	141.8	122.8	102.7	87.8	75.3	64.3	54.7	48.5	31.5	18.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating Costs	0.0	0.0	(7.4)	(23.0)	(23.7)	(23.8)	(20.9)	(18.2)	(15.3)	(13.3)	(11.5)	(9.8)	(8.5)	(7.3)	(5.0)	(2.8)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Production Taxes	0.0	0.0	(0.0)	(14.2)	(12.3)	(12.0)	(7.8)	(5.2)	(7.0)	(9.8)	(9.2)	(10.1)	(10.1)	(10.1)	(10.1)	(10.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ad Valorem Tax	0.0	(0.8)	(2.0)	(3.4)	(4.2)	(4.2)	(4.1)	(3.8)	(3.3)	(2.2)	(2.8)	(2.8)	(2.2)	(1.8)	(1.4)	(1.0)	(0.8)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
UOP Aban. Costs	0.0	0.0	(0.4)	(1.8)	(1.8)	(1.8)	(1.2)	(1.0)	(1.0)	(1.2)	(1.2)	(1.2)	(1.2)	(1.0)	(1.0)	(1.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Closing Balance	0.0	(0.8)	10.8	115.8	118.1	117.6	103.9	81.4	79.7	88.5	59.8	50.4	42.8	36.7	24.8	14.3	(0.5)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dev. Account																														
Beginning Balance	(162.0)	(227.8)	(426.4)	(551.1)	(641.8)	(687.8)	(418.8)	(248.0)	(278.4)	(218.3)	(186.2)	(118.5)	(75.8)	(27.3)	(7.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital Expend.	(42.2)	(77.6)	(87.2)	(82.2)	(24.3)	(13.5)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Prod Rev Acc Credit	0.0	0.0	10.8	115.8	118.1	117.6	103.8	81.4	78.7	88.5	58.8	50.4	42.8	36.7	24.8	14.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Netm Closing Bal	(304.2)	(405.2)	(512.8)	(498.5)	(447.0)	(383.7)	(215.7)	(254.8)	(188.7)	(151.0)	(107.2)	(88.1)	(22.0)	(9.8)	(22.6)	14.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Average Annual DA Balance	(283.1)	(368.4)	(473.7)	(574.8)	(694.4)	(425.7)	(287.7)	(300.2)	(238.3)	(188.2)	(128.7)	(93.2)	(54.3)	(19.0)	10.2	7.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accrued Interest	(23.4)	(30.2)	(38.1)	(43.3)	(40.8)	(25.8)	(30.2)	(24.8)	(18.8)	(15.3)	(11.3)	(7.7)	(4.8)	(1.8)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
DA Closing Balance	(327.8)	(429.1)	(511.1)	(641.8)	(687.8)	(418.8)	(248.0)	(278.4)	(218.3)	(186.2)	(118.5)	(75.8)	(27.3)	(7.2)	22.8	14.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NPSL Payment Acc																														
Profits Sub NPSL	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	22.8	14.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NPSL Payment*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

* Payment on NPSL ON-OFF switch in control box turned to "OFF"

Northern Reserves, Royalty and NPSL Tract Allocations											
Leases	NPSL	Acft	% of Total Reserves	% of NPSL Reserves	OP Ownership	NPSL State Rate	Working Interest	NPSL Tract Rate	Royalty Rate by Lease	Weighted Royalty	NP
312798	12.20%	84,000	6.77%	8%	100%	8.18%			20%	1.344%	
312799	81.20%	555,000	44.40%	58%	100%	52.72%			20%	8.880%	
312808	85.28%	102,000	8.18%	11%	100%	9.08%			20%	1.632%	
312808	85.28%	218,000	17.52%	22%	100%	18.45%			20%	3.504%	
355001	40.00%	-	0.00%	0%	100%	0.00%			20.0%	0.000%	
		880,000	78.80%	100%	100%	89.39%	88%	78%		15.328%	
Effective State Royalty with 27% of Federal Take										15.342%	
Y181		228,000	18.06%						18.87%	0.014%	
Y0179		84,000	5.12%						18.87%	0.054%	
		1,260,800	100.00%							2.837%	
Effective Federal Royalty with 27% of Federal Take										2.855%	
Total										19.00%	81.00%

