

HB

548

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HB548
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STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

March 25, 1996

The Honorable Gail Phillips
Speaker of the House
Alaska State Legislature
State Capitol
Juneau, AK 99801-1182

Dear Speaker Phillips:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill providing for legislative authorization, approval, and ratification of the "First Amendment to the Northstar Unit Leases Between the State of Alaska and BP Exploration (Alaska) Inc."

This project is the beginning of a new era in the development of Alaska's oil resources. It requires a new commitment to Alaska hire, expands opportunities for Alaskan companies, introduces efficient and safe technological innovations and brings new revenues to Alaskans.

The Northstar Unit leases currently require BP Exploration (Alaska) Inc. to make net profit share payments to the state which average about 88% of "net profits." BP Exploration (Alaska) Inc. maintains that it can not develop the Northstar Unit unless the net profit share requirements are eliminated from the leases. The Department of Natural Resources believes that 2002 is the earliest the state might achieve development of Northstar. The longer it takes to develop the leases, the less the state receives because of the development account provisions of the net profit share leases. The incentives provided in this amendment would bring the Northstar Unit into full production by 1999.

The amendment has three main components. First, it eliminates the net profit share payments. In place of the net profit provision a supplemental royalty is required, payable on a sliding scale based on the price of oil, partially adjusted for inflation. This supplemental royalty, which can be as much as 7½%, is in addition to the 20% base royalty required under the leases. Development of these leases will generate an estimated \$430 million or more to the state treasury from royalties and taxes, including an estimated \$37 million in supplemental royalties.

Second, the amendment commits BP Exploration (Alaska) Inc. to an ambitious project schedule that requires construction start-up by 1997. If BP Exploration (Alaska) Inc. fails to perform its obligations under the project schedule the leases terminate automatically, thereby allowing the state to lease the tracts to another company.

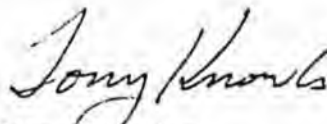
And third, the amendment replaces the current Alaska hire provisions in the leases with more forceful provisions that require BP Exploration (Alaska) Inc. to hire Alaskans, within the constraints of the law, and to contract with local construction and fabrication companies to build the project facilities. It is anticipated that enactment of this bill will generate 500 construction jobs and 50 permanent jobs in the state. It will result in Alaska companies fabricating production modules, including one or more of the first sealift modules ever constructed in Alaska.

I am requesting legislative approval of the Northstar amendment for two reasons. First, the terms of this amendment involve issues of statewide interest and impact that deserve a thorough and open public review and discussion.

Second, the bill would remove any legal cloud which may exist over the Administration's authorities in this matter by providing the commissioner of the Department of Natural Resources with sufficient express authority to amend the leases in the way we have amended them here. This will ensure that the project can proceed expeditiously and maximize the benefits to the state and the people of Alaska.

I urge your prompt and favorable action on the bill.

Sincerely,

A handwritten signature in cursive script that reads "Tony Knowles".

Tony Knowles
Governor

FISCAL NOTE

No. 1

Bill Version: HB 548

(H) Publish Date: 3/28/96

**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 GF/MHTIA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY96) 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

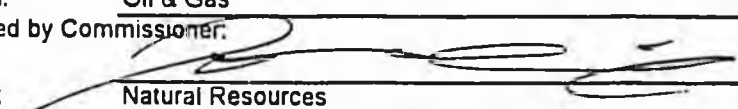
ANALYSIS:

(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: 269-8800
 Division: Oil & Gas Date: 26-Mar-96
 Approved by Commissioner:  Date: 26-Mar-96
 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	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	34,891.8	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.

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:

(e) 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 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 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.

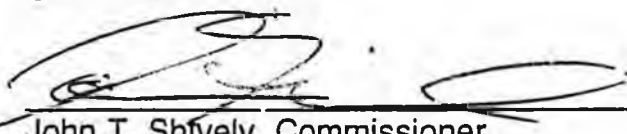
LESSEE:

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 in the ANS Agreement.

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

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

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

3) The trigger price for May 1, 1998 through April 30, 1999 is calculated by adjusting \$17.55 per barrel by the inflation factor as follows:

$$\text{Trigger price for the current year} = \$17.35 \text{ per barrel} \times (1 + \text{inflation factor})$$

$$= \$17.35 \text{ per barrel} \times (1 + 3.17 \text{ percent})$$

$$= \$17.35 \times 1.0317$$

$$= \$17.90 \text{ per barrel}$$

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

$$\text{Supplemental royalty percentage rate} = (\text{ANSWC spot price} - \text{trigger price for the current year}) \times (1.5 \text{ percent per dollar per barrel})$$

$$= (\$21.40 \text{ per barrel} - \$17.90 \text{ per barrel}) \times 1.5 \text{ percent per dollar per barrel}$$

$$= (21.40 - 17.90) \times 0.015$$

$$= 0.05250 = 5.25 \text{ percent}$$

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:

$$\text{Supplemental royalty payment} = \text{production volume} \times \text{royalty value} \times \text{supplemental royalty percentage rate}$$

$$= 1,550,000 \text{ barrels} \times \$17.71 \text{ per barrel} \times 5.25 \text{ percent}$$

$$= \$1,441,151.25$$

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.

9-GH2065\R-
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.

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).

**BP EXPLORATION**

John C. Morgan
President, Alaska

BP Exploration (Alaska) Inc.
900 East Benson Boulevard
P.O. Box 196612
Anchorage, Alaska 99519-6612
(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,

A handwritten signature in black ink that reads "John C. Morgan". The signature is written in a cursive style with a horizontal line underneath the name.

John C. Morgan

9-GH2065\O-
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:

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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

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

17 (1) ADL 312798, effective February 1, 1980;

18 (2) ADL 312799, effective February 1, 1980;

19 (3) ADL 312808, effective February 1, 1980;

20 (4) ADL 312809, effective February 1, 1980; and

21 (5) ADL 355001, effective August 1, 1983.

22 (b) The commissioner of natural resources may amend the Northstar Unit leases
23 described in (a) of this section to the extent set out in the "First Amendment to the Northstar
24 Unit Leases Between the State of Alaska and BP Exploration (Alaska) Inc.", dated March 22,
25 1996, if the amendment includes a provision as follows:

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

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

1 shall employ Alaska residents and contractors to the extent they are
2 available and qualified. Subject to the foregoing:

3 Lessee voluntarily agrees to adopt a program to hire residents of
4 Alaska. Lessee shall advertise for available positions locally and use
5 Alaska job service organizations to notify the Alaskan public. For work
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9 necessary, residents of Alaska. In determining feasibility, lessee shall
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20 compliance with regulations by the Commissioner of Labor. The report
21 must also include statistical data concerning the number of resident
22 personnel hired within the past year for this lease";

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

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

31 Lessee voluntarily agrees to adopt a program to hire residents of

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

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

24 * Sec. 3. REPORTING PROVISIONS. The lessee, BP Exploration (Alaska) Inc., shall file
25 with the commissioner of labor at least every six months the reports that the commissioner
26 of labor determines are necessary to evaluate the lessee's efforts described under sec. 2(b) of
27 this Act.

28 * Sec. 4. SEVERABILITY. Under AS 01.10.030, the provisions of this Act are severable.

29 * Sec. 5. This Act takes effect immediately under AS 01.10.070(c).

A M E N D M E N T

OFFERED IN THE HOUSE

TO: Draft CSHB 548(), version "M" dated 4/29/96

1 Page , line :

2 Insert new material to read:

3 "LEGISLATIVE INTENT. (a) The legislature wishes to set out its intent regarding
4 meaning of certain words and phrases used in the "First Amendment to the Northstar Unit
5 Leases between the State of Alaska and BP Exploration (Alaska) Inc. ('Northstar
6 Amendment')" that is approved by this Act. Specifically, the legislature wishes to set out its
7 intent regarding Paragraph 41 of the 1980 Leases titled "Employment of Alaskan Residents"
8 and Paragraph 31 of the 1983 Lease titled "Employment of Alaskan Residents" in the
9 Northstar Amendment, collectively the "Employment Paragraphs." The legislature intends
10 that the Alaska residents and contractors discussed in the Employment Paragraphs are truly
11 Alaskan and that Alaska residents throughout the state be given an opportunity to obtain
12 employment on the Northstar project.

13 (b) The legislature believes that

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

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

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

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

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

25 (3) other acceptable proof of that intent includes evidence that the individual:

1 is registered to vote in the state, attends school in the state, possesses an Alaska driver's,
2 fishing, trapping, or hunting license, or receives a permanent fund dividend; and

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

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

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

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

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

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

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

25 (1) holds an Alaska business license;

26 (2) maintains its principal place of business in the state; and

27 (3) is

28 (A) a sole proprietorship and the proprietor is an Alaska resident;

29 (B) a partnership and more than 50 percent of the partners are Alaska
30 residents;

31 (C) a corporation that has been incorporated in the state or is
32 authorized to do business in the state; or

1 (D) is a joint venture composed entirely of ventures that qualify under
2 this paragraph.

3 (i) For purposes of Employment Paragraphs, the legislature intends that the lessee's
4 reporting obligations comply with the reporting requirements of 8 AAC 30.062 and shall
5 include information regarding the number of nonresidents hired within the past year, and the
6 number of Alaska contractors and non-Alaska contractors hired within the past year."

CS FOR HOUSE BILL NO. 548(RES)

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - SECOND SESSION

BY THE HOUSE RESOURCES COMMITTEE

Offered: 4/26/96

Referred: House Special Committee on World Trade and State/Federal Relations, Finance

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 (c) It is the intent of the legislature that the commissioner of natural resources not
16 exercise authority under sec. 2(b)(1) of this Act to amend the Northstar Unit leases until all
17 of the mutual representations made by the lessee and the state agencies that are set out in
18 (b)(1) of this section are substantially complied with.

19 * Sec. 2. AMENDMENT OF LEASES AUTHORIZED. (a) The State of Alaska and BP
20 Exploration (Alaska) Inc. are parties to the following leases in the Northstar Unit:

21 (1) ADL 312798, effective February 1, 1980;

22 (2) ADL 312799, effective February 1, 1980;

23 (3) ADL 312808, effective February 1, 1980;

24 (4) ADL 312809, effective February 1, 1980; and

25 (5) ADL 355001, effective August 1, 1983.

26 (b) The commissioner of natural resources

27 (1) may amend the Northstar Unit leases described in (a) of this section to the
28 extent set out in the "First Amendment to the Northstar Unit Leases Between the State of
29 Alaska and BP Exploration (Alaska) Inc.", dated March 22, 1996;

30 (2) may not exercise the authority granted in (1) of this subsection unless the
31 governor, after being advised by the commissioners of commerce and economic development

*To hire @ AK
a moral obligation
incentives
Credits*

1 and labor, as appropriate, first determines and certifies that

2 (A) the lessee, BP Exploration (Alaska) Inc.,

3 (i) has adopted a program to advertise for, recruit, and employ
4 qualified residents of the state in the development of these leases and that, by
5 implementing that program, the lessee will employ qualified residents of the
6 state in at least 85 percent of the jobs that are related to the development of the
7 Northstar Unit leases;

8 (ii) has negotiated contracts to fabricate all modules necessary
9 to develop the Northstar Unit leases within the state, the contracts were
10 negotiated only with existing Alaska-licensed firms, and that in contracting
11 with those firms, the lessee has used its best efforts to require its contractors
12 to employ and, when necessary, train existing state residents; and

13 (iii) has entered into contracts with Alaska-licensed vendors,
14 contractors, and suppliers for the provision of supplies and services in the
15 development of these leases and the associated contracts; and

16 (B) the state agencies having specific responsibility for improving the
17 employment opportunities of state residents, including job service offices for
18 employment recruitment and state-sponsored or supported programs for training, are
19 actively supplementing and supporting the lessee's undertakings.

20 * Sec. 3. REPORTING PROVISIONS. The lessee, BP Exploration (Alaska) Inc., shall file
21 with the commissioner of labor at least every six months the reports that the commissioner
22 of labor determines are necessary to evaluate the lessee's efforts described under
23 sec. 2(b)(2)(A) of this Act.

24 * Sec. 4. This Act takes effect immediately under AS 01.10.070(c).

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101


130 Seward Street, Suite 409
Juneau, Alaska 99801-2105

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 it gives the bidder a substantial advantage over other bidders, and thereby restricts or stifles competition." 512 P.2d at 892).

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 630 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

Page 3

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).

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.

MEMORANDUM

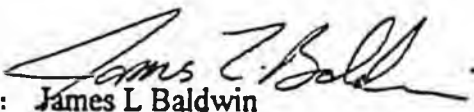
State of Alaska
Department of Law

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

- "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 adequate 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); Alveska 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. M. Kinnon 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

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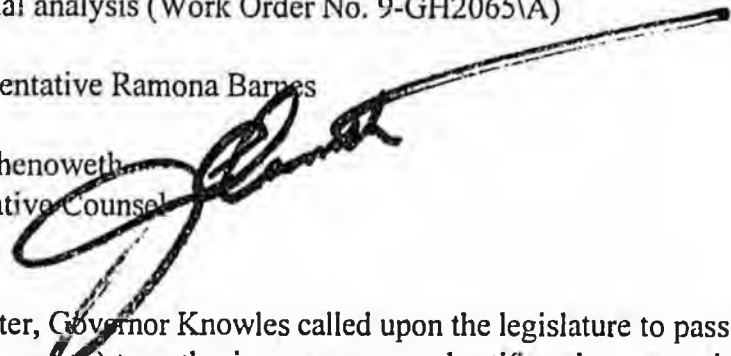
MEMORANDUM

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 in 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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FAX TRANSMITTAL

DATE: 4/26/96

OUR FILE NO:

TO: Bill Allen

OF: VECO

FAX NO.: (907)586-8315 and (907)463-5023

FROM: John Miller EIDE & MILLER

SENT BY: Cecelia Ebue of EIDE & MILLER

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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:

- * 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).

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.

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
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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

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Juneau, Alaska 99801-2105

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. Lvnden Transport, Inc. v. State, 532 P.2d 700, 711 - 715 (Alaska 1975).

April 26 memo, at page 3.

Representative Ramona Barnes

April 27, 1996

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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. Hicikel, 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. Hicikel, 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

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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 that says

Representative Ramona Barnes

April 27, 1996

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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).

MEMORANDUM

DEPARTMENT OF NATURAL RESOURCES

State of Alaska

DIVISION OF OIL AND GAS

TO: Ken Boyd
Director

DATE: April 25, 1996

THRU:

FILE NO:

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)			
<u>State Revenues</u>			
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
<u>Federal Revenues</u>			
Royalty (Net of State Share)	44	44	44
Income Tax	215	213	198
Total	259	258	243
<u>BPXA Cash Flow</u>			
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. Those assumptions have been changed as requested.)

Northstar Economic Evaluation

Estimated Total Revenues



Table 2:

160 MMBO Reserves-50,000 BOPD Peak
Rate

(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	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 '95 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	<u>27</u>	<u>24</u>	<u>22</u>
Total	546	753	687
<u>Federal Revenues</u>			
Royalty (Net of State Share)	50	53	50
Income Tax	<u>255</u>	<u>219</u>	<u>203</u>
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)		
<u>State Revenues</u>			
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	<u>27</u>	<u>23</u>	<u>21</u>
Total	428	543	577
<u>Federal Revenues</u>			
Royalty (Net of State Share)	44	44	44
Income Tax	<u>248</u>	<u>210</u>	<u>196</u>
Total	293	254	240
<u>BPXA Cash Flow</u>			
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 DOR's Fall '95 Best 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	<u>17</u>	<u>17</u>	<u>17</u>
Total	346	326	321
Federal Revenues			
Royalty (Net of State Share)	36	36	36
Income Tax	<u>151</u>	<u>160</u>	<u>159</u>
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 '95 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	5	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 as 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.)

Inputs

NPSLs: OFF

Supplemental Royalty: ON

ON

MonteCarlo Simulation: OFF

Working Interest	88%		
Royalty Interest	18%		
Split/Conservation Tax(\$/bbl)	0.034		
AVI Tax Rate	2%		
Field Life(yr)	2012		
Reserves(mmbbls)	130		
	'08-'02	'03-'07	'08-'12
Lifting Costs(\$/bbl, Real)	1.50	1.50	1.50
State Income Tax Rate	2.00%	(DOR set avg corp rate)	
Federal Tax Rate	24.3%	(after state income tax)	
Inflation Rate*	3.0%	*Used if cum inflation input blank	
Real Discount Rate	7.0%	(AD Unit Report)	
Prime Interest Rate NPEL	8.25%	(ADN 4/6/08)	
Beginning Balance(\$m)	-282		
Oil Production Multiplier	1		
Oil Price Multiplier	1		
Drilling Cost Multiplier	1		
Facility Cost Multiplier	1		
Abandonment Costs % (real)			
Starting Abandon Liability (\$MM)	23.8		
Facilities %	5%	(DNR Petroleum)	
Drilling/Water%	10%	(Engineering)	

Lease	Royalty	NPSL
312708	20.0%	83.20%
312709	20.0%	81.20%
312808	20.0%	85.28%
312809	20.0%	85.28%
355001	20.0%	40.00%
Federal		
Y101	0.1887	0
Y0170	0.1887	0

Monthly Oil Price Std Dev	0.0000-0.0000	
Ranges	Low %	High %
Drilling Capex	0.859	1.250
Facilities Capex	0.864	1.172
Pipeline Capex	0.857	1.853
Reserves	0.800	1.231
Lifting Costs	0.925	1.325

NPSLs and Supplemental Royalty Control Panel		
NPSLs ON/OFF		OFF
Supplemental Royalty ON/OFF		ON
#NYMEX - AK Base) MDD Price Differential		\$0.00

DDAA Information		
Starting Wellbore Assets (\$MM)		0
Starting Field Assets (\$MM)		0
Starting Purchase Price Balance (\$MM)		0

	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	Totals		
Gross Oil(Mbd) - Produced	0.0	0.0	5.4	49.8	49.8	48.7	41.2	34.7	28.7	23.8	20.0	16.7	13.9	11.5	7.8	4.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	130.0		
Gross Water(Mbd)-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	0.0		
Gross Gas(MMscfd)-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	0.0		
Sales NGLs (Mbd) - 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	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	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	0.0		
PS#1 NB Oil Price(\$/bbl, mod)	41.45	42.28	42.72	43.89	44.48	44.92	45.44	45.97	46.48	46.98	47.57	48.10	48.70	49.48	50.08	50.55	51.33	52.13	52.83	53.33	54.64	55.38	56.15	56.93	57.74	58.57	59.43	60.31	61.22	2778	
Pipeline Tariffs (\$/bbl, mod)	42.42	42.77	42.59	42.56	42.89	42.87	42.99	43.13	43.31	43.52	43.78	44.01	44.24	44.55	44.93	45.02	45.34	45.59	45.88	46.14	46.37	46.51	46.71	46.81	47.12	47.33	47.55	47.78	48.01	2878	
Manne Costs (\$/bbl, mod)	41.49	41.38	41.38	41.42	41.47	41.55	41.63	41.71	41.79	41.87	41.93	41.98	42.08	42.12	42.18	42.28	42.33	42.41	42.48	42.56	42.64	42.72	42.80	42.85	42.97	43.08	43.15	43.25	43.34	43.44	2878
NGL Value as % of Oil Price(mo)	0%	0%	0%	0%	0%	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 (\$/bbl, mod)	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	60.00	
Producing Wells(#)	0	0	5	10	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		
Oil Sev. 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%		
Gas Sev. Rate	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(\$m 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	23.8	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		
Capex(\$m, Real)																															
Drilling	14.0	0.0	14.0	28.0	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	89.0	
Facility	38.0	85.1	83.0	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	251.1	
Pipeline	5.0	13.0	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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	28.0	
Cum 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	1.46	1.50	1.55	1.60	1.65	1.70	1.78	1.87	1.97	1.93	1.98	2.04	2.11	2.17	2.23	2.30	2.37	2.44	
* Cumulative																															
Supplemental Royalty Rate	Maximum NYMEX Prices for Supplemental Royalty: e.g. if IAR Base Oil price + NYMEX Differential > 0% table price and < 5% table price, then apply 0.5% supplemental royalty.																														
Trigger Price (\$ANS WC)	17.05	17.81	17.89	18.18	18.47	18.78	19.08	19.37	19.68	19.99	20.31	20.64	20.97	21.31	21.65	21.99	22.34	22.70	23.07	23.43	23.81	24.19	24.58	24.97	25.37	25.78	26.19	26.61	27.02	27.47	
Linear Slope (%ANS WC)	1.5%																														
Supplemental Royalty Cap	2.5%																														

Caution - Only change inputs on this page

	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																															317.4
State Royalty	0.0	0.0	3.9	39.1	40.5	40.0	35.7	31.1	28.8	22.7	19.7	17.0	14.8	12.8	8.8	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	60.8
State Supplemental Royalty	0.0	0.0	0.0	0.0	0.0	2.3	3.5	4.4	5.0	5.2	5.6	5.7	5.7	5.7	4.1	2.4	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	20.3
State Share of Federal Royalty	0.0	0.0	0.2	2.3	2.6	2.6	2.3	2.0	1.7	1.5	1.3	1.1	0.9	0.8	0.5	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	68.5
Severance Tax	0.0	0.0	0.0	17.7	15.3	14.6	9.6	8.3	2.3	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	0.0	3.4
Spill & Conserv. Tax	0.0	0.0	0.1	0.5	0.5	0.5	0.4	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	0.0	62.8
Ad Valorem Tax	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	2.2	1.8	1.2	0.6	0.0	0.0	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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	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	0.26	0.47	0.70	1.65	1.84	2.18	2.11	1.87	1.89	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	0.00	18.5
Total (\$m, MOD)	-0.3	0.3	5.9	65.7	68.8	68.9	58.7	50.8	42.0	35.9	32.0	28.9	26.3	22.4	15.8	9.3	-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	627.5