BTFF		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total
BP Revenue		0.0	0.0	18.9	202.0	208.3	208.4	181.0	158.4	132.4	112.0	98.1	87.0	86.7	59.3	40.2	22.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1581	
Severance Tax		0.0	0.0	0.0	17.7	15.3	14.8	8.8	8.3	7.3	0.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	87	
Spill & Conserv		0.0	0.0	0.1	0.5	0.5	0.4	0.3	0.3	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3	
AVT		0.0	0.8	2.5	4.3	5.4	5.4	5.2	4.8	4.5	4.1	3.7	3.3	2.8	2.3	1.8	1.2	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	53	
NPSL		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0	
Opex		0.0	0.0	3.1	13.3	30.3	30.5	28.7	23.2	18.8	16.8	14.7	12.7	10.8	8.3	6.3	3.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	237	
Abandonment		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	26.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	38	
Gross Profit		0.0	-0.8	14.3	150.2	158.3	157.2	129.2	121.7	105.5	90.3	77.5	66.9	58.8	47.8	32.0	18.3	-40.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0	
+ other income		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0	
capex		53.8	89.0	111.5	80.8	31.1	17.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	363	
BTFF		-53.8	-89.0	-111.5	-80.8	-31.1	-17.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	798	
Intan Debt Depr.		7.3	0.6	8.3	17.2	18.0	13.3	3.8	3.3	2.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	75	
Tan. Depr/ac Depr.		5.8	21.8	40.8	50.7	48.1	38.0	28.8	24.8	18.7	10.7	3.8	0.8	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	290	
Total		12.9	22.3	49.2	87.9	95.0	48.2	33.5	28.2	20.8	11.4	3.8	0.8	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	385	
Fed Tax Income		12.9	-23.3	25.0	87.3	91.8	108.9	105.7	92.5	84.7	78.9	73.5	65.0	55.7	47.8	37.0	18.3	-40.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	827	

LDP Abandonment		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total
Rate (\$/bbl)		0.00	0.00	0.78	0.28	0.43	0.43	0.40	0.37	0.34	0.30	0.27	0.22	0.19	0.14	0.07	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	38
Total (\$m)		0.0	0.0	0.5	2.5	4.8	7.2	6.6	5.1	3.8	2.8	2.1	1.6	1.1	0.8	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0
DD&A		0.00	0.00	3.89	7.74	3.40	3.74	3.90	3.90	3.90	3.90	3.90	3.90	3.90	3.90	3.90	3.90	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	385
Total (\$m)		0.0	0.0	3.8	26.5	48.9	52.3	45.7	38.1	31.3	25.7	21.4	17.7	14.5	11.9	7.8	4.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0

Income Tax		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total
State		0.26	0.47	0.70	1.86	1.84	2.18	2.11	1.87	1.88	1.58	1.47	1.30	1.11	0.95	0.84	0.37	0.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	17	
Federal		4.43	7.99	-11.89	28.22	31.51	37.37	36.25	37.07	28.07	27.05	25.21	22.31	18.10	16.34	10.87	4.27	-12.74	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	284
Total		-4.88	8.45	-12.88	29.87	33.35	39.54	38.36	38.94	30.78	28.63	26.68	23.61	20.22	17.29	11.61	8.64	14.54	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	300

Funds Flow		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total
ATFF - MOD		-49.2	-91.4	-84.5	-36.7	92.5	100.5	100.8	87.8	74.7	61.8	50.8	42.3	35.7	30.3	20.4	11.8	-25.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	498
ATFF - Real		49.2	88.7	78.5	36.2	81.7	88.0	83.8	70.5	58.2	48.5	37.1	30.0	24.5	20.2	13.1	7.3	15.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	382
ATFF - Real Disc		49.2	83.0	89.8	29.8	82.2	82.4	58.8	45.0	34.8	28.1	18.8	14.8	11.4	8.8	5.4	2.8	-5.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	173
ATFF - Cum NPV		49.2	-122.3	-207.1	-172.2	-108.1	-48.7	-10.2	55.3	90.1	118.2	129.8	150.7	182.1	170.8	178.2	128.0	172.4	172.4	172.4	172.4	172.4	172.4	172.4	172.4	172.4	172.4	172.4	172.4	172.4	0.0	