	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
Federal																															54.8
Royalty (Net of State Share)	0.0	0.0	0.7	8.8	7.0	7.0	6.2	5.4	4.8	3.8	3.4	2.8	2.5	2.2	1.5	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	0.0	283.8
Income Tax	-4.43	-7.98	-11.99	-20.22	-31.51	-37.37	-38.25	-32.07	-28.07	-27.05	-25.21	-22.31	-19.10	-16.34	-10.87	-6.27	-13.74	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	338.6
Total (\$m, MOD)	-4.4	-8.0	-11.3	-31.0	-38.8	-44.4	-42.4	-37.4	-33.7	-31.0	-28.8	-25.3	-21.9	-18.6	-12.8	-7.1	-13.7	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

	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 Exploration																															488.2
Funds Flow (\$MOD)	49.2	91.4	84.5	39.7	82.5	100.5	100.8	87.8	74.7	61.8	50.8	47.3	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	576.7
Funds Flow \$/bbl (MOD)	N/A	N/A	50.98	2.75	6.43	7.18	8.60	8.98	9.31	9.25	9.28	9.34	9.57	9.85	10.18	10.30	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net Income (\$MOD)	4.7	7.7	20.7	28.4	48.7	58.2	48.8	44.8	39.7	33.1	27.3	23.1	20.1	17.7	12.2	7.1	13.8	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	
Net Income \$/bbl (MOD)	N/A	N/A	13.21	5.43	4.85	4.17	4.14	4.55	4.54	5.02	4.87	5.08	5.38	5.81	6.11	6.32	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

	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																															255.6
State Royalty	0.0	0.0	3.8	35.6	35.7	34.9	29.8	25.0	20.7	17.1	14.4	12.0	10.0	8.4	5.5	3.1	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	37.0
State Supplemental Royalty	0.0	0.0	0.0	0.0	0.7	2.0	2.8	3.5	3.9	4.0	4.1	4.1	3.8	3.8	2.7	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	18.3
State Share of Federal Royalty	0.0	0.0	0.2	2.3	2.3	2.3	1.9	1.6	1.3	1.1	0.8	0.6	0.6	0.5	0.4	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	57.8
Severance Tax	0.0	0.0	0.0	18.1	12.5	12.7	7.8	5.1	1.6	0.4	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	2.8
Spill & Conserv. Tax	0.0	0.0	0.1	0.4	0.4	0.4	0.3	0.3	0.2	0.2	0.1	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	0.0	42.0
Ad Valorem Tax	0.0	0.8	2.3	3.8	4.8	4.8	4.3	3.8	3.5	3.1	2.7	2.3	1.9	1.5	1.2	0.8	0.4	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
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	0.0	12.9
Income Tax	0.3	0.5	0.7	1.5	1.8	1.9	1.8	1.5	1.3	1.2	1.1	0.8	0.6	0.6	0.4	0.2	-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	424.3
Total (\$m, REAL)	-0.3	0.3	5.6	58.9	58.0	58.6	48.7	40.8	32.7	27.1	23.4	20.2	17.4	14.8	10.2	5.6	-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	188.8

	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	Total
State Royalty-Real Disc.	0.0	0.0	3.2	28.4	27.6	25.3	20.1	16.0	12.4	9.6	7.6	5.8	4.8	3.8	2.3	1.2	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	20.1
Supp Royalty - Real Disc.	0.0	0.0	0.0	0.0	0.5	1.4	2.0	2.2	2.3	2.2	2.2	2.0	1.8	1.6	1.1	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	10.8
State Share of Federal Royalty	0.0	0.0	0.2	1.8	1.8	1.8	1.3	1.0	0.8	0.6	0.5	0.4	0.3	0.2	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	42.8
Severance Tax-Real Disc.	0.0	0.0	0.0	13.3	10.4	8.2	5.4	3.2	1.1	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	0.0	0.0	0.0	1.9
Spill & Conserv. Tax-Real Disc.	0.0	0.0	0.0	0.4	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	0.0	0.0	0.0	0.0	27.3
Ad Valorem Tax-Real Disc.	0.0	0.7	2.1	3.2	3.7	3.3	2.9	2.5	2.1	1.7	1.4	1.2	0.9	0.7	0.5	0.3	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
NPSL -Real Disc.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7.9
Income Tax-Real Disc.	0.3	0.4	0.6	1.2	1.3	1.4	1.2	1.0	0.8	0.7	0.6	0.5	0.4	0.3	0.2	0.1	-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	278.7
Total - Real Disc.	-0.3	0.3	4.8	48.4	45.6	42.5	33.1	26.1	19.8	15.2	12.3	10.0	8.1	6.5	4.1	2.2	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

	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
Federal																															44.2
Royalty (Net of State Share)	0.0	0.0	0.6	6.2	6.2	6.0	5.1	4.3	3.8	3.0	2.5	2.1	1.7	1.4	1.0	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	0.0	221.8
Income Tax	-4.4	-7.8	-11.3	-25.7	-27.8	-32.0	-30.1	-25.8	-22.6	-20.4	-18.4	-15.8	-13.1	-10.8																	

Product(s) (mbbl)	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	Total	
Gross Oil	0.0	0.0	5.4	49.8	49.8	48.7	41.2	34.7	28.7	23.8	20.0	18.7	13.9	11.5	7.6	4.3	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	130	
State Royalty Oil	0.00	0.00	0.83	7.65	7.65	7.48	6.33	5.33	4.41	3.88	3.07	2.57	2.14	1.77	1.17	0.68	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	20	
State Suppl Royalty Oil	0.00	0.00	0.00	0.01	0.15	0.42	0.62	0.75	0.82	0.88	0.88	0.87	0.84	0.80	0.57	0.32	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	3	
State Share of Federal Royalty Oil	0.00	0.00	0.05	0.49	0.48	0.48	0.40	0.34	0.28	0.23	0.20	0.16	0.14	0.11	0.07	0.04	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	1	
Royalty Oil (Net of State Share)	0.00	0.00	0.14	1.37	1.32	1.29	1.09	0.92	0.78	0.63	0.53	0.44	0.37	0.31	0.20	0.11	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	3	
Backout Loss	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	0	
Net BP Oil	0.00	0.00	4.29	29.52	29.29	26.25	22.10	18.81	15.99	13.05	10.02	8.70	6.21	4.45	2.40	1.10	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	100	
Oil Price(\$/bbl, mod netback)	\$11.45	\$12.26	\$12.72	\$12.99	\$14.40	\$14.92	\$15.44	\$15.97	\$16.49	\$16.99	\$17.52	\$18.10	\$18.70	\$19.46	\$20.00	\$20.55	\$21.33	\$21.93	\$22.63	\$23.23	\$23.93	\$24.64	\$25.36	\$26.15	\$26.93	\$27.74	\$28.57	\$29.43	\$30.31	\$31.22		
Gross NGLs	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	0	
State Royalty NGLs	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	0.00	0
State Suppl Royalty NGLs	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	0.00	0
State Share of Federal Royalty NGLs	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	0.00	0
Royalty NGLs (Net of State Share)	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	0.00	0
Backout Loss	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	0.00	0
Net BP NGLs	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	0.00	0
NGL Price(\$/bbl, mod netback)	\$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	\$0.00	\$0.00
Other Income (\$/bbl, mod)	\$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	\$0.00	\$0.00
Revenue(\$m, mod)																																
BP Net Revenue	0.0	0.0	19.8	202.0	208.3	208.4	181.0	156.4	132.4	112.0	98.1	87.0	69.7	59.3	40.2	23.2	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	1501
Net Revenue for Oil Severance	0.0	0.0	19.8	202.0	208.3	208.4	181.0	156.4	132.4	112.0	98.1	87.0	69.7	59.3	40.2	23.2	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	1501
Net Revenue for Gas Severance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0
Royalty(\$m, mod)																																
State	0.0	0.0	3.8	26.1	40.5	40.8	35.7	31.1	26.3	22.7	19.7	17.0	14.6	12.8	8.8	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	317
State Supplement Royalty	0.0	0.0	0.0	0.0	0.8	2.3	3.5	4.4	5.0	5.3	5.8	5.7	5.7	4.1	2.4	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	51
State Share of Federal Royalty	0.0	0.0	0.2	2.5	2.6	2.6	2.3	2.0	1.7	1.5	1.3	1.1	0.9	0.8	0.5	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
Royalty (Net of State Share)	0.0	0.0	0.2	8.8	7.0	7.0	6.2	5.4	4.6	3.9	3.4	2.9	2.5	2.2	1.5	0.9	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	55
Total	0.0	0.0	4.8	48.4	50.8	52.7	47.6	42.8	37.8	33.4	29.9	26.7	23.8	21.2	14.7	8.8	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	443
Producing Wells	0	0	5	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	0
Tax(\$m, mod)																																
Oil Sev. 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%	15.00%
Oil ELF	0.00	0.00	0.00	0.71	0.60	0.58	0.43	0.27	0.12	0.03	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	
Gas Sev. Rate	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Gas ELF	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Total Severance	0.0	0.0	0.0	17.7	15.3	14.8	9.8	6.3	2.3	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	0.0	0.0	3
Spill & Cons.	0.0	0.0	0.1	0.5	0.5	0.5	0.4	0.3	0.3	0.2	0.2	0.1	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	0.0	0
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	0.0	0.0	53
Capex(\$m, mod, net)																																
Drilling Tang	4.1	0.0	4.4	9.0	9.3	5.2	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	0.0	32
Drilling Intang	9.6	0.0	10.2	21.1	21.7	12.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	76
Facility Capital	35.3	85.8	88.5	50.5	0.0																											