Net Income		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total
		4.7	7.7	20.3	78.4	89.7	58.2	48.8	44.8	29.7	23.1	27.3	23.1	20.1	17.7	12.2	7.1	12.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	627

Intangible Depr	20%																										Total						
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025			
Intangible	7.3	0.8	0.8	0.8	0.8	0.0	0.8	0.8	1.3	1.3	1.3	1.3	1.3	0.7	0.7	0.7	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	74.7	
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Total	7.3	0.8	0.8	1.2	1.0	1.2	0.8	0.8	2.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	74.7		
Tangible Depr	0.1428	0.2448	0.1748	0.1248	0.0892	0.0892	0.0892	0.0448																								290.2	
1996	5.8	8.8	8.8	4.8	3.5	3.5	3.5	1.8	3.8	4.1																					17.8		
1997		12.2		15.0	10.7	7.7	7.7	7.7																								77.5	
1998			13.0	22.7	15.8	11.3	8.1	8.1	8.1	4.1																						48.2	
1999				8.5	14.8	10.4	7.4	5.2	5.2	2.7																						50.7	
2000					1.3	2.3	1.8	1.2	0.8	0.8	0.8	0.4																				48.1	
2001						0.7	1.3	0.8	0.8	0.5	0.5	0.5	0.2																			38.0	
2002							0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	29.8		
2003								0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	24.9		
2004									0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	18.7		
2005										0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	10.7		
2006											0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.8		
2007												0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.8		
2008													0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2		
2009														0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
2010															0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
2011																0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
2012																	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
2013																		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
2014																			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
2015																				0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
2016																					0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
2017																						0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
2018																							0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
2019																								0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
2020																									0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
2021																										0.0	0.0	0.0	0.0	0.0	0.0	0.0	
2022																											0.0	0.0	0.0	0.0	0.0	0.0	
2023																												0.0	0.0	0.0	0.0	0.0	
2024																													0.0	0.0	0.0	0.0	
2025																														0.0	0.0	0.0	
Total	5.8	21.9	40.8	50.7	48.1	38.0	29.8	24.9	18.7	10.7	3.8	0.8	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	290.2		
	17.8	77.5	48.2	87.8	85.0	48.3	33.5	28.2	20.8	11.4	3.8	0.8	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	384.8		