NPFL Calculation																														
	1994	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
Tract Alloc. Factor	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	
Tract 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%	100%
NPFL State Rate	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%
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%	8.25%
Revenue Account																														
Prod. Revenue	0.0	0.0	15.8	158.3	163.3	163.3	141.9	122.6	103.7	87.8	75.3	64.3	54.7	46.5	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	(2.4)	(23.0)	(23.7)	(23.9)	(20.9)	(18.2)	(15.5)	(13.3)	(11.5)	(8.8)	(6.5)	(7.3)	(5.0)	(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
Production Taxes	0.0	0.0	(0.0)	(14.2)	(12.3)	(12.0)	(7.8)	(5.2)	(2.0)	(0.6)	(0.2)	(0.1)	(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
Ad Valorem Tax	0.0	(0.8)	(2.0)	(3.4)	(4.2)	(4.2)	(4.1)	(3.8)	(3.5)	(3.2)	(2.9)	(2.8)	(2.2)	(1.8)	(1.4)	(1.0)	(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
UOP Aben. Costs	0.0	0.0	(0.4)	(1.9)	(3.9)	(5.0)	(5.2)	(4.0)	(3.0)	(2.2)	(1.7)	(1.2)	(0.9)	(0.8)	(0.3)	(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
Closing Balance	0.0	(0.6)	10.8	115.6	116.1	117.6	102.8	81.4	78.7	66.5	59.0	50.4	42.9	38.7	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	(787.0)	(327.0)	(425.4)	(551.1)	(541.8)	(487.8)	(419.6)	(348.0)	(279.4)	(219.5)	(168.2)	(118.5)	(75.8)	(37.3)	(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)	(27.8)	(87.3)	(83.2)	(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	119.1	117.6	103.8	91.4	79.7	66.5	59.0	50.4	42.9	38.7	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
Plum. Closing Bal.	(304.2)	(405.2)	(512.0)	(498.5)	(447.0)	(383.7)	(315.7)	(254.6)	(199.7)	(151.0)	(107.2)	(66.1)	(32.8)	(0.8)	(0.8)	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
Average Annual DA Balance	(783.1)	(388.4)	(473.7)	(524.8)	(494.4)	(425.7)	(387.7)	(300.3)	(239.5)	(185.2)	(136.7)	(93.3)	(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)	(39.1)	(43.3)	(40.8)	(35.9)	(30.3)	(24.8)	(19.8)	(15.3)	(11.3)	(7.7)	(4.5)	(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)	(435.4)	(551.1)	(541.8)	(487.8)	(419.6)	(348.0)	(279.4)	(219.5)	(168.2)	(118.5)	(75.8)	(37.3)	(2.2)	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
NPFL Payment Acc.																														
Profit Sub. NPFL	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	22.6	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
NPFL 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 will be NPFL ON OFF switch in control box turned to "OFF"

Northstar Reserves, Royalty and NPSL Tract Allocations											
Leases	NPSL	Ac/Ft	% of Total Reserves	% of NPSL Reserves	BP Ownership	NPSL State Rate	Working Interest	NPSL Tract Rate	Royalty Net by Lease	Weighted Royalty	NR
312788	93.20%	84,000	0.72%	9%	100%	8.18%			20%	1.344%	
312789	91.20%	555,000	44.40%	58%	100%	52.73%			20%	8.800%	
312808	85.28%	102,000	8.16%	11%	100%	8.06%			20%	1.632%	
312809	85.28%	219,000	17.52%	23%	100%	19.45%			20%	3.504%	
355001	40.00%	-	0.00%	0%	100%	0.00%			20.0%	0.000%	
		980,000	78.80%	100%	100%	89.39%	98%	78%		15.38%	
Effective State Royalty with 27% of Federal Take										18.342%	
Y181		226,000	18.08%						18.67%	3.014%	
Y0179		84,000	5.12%						18.67%	0.854%	
		1,960,000	100.00%							2.857%	
Effective Federal Royalty with 27% of Federal Take										2.655%	
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	Totals
BP Revenue		0.0	0.0	18.8	202.0	206.3	206.4	181.0	158.4	132.4	112.0	86.1	62.0	69.7	59.3	40.2	23.2	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	1581
Severance Tax		0.0	0.0	0.0	17.7	15.3	14.6	9.8	8.3	7.3	5.5	4.1	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	0.0	67
Expn & Conserve		0.0	0.0	0.1	0.5	0.5	0.5	0.4	0.3	0.3	0.2	0.2	0.2	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	0.0	3
AVT		0.0	0.0	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	0.0	53
NPST		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	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	28.3	30.3	30.5	28.7	23.2	19.8	18.9	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	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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	30
Gross Profit		0.0	-0.8	14.3	150.2	158.8	157.2	139.2	121.7	105.5	80.3	77.5	65.9	55.9	47.6	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	0.0	1182
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	0.0	0
capex		53.8	98.0	111.5	80.6	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	383
BTFF		53.8	98.0	111.5	80.6	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	788
Intan Dntl Dep.		7.3	0.8	8.3	12.2	18.0	12.3	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	0.0	75
Tan. Dntl/Fac. Dep.		5.8	21.9	40.8	50.7	48.1	38.0	39.6	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	0.0	290
Total		12.9	22.5	48.2	67.8	65.0	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	385
Fac. Tax Income		12.8	22.3	35.0	62.3	61.6	108.8	105.7	83.5	64.7	38.8	33.5	65.0	55.7	47.6	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	0.0	827

UOP 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	Totals
Rate (\$/bbl)		0.00	0.00	0.78	0.38	0.43	0.45	0.43	0.40	0.37	0.34	0.30	0.27	0.23	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	39
Total(\$m)		0.0	0.0	0.5	2.5	4.9	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	0.0
UD&A		0.00	0.00	3.89	2.74	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	29.5	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	0.0

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	Totals
State		0.26	0.47	0.70	1.65	1.84	2.18	2.11	1.87	1.85	1.58	1.47	1.30	1.11	0.85	0.64	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	0.00	17
Federal		4.43	7.99	11.99	28.22	31.51	37.37	36.25	32.07	28.07	27.05	25.21	22.31	18.10	18.34	10.97	8.27	13.74	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		4.69	8.45	12.69	29.87	33.35	39.54	38.36	33.94	30.78	28.63	26.68	23.61	20.22	17.29	11.61	6.84	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	Totals
ATFF - MOD		48.2	81.4	84.5	39.7	82.5	100.5	100.8	87.8	74.7	61.0	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	488
ATFF - Real		48.2	88.7	79.5	38.2	81	89.0	83.4	70.5	58.2	46.5	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	89.0	29.8	82.2	87.4	98.9	45.0	34.9	28.1	18.8	14.8	11.4	8.6	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	132.3	202.1	172.3	169.1	48.7	10.2	55.3	90.1	118.3	125.8	150.7	182.1	170.8	176.2	178.0	173.4	173.4	173.4	173.4	173.4	173.4	173.4	173.4	173.4	173.4	173.4	173.4	173.4	173.4	

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	Totals
		8.7	7.7	20.7	78.4	69.3	58.2	48.6	44.6	39.1	31.1	27.3	23.1	20.1	17.7	12.2	7.1	13.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	8.0	0.0	0.0	0.0	0.0	627

DD&A (\$MOD)	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
Reserves (MMBOE NRY)																														
Opening Balance	0.0	0.0	0.0	98.9	84.4	70.0	58.1	44.3	34.5	26.5	19.9	14.4	9.9	6.2	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 After flo. #)	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	
BPX Net Production (MMB)	0.0	0.0	1.8	14.4	14.4	14.0	11.7	9.8	8.0	6.6	5.3	4.5	3.7	3.0	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	
Closing Balance	0.0	0.0	98.9	84.4	70.0	58.1	44.3	34.5	26.5	19.9	14.4	9.9	6.2	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	
Wellbore Assets																														
Beginning Balance (Net \$MM)	0.0	13.7	13.7	27.6	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	
Additions (BPX Net \$MM MOD)	13.7	0.0	14.8	30.1	1.1	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	
DD&A Rate (\$/BBL)	0.00	0.00	0.42	0.43	1.79	1.14	1.29	1.29	1.29	1.29	1.29	1.29	1.29	1.29	1.29	1.29	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	
DD&A (BPX Net \$MM MOD)	0.0	0.0	0.7	6.2	11.4	15.9	15.1	12.6	10.4	8.5	7.1	5.9	4.8	3.9	2.6	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	
Carry Forward (BPX Net \$MM)	13.7	13.7	27.6	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	
Fieldwide Assets																														
Beginning Balance (Net \$MM)	0.0	35.3	121.2	202.5	218.8	182.3	148.0	115.4	89.8	69.0	51.9	37.8	25.8	16.1	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	
Additions (BPX Net \$MM MOD)	35.3	85.9	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	
DD&A Rate (\$/BBL)	0.00	0.00	0.27	2.30	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	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	
DD&A (BPX Net \$MM MOD)	0.0	0.0	5.1	33.3	37.5	38.4	30.5	25.5	20.9	17.2	14.3	11.8	9.7	7.9	5.2	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	
Carry Forward (BPX Net \$MM)	35.3	121.2	202.5	218.8	182.3	148.0	115.4	89.8	69.0	51.9	37.8	25.8	16.1	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	
BPX Purchase Price Allocation																														
Beginning Balance (Net \$MM)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	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 \$MM 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	
DD&A Rate (\$/BBL)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	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 (BPX Net \$MM 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	
Carry Forward (BPX Net \$MM)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	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 DD&A Rate (\$/BBL)	0.0	0.0	0.7	2.7	3.4	3.7	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	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	
Total DD&A \$MM MOD	0.0	0.0	5.8	39.5	48.9	52.3	45.7	38.1	31.2	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	
UOP ABANDONMENT (\$MOD)																														
Beginning Balance (Net \$MM)	39.4	39.4	39.4	36.9	36.4	31.5	24.4	17.8	12.7	8.9	6.0	3.9	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	
Additions (BPX Net \$MM 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	
DD&A Rate (\$/BBL)	0.00	0.00	0.78	0.39	0.43	0.45	0.43	0.40	0.37	0.34	0.30	0.27	0.23	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	
DD&A (BPX Net \$MM MOD)	0.0	0.0	0.5	2.5	4.8	7.2	6.6	5.1	3.8	2.9	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	
Carry Forward (BPX Net \$MM)	39.4	39.4	39.9	36.4	31.5	24.4	17.8	12.7	8.9	6.0	3.9	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	

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	34,891.8	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
	Ease =	\$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 Engineer)
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%				

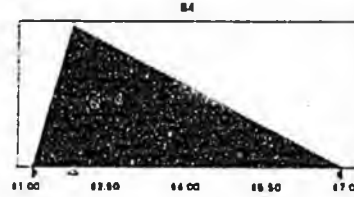
Assumptions

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

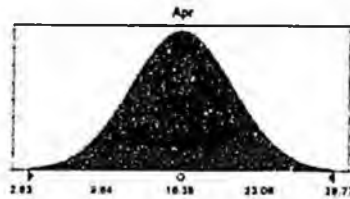
Assumption: Apr

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

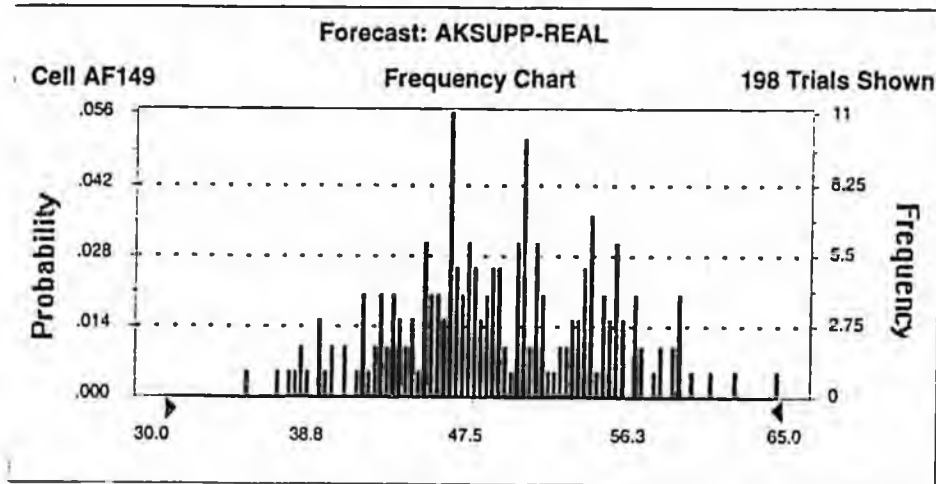
Cell: AF149

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:

	Value
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)				
<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	<u>24</u>	<u>22</u>	<u>22</u>	<u>23</u>
Total	435	481	469	444
<u>Federal Revenues</u>				
Royalty (Net of State Share)	44	44	44	44
Income Tax	<u>215</u>	<u>198</u>	<u>205</u>	<u>213</u>
Total	259	243	249	258
<u>BPXA Cash Flow</u>				
After Tax Funds Flow	349	318	331	345
Real Rate of Return	20.0%	19.9%	19.2%	20.4%

Totals may not add due to rounding.

Northstar

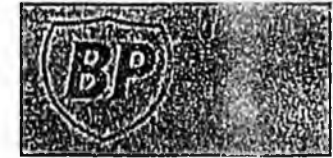


Key Variables Affecting Economics

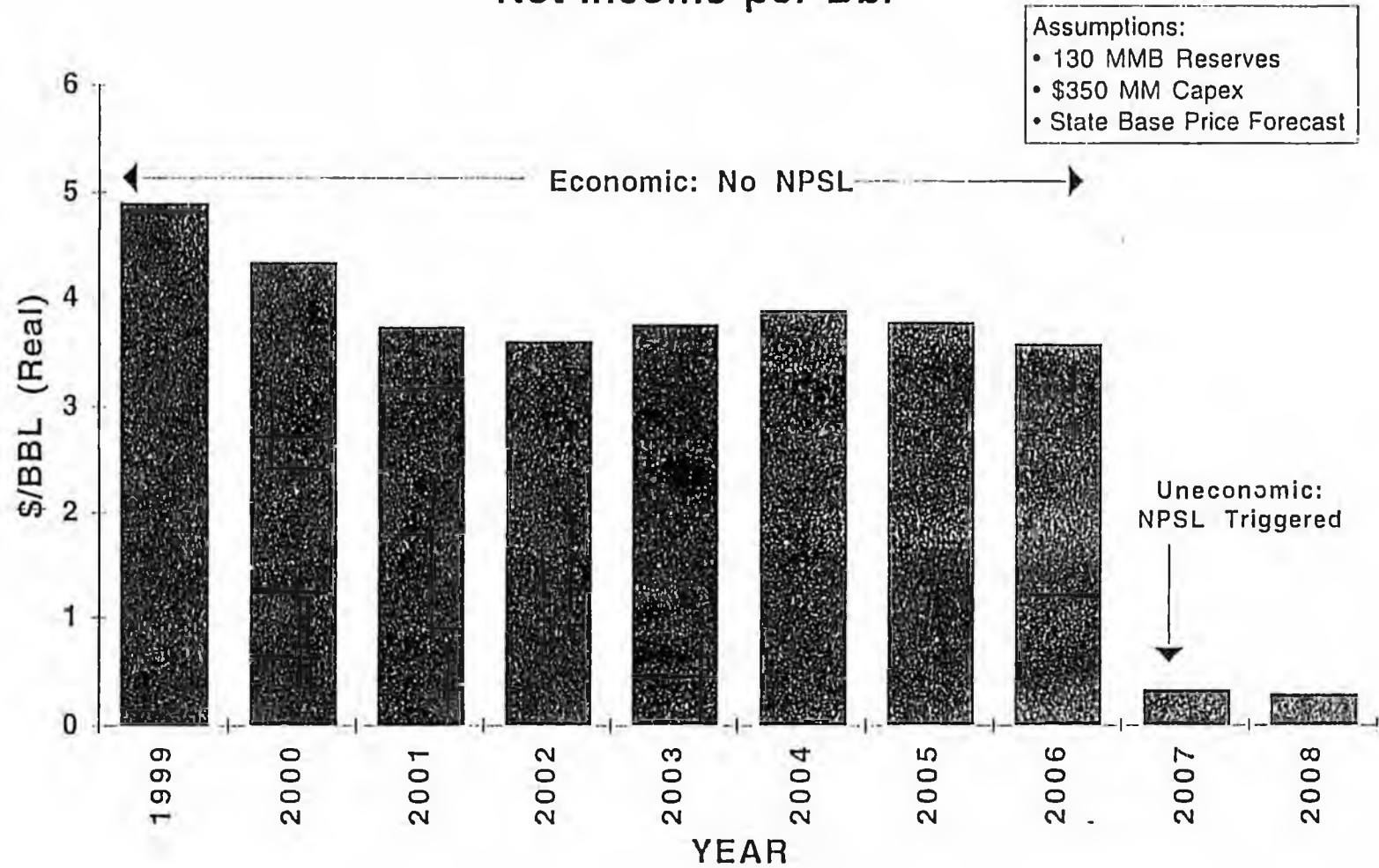
- Oil Reserves
- Capital Investment
- Oil Price
- Operating Costs
- Production Rate