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
DDA (MMOD)																														
Reserve (MMBCE NRY)																														
Opening Balance	0.0	0.0	0.0	98.8	84.4	70.0	58.1	44.3	34.5	26.5	18.8	14.4	8.8	4.2	3.1	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Additions (BPX Net Allot Royal)	0.0	0.0	100.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
DDA A (BPX Net Production (MMB))	0.0	0.0	1.8	14.4	14.4	14.0	11.7	8.8	6.0	4.6	3.5	2.7	2.0	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Closing Balance	0.0	0.0	98.8	84.4	70.0	58.1	44.3	34.5	26.5	18.8	14.4	8.8	4.2	3.1	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Wellbore Assets																														
Beginning Balance (Net IMM)	0.0	12.7	13.7	27.8	51.5	71.2	72.4	57.3	44.6	34.3	25.7	18.7	12.8	8.0	4.0	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Additions (BPX Net IMM MOD)	13.7	0.0	14.8	30.1	31.1	17.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
DDA A Rate (1/8BL)	0.00	0.00	0.42	0.43	0.78	1.14	1.29	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.28	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
DDA A (BPX Net IMM MOD)	0.0	0.0	0.7	6.2	11.4	15.9	15.1	12.8	10.4	8.5	7.1	5.8	4.8	3.9	2.8	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Carry Forward (BPX Net IMM)	13.7	12.7	27.8	51.5	71.2	72.4	57.3	44.6	34.3	25.7	18.7	12.8	8.0	4.0	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fieldwide Assets																														
Beginning Balance (Net IMM)	0.0	25.3	121.2	202.5	218.8	182.3	148.0	115.4	89.8	66.0	51.8	37.8	25.8	18.1	8.2	2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Additions (BPX Net IMM MOD)	25.3	85.8	86.5	50.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
DDA A Rate (1/8BL)	0.00	0.00	3.27	2.30	2.60	2.80	2.80	2.80	2.80	2.80	2.80	2.80	2.80	2.80	2.80	2.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
DDA A (BPX Net IMM MOD)	0.0	0.0	5.1	32.3	37.5	36.4	30.8	25.5	20.8	17.2	14.3	11.8	8.7	7.8	5.7	2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Carry Forward (BPX Net IMM)	25.3	121.2	202.5	218.8	182.3	148.0	115.4	89.8	66.0	51.8	37.8	25.8	18.1	8.2	2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BPX Purchase Price Abstraction																														
Beginning Balance (Net IMM)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Additions (BPX Net IMM MOD)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
DDA A Rate (1/8BL)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
DDA A (BPX Net IMM MOD)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Carry Forward (BPX Net IMM)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total DDA A Rate (1/8BL)	0.0	0.0	3.7	2.7	3.4	3.7	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total DDA A (Net IMM MOD)	0.0	0.0	5.8	36.5	48.9	52.3	45.7	38.1	31.3	25.7	21.4	17.7	14.5	11.6	7.8	4.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
LOP ABANDONMENT (MMOD)																														
Beginning Balance (Net IMM)	28.4	28.4	28.4	28.8	28.4	31.5	24.4	17.8	12.7	8.9	4.0	3.8	2.3	1.2	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Additions (BPX Net IMM MOD)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
DDA A Rate (1/8BL)	0.00	0.00	0.78	0.38	0.43	0.43	0.40	0.37	0.34	0.30	0.27	0.23	0.18	0.14	0.07	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
DDA A (BPX Net IMM MOD)	0.0	0.0	0.5	7.5	4.8	7.2	8.8	5.1	3.8	2.9	2.1	1.8	1.1	0.8	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Carry Forward (BPX Net IMM)	28.4	28.4	28.8	28.4	31.5	24.4	17.8	12.7	8.9	4.0	3.8	2.3	1.2	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0



BP EXPLORATION

John C. Morgan
President, Alaska

BP Exploration (Alaska) Inc.
900 East Benson Boulevard
P.O. Box 125512
Anchorage, Alaska 99519-2512
(907) 585-5422

April 29, 1996

The Honorable Ramona Barnes, Chair
House World Trade and State/Federal
Relations Committee
Alaska State Legislature
State Capitol
Juneau, Alaska 99801

Dear Representative Barnes:

The development of the Northstar field is an important project to the residents of Alaska and BP Exploration. Northstar development will provide jobs for Alaskans, new business opportunities for Alaskan businesses, and significant revenues to the state.

BP Exploration has voluntarily and publicly committed to recruit and hire qualified Alaska residents for the Northstar Development. We have also publicly committed to encourage Northstar contractors to recruit, hire, and train, when necessary, Alaska residents.

Furthermore, BP has voluntarily and publicly committed to use Alaska contractors to build in Alaska Northstar production and processing modules. BP has committed to spend \$30 - 40 million to build in Alaska the larger and more complex modules for assembly for sealift providing that suitable facilities to do this are available. We are working with our contractors to do everything possible to ensure the facilities will be available.

Our reputation depends on our honoring these commitments and reporting our results to the people of Alaska.

We appreciate the opportunity to provide comments to your committee.

Sincerely,

A handwritten signature in cursive script that reads "John C. Morgan".