Northstar

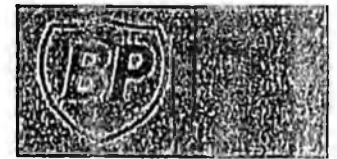
NPSL Problem



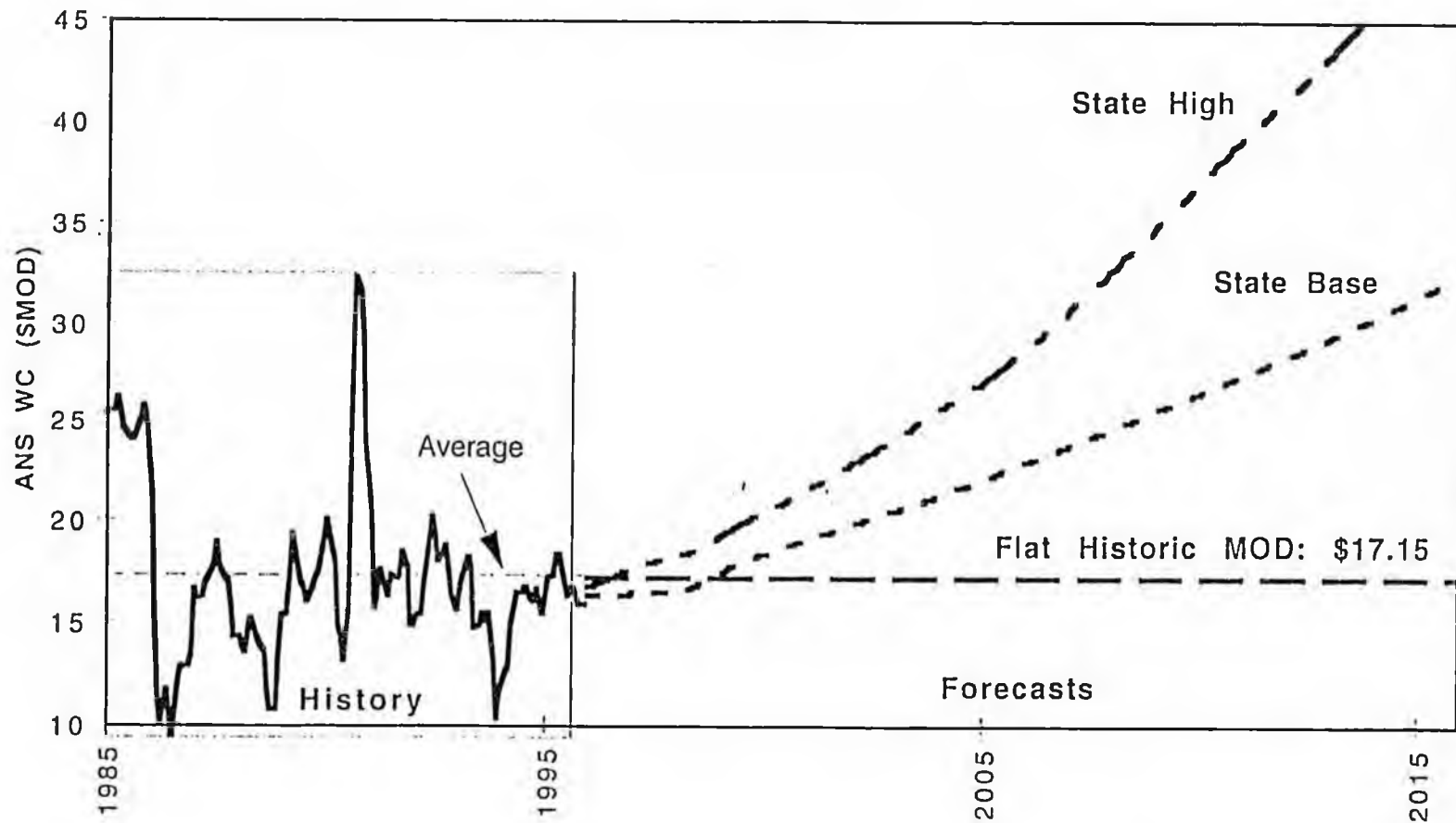
Net Income per Bbl



Northstar

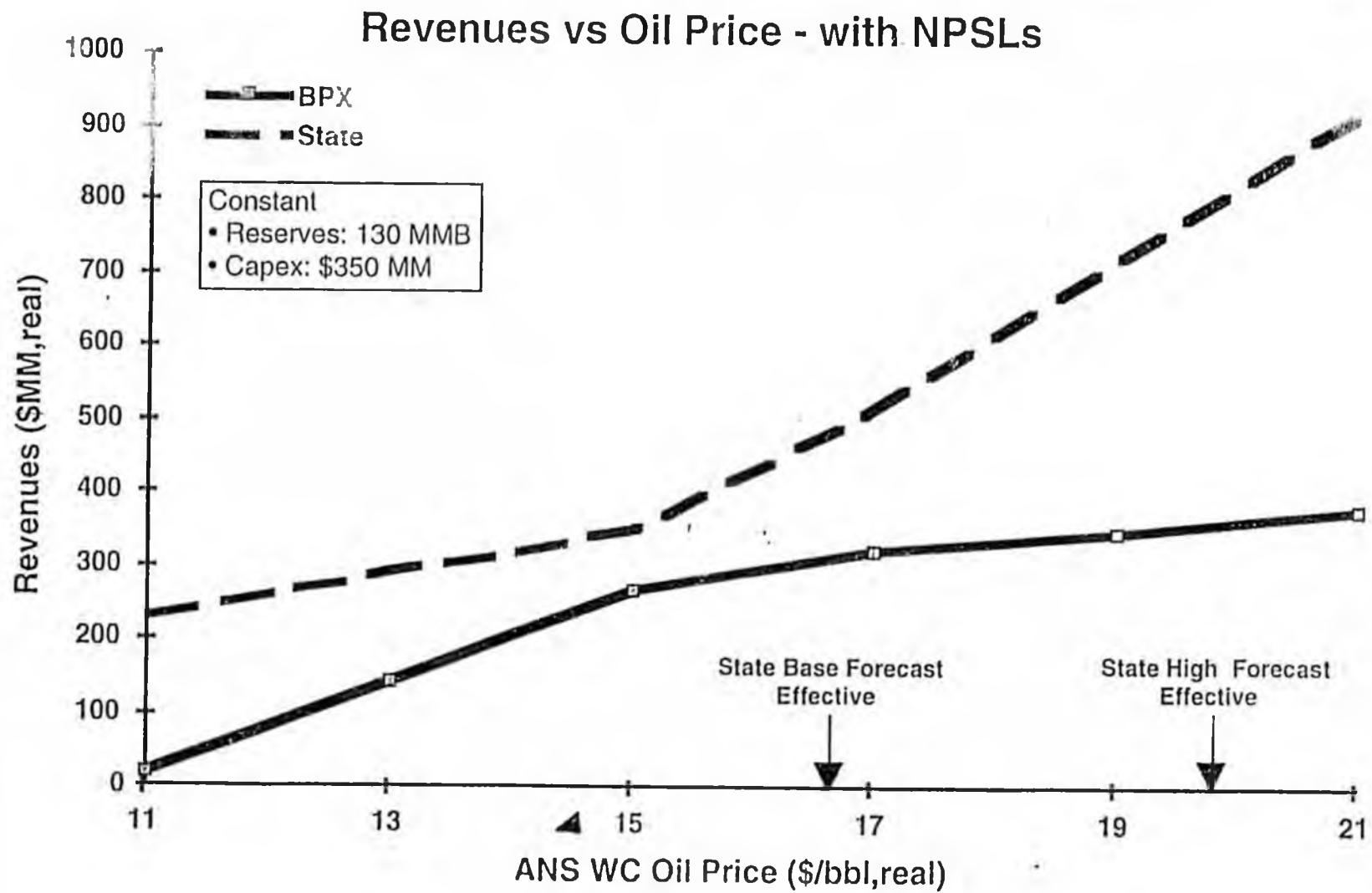


Future Price in Context of History



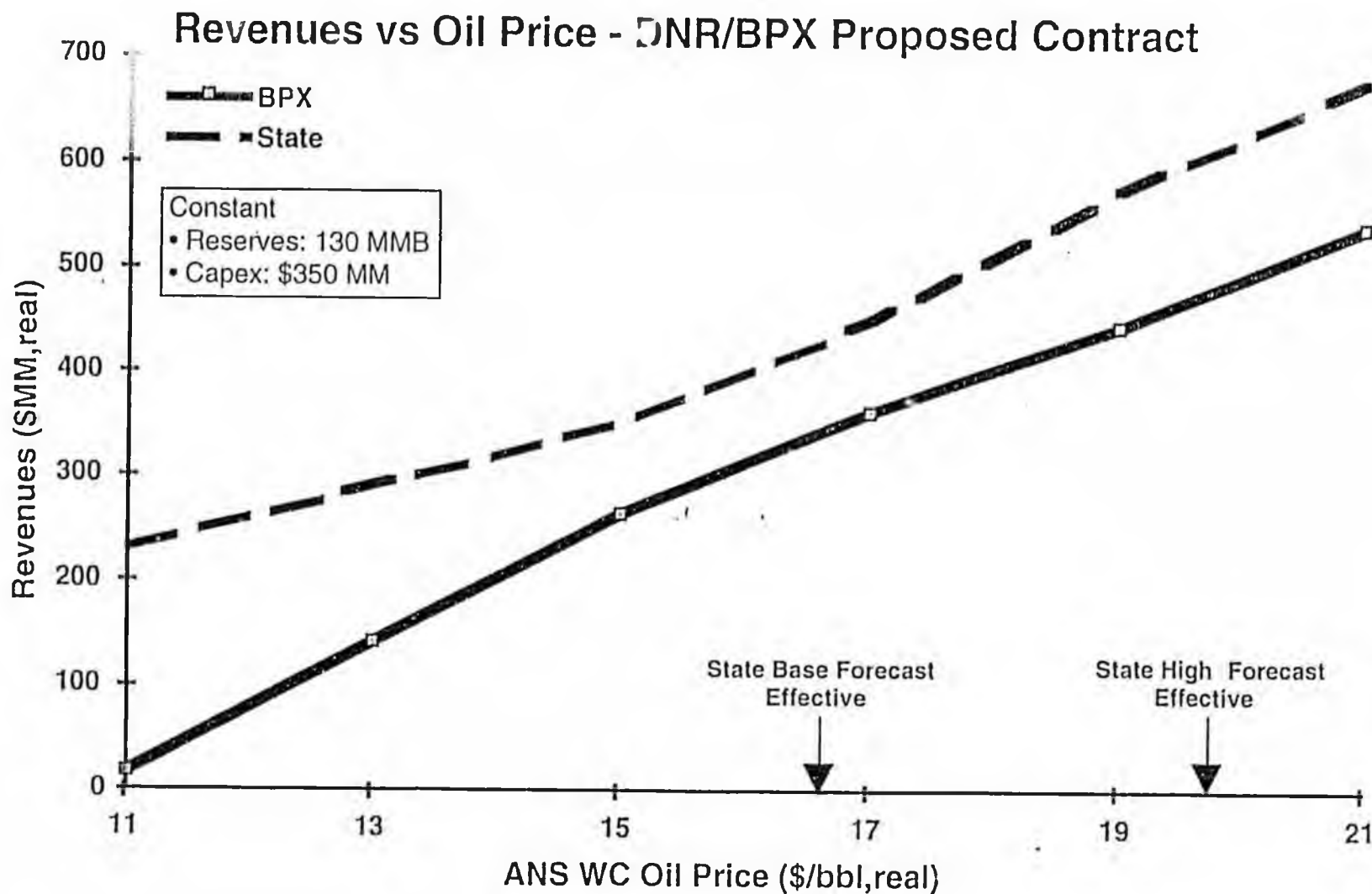


Revenues vs Oil Price with NPSLs



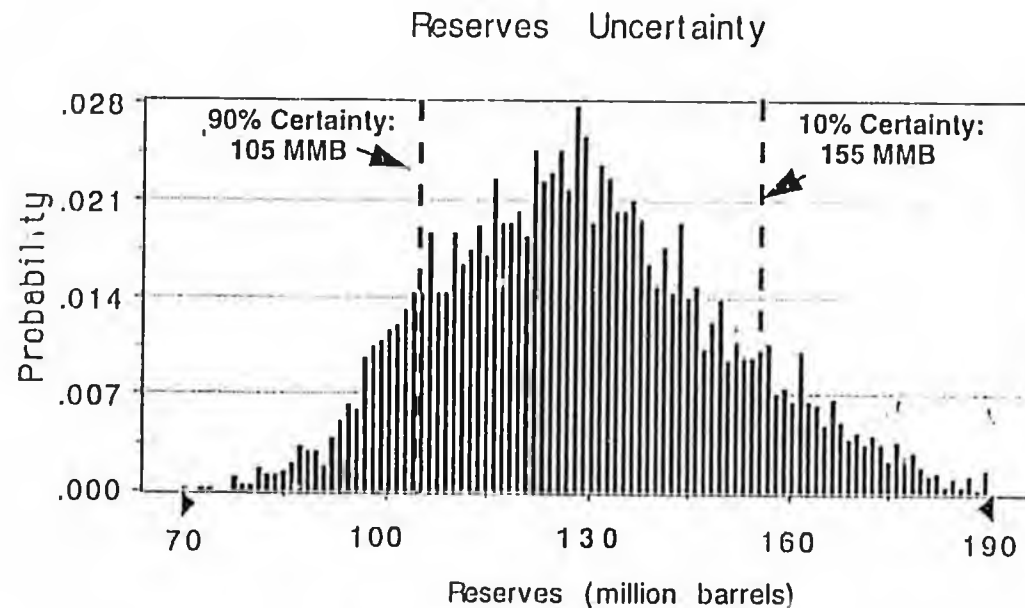
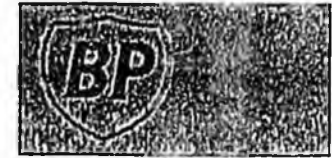