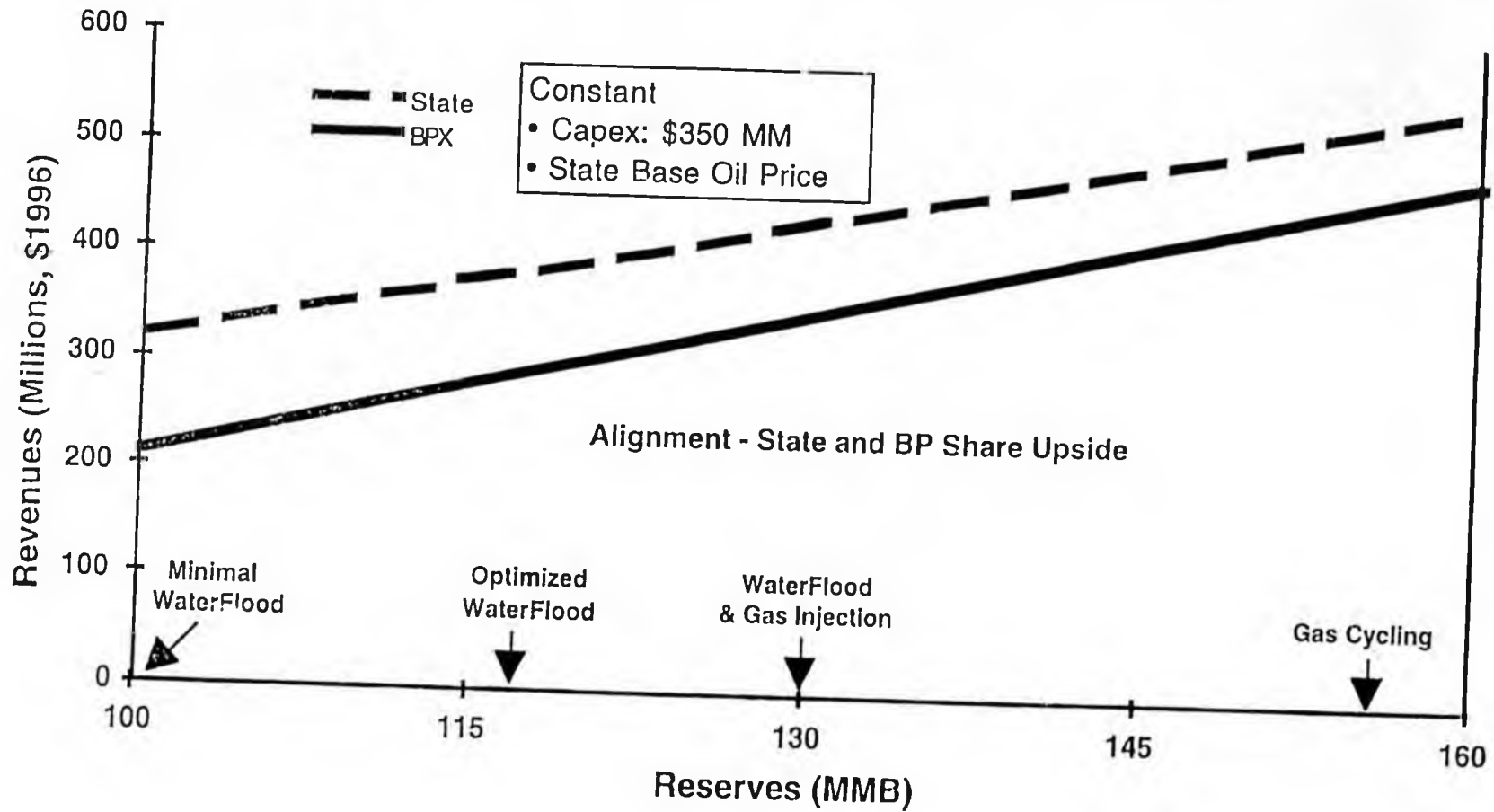
John C. Morgan

Northstar

Reserves Impact with Agreement



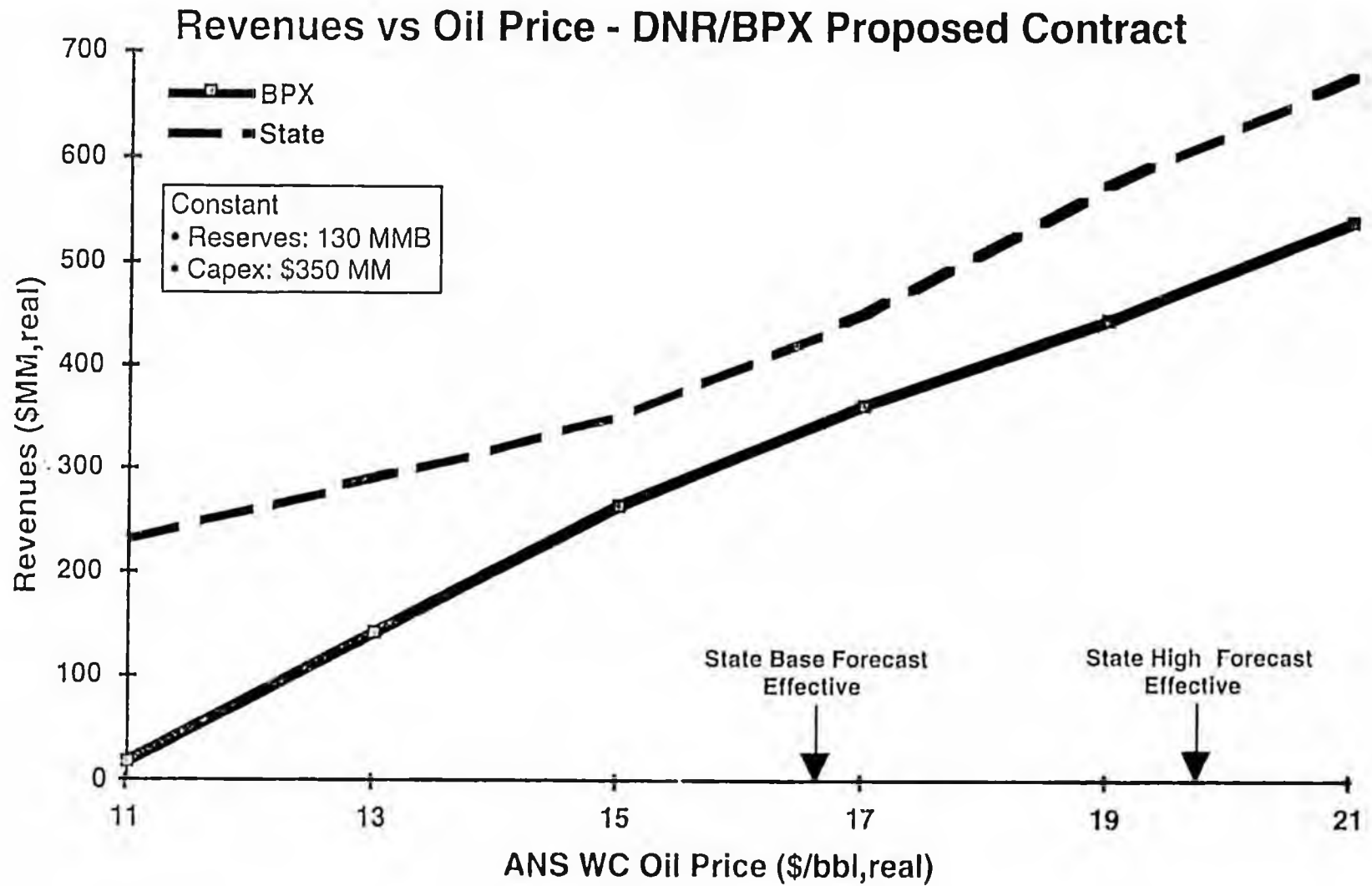
Revenues vs. Reserves with Agreement



OFC-96
5/5/96
BP



Revenues vs Oil Price with Agreement





Production and Capex