Revenues vs Oil Price with Agreement



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

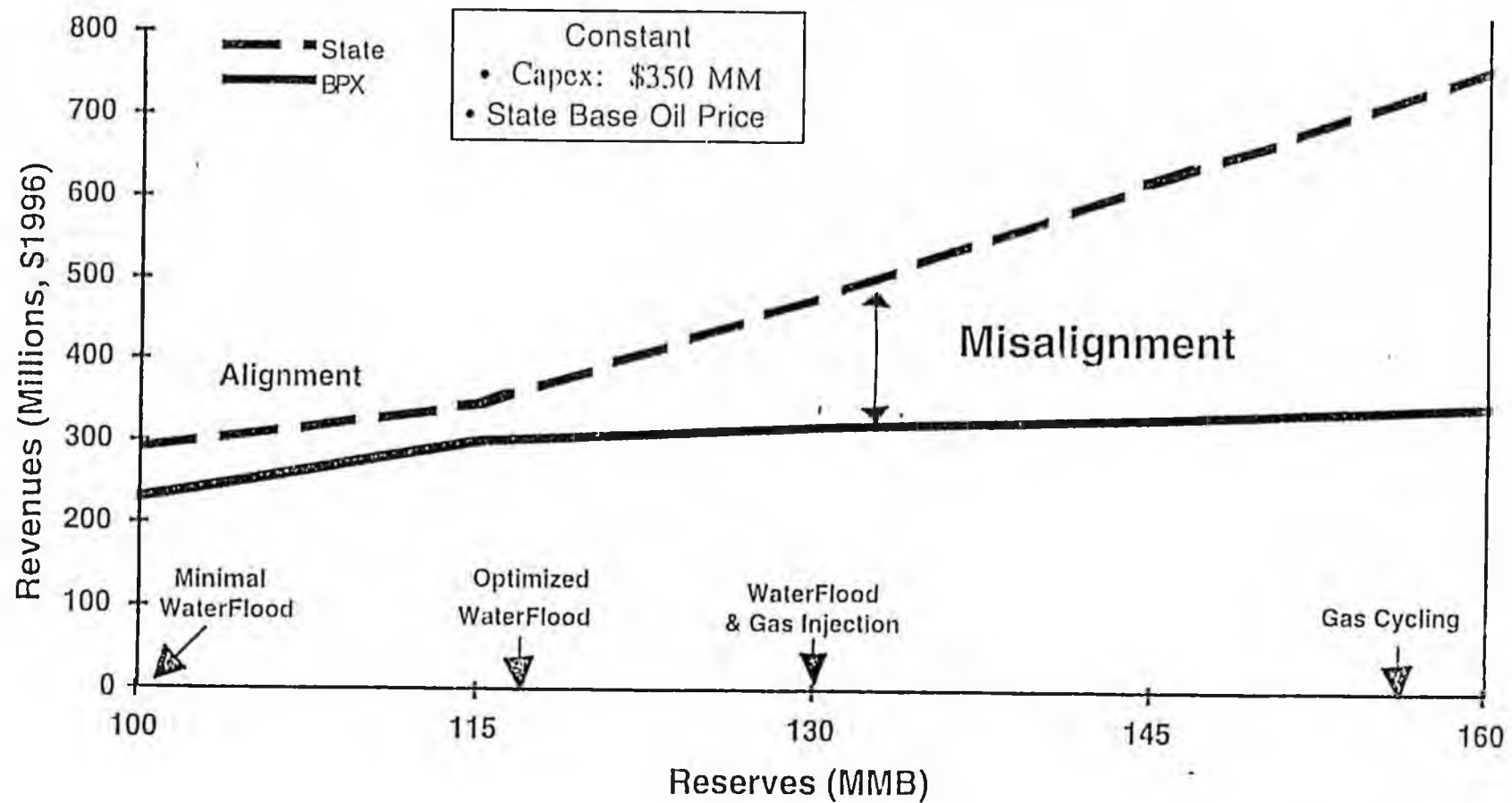
Other Recovery Mechanisms

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



Reserves Impact with NPSLs

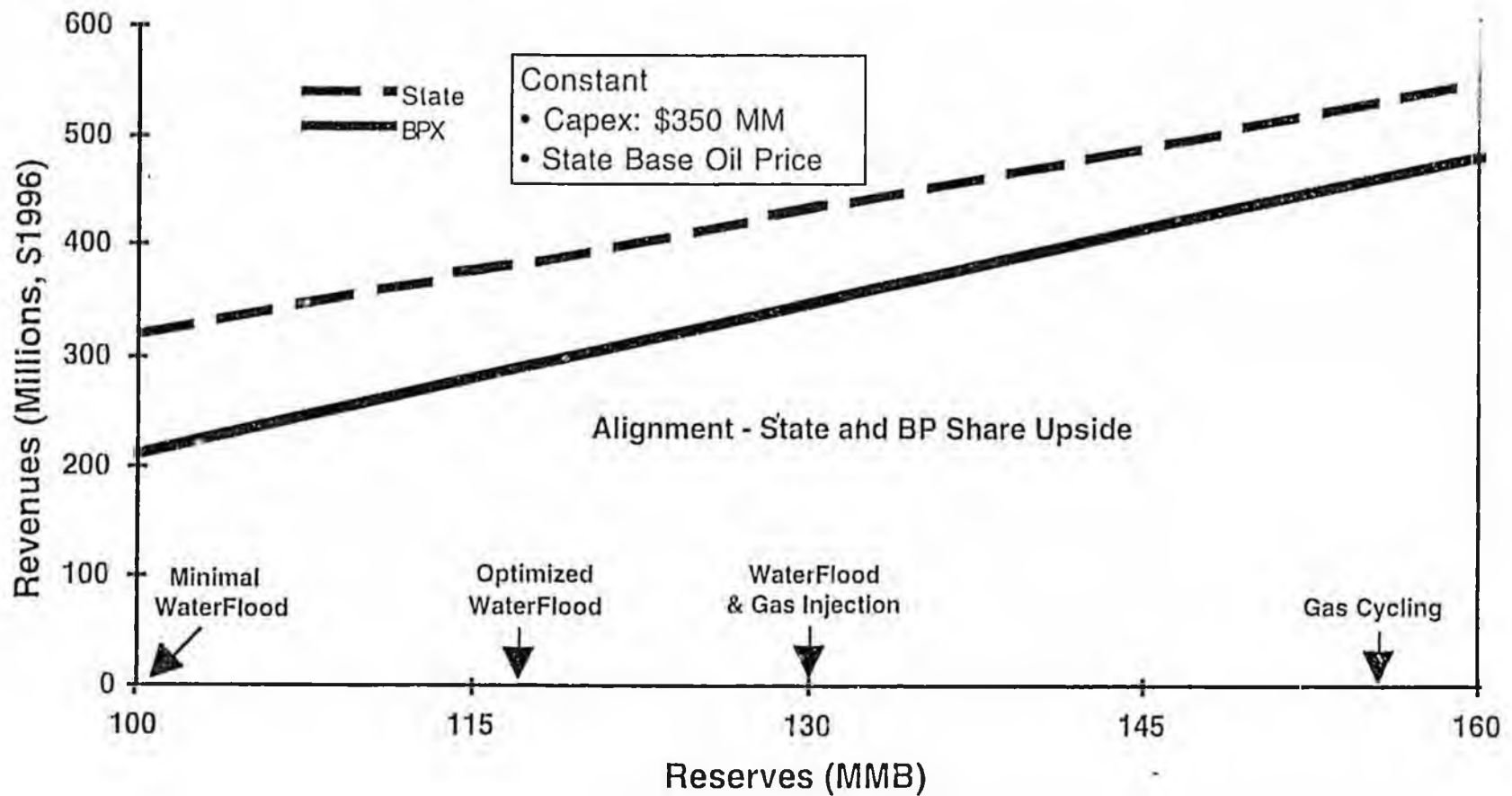
Revenues vs. Reserves with NPSLs





Reserves Impact with Agreement

Revenues vs. Reserves with Agreement

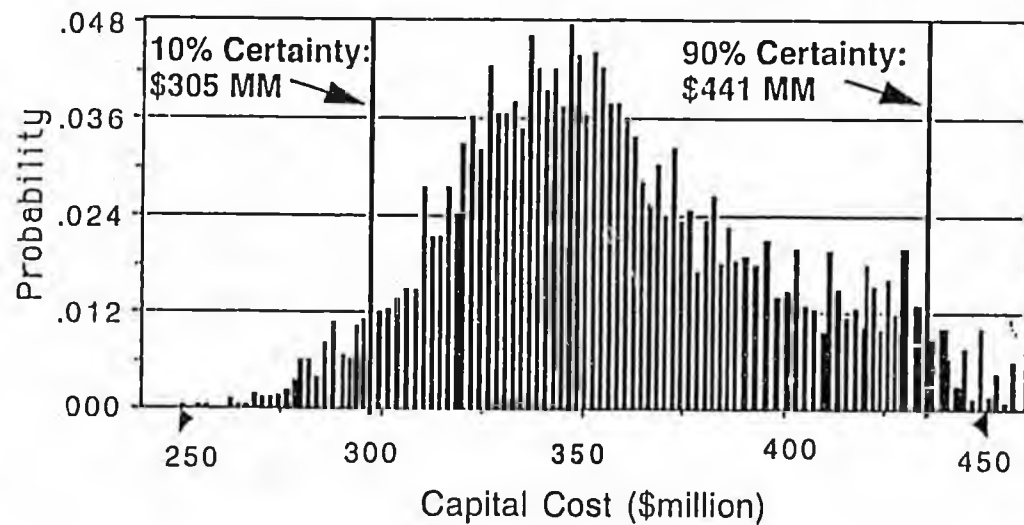


Northstar

Capital Cost: Current Uncertainty



Capital Cost Uncertainty within Class III Framework



Sources of Cost Uncertainty (\$mm):

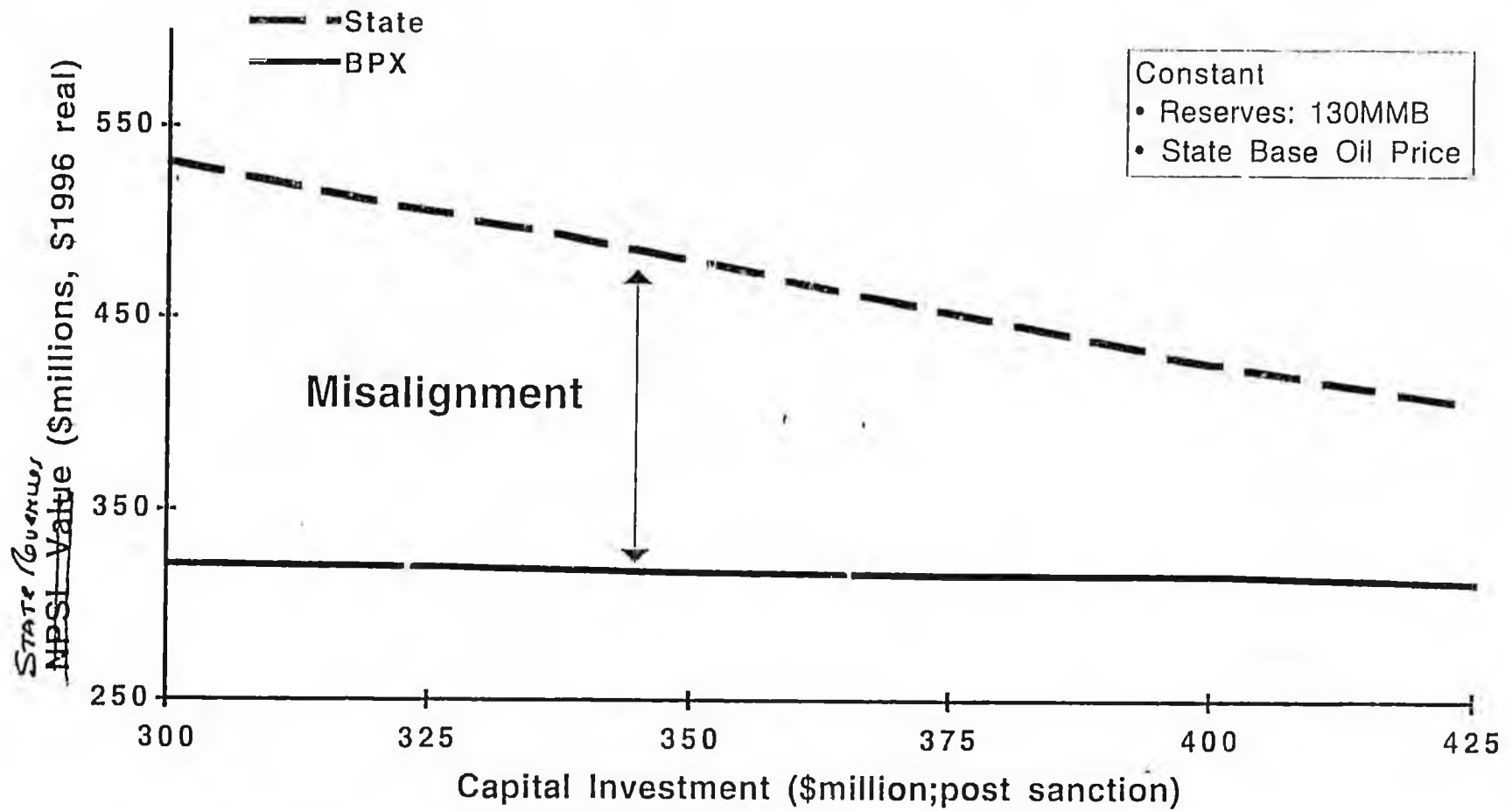
	Base	Low	High
• Facilities	122	107	130
• Drilling	85	75	110
• Pipeline	30	27	55
• Logistics/O'head	46	43	55
• Engrg/Infrast.	39	30	49
• Island	28	23	42
Overall	350	305	441

Northstar

Capex Impact with NPSLs



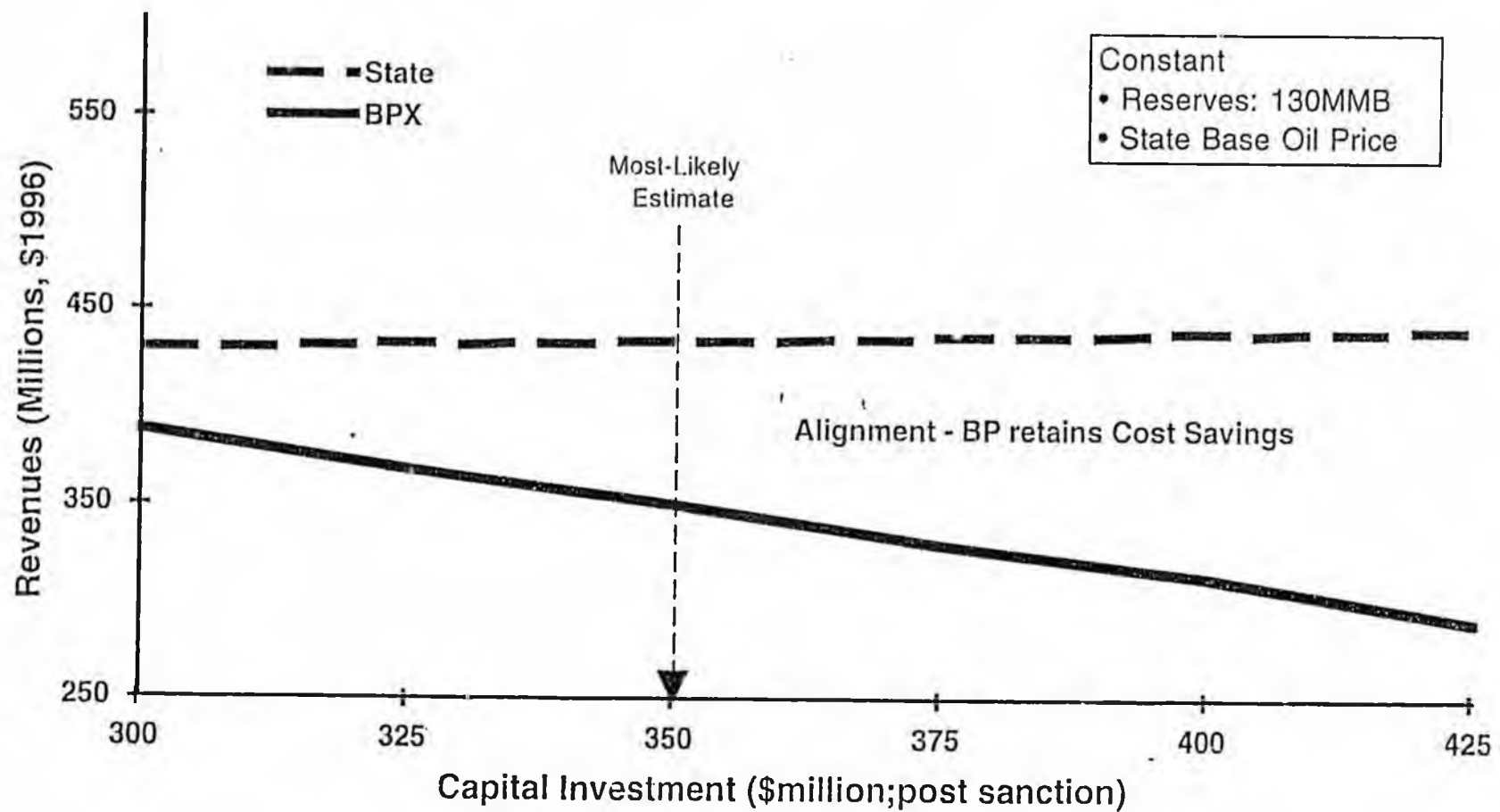
Revenues vs Capital Investment with NPSLs



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>NFV*</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>BFX 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.

- 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

Sheet 1

"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

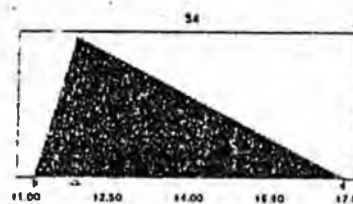
Assumptions

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

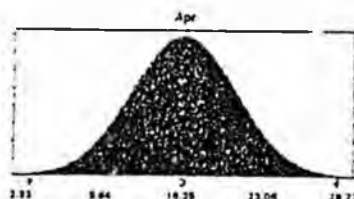
Assumption: Apr

Cell: B93

Normal distribution with parameters:

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

Selected range is from -21.51 to 402.42



End of Assumptions

Forecast: AKSUPP-REAL

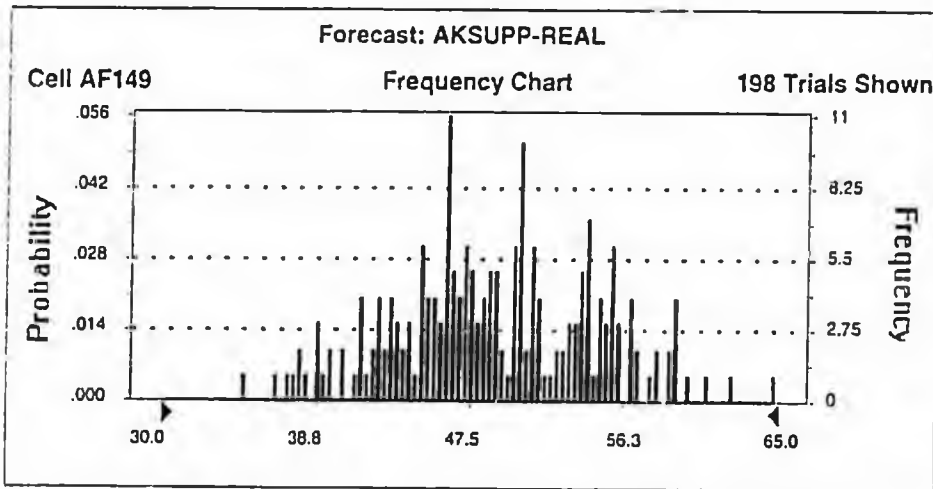
Cell. AF149

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



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**



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**

**ALASKA STATE LEGISLATURE
HOUSE BILL NO. 548**

HISTORY IN THE HOUSE

HISTORY IN THE SENATE

1996
3/28
4/24
4/26

Read first time and referred to:
RES FIN

WTR re-added: RES WTR FIN

RES RPT CS(RES) New Title
 DP DNP 3 NR 3 AM
 FN OFN 1 Previous FN

 RPT CS() New Title
 DP DNP NR AM
 FN OFN Previous FN

 RPT CS() New Title
 DP DNP NR AM
 FN OFN Previous FN

Read second time
CS() Adopted

Amended

Advanced

Read third time

Return to second for specific amendment

PASSED	EFD Same <u> </u> or
Yeas	Yeas
Nays	Nays
Excused	Excused
Absent	Absent

 Intent adopted

Reconsideration
Reconsideration not taken up

PASSED ON RECON.	EFD Same <u> </u> or
Yeas	Yeas
Nays	Nays
Excused	Excused
Absent	Absent

 Intent adopted

Reported correctly engrossed
Signed by Speaker, to the Senate

Chief Clerk of the House

19

Read first time and referred to:

 RPT() CS DP NR DNP AM
 New Title Same Title Previous FN
 FN OFN To

 RPT() CS DP NR DNP AM
 New Title Same Title Previous FN
 FN OFN To

 RPT() CS DP NR DNP AM
 New Title Same Title Previous FN
 FN OFN To

 Rules Calendar() CS AM Other
 New Title Same Title Previous FN
 FN OFN

Read second time

 CS Adopted () New Title
 Amended Advanced

Read third time

 Letter of Intent adopted
 Return to second for specific amendment

PASSED	EFD Same <u> </u> or
Yeas	Yeas
Nays	Nays
Excused	Excused
Absent	Absent

Reconsideration
Reconsideration not taken up

PASSED	EFD Same <u> </u> or
Yeas	Yeas
Nays	Nays
Excused	Excused
Absent	Absent

Reported correctly engrossed
Signed by President, to the House

Secretary of the Senate

HOUSE-SENATE HISTORY Continued

19

Received from the Senate _____

Concur in Senate amendment _____

Y ___ N ___ E ___ A ___

_____ Efd same or Y ___ N ___ E ___ A ___

Failed to concur Senate amendment, ask Senate recede _____

Y ___ N ___ E ___ A ___

Senate failed to \ receded from amendment _____

Y ___ N ___ E ___ A ___

CC appointed by House _____ Chair

CC appointed by Senate _____ Chair

(H) Granted Limited Powers of Free Conference _____

(S) Granted Limited Powers of Free Conference _____

19

(H) Adopted CC Rpt _____

Y ___ N ___ E ___ A ___

_____ Efd same or Y ___ N ___ E ___ A ___

(S) Adopted CC Rpt _____

Y ___ N ___ E ___ A ___

_____ Efd same or Y ___ N ___ E ___ A ___

To enrolling _____

Reported enrolled and sent to Governor _____

_____ By Governor

Chapter Number _____

Filed with Lieutenant Governor _____



BP EXPLORATION

M. Luttrell
Vice President
Exploration, Alaska

BP Exploration (Alaska) Inc.
900 East Benson Boulevard
P.O. 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 exciting 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.

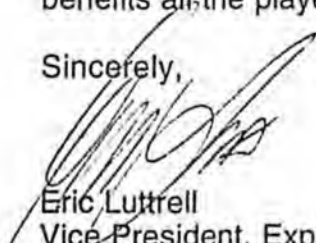
The bottom line is that Northstar will never be developed under its existing net profits terms. Its prior owners could not bring it to production, and the state's own studies show that the present net profits requirement discourages development. In fact, the state revised its net profit leasing policies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

Sue Baldwin's Picnic - Healthy Wrang Assisted by
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

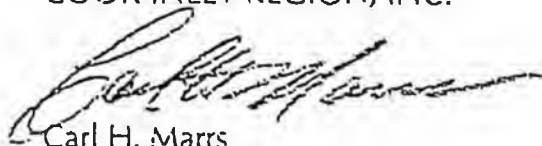
Cook Inlet Region, Inc. fully supports this negotiated agreement. For our part, we are satisfied that BP will do everything in its power to fulfill its commitments on local hire and local business participation in Northstar's development. We do not base this belief on misguided optimism, but on cold 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/bp
2023a

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 99501: 4300 BONIFACE PKWY. (907) 280-4122 FAX (907) 287-6033 GERALD L. MOGD Secretary/Treasurer

FAIRBANKS, ALASKA 99707, P.O. Box 70609. (907) 452-2959 FAX (907) 452-5051
 JUNEAU, ALASKA 99801: 306 Wiloughby. (907) 586-3225 FAX (907) 586-1227

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 HB 548 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

EVEN THE STATES

They may be devastating U.S. cities in the process

are skill and cost of labor, proximity to customers and price of real estate. Tax breaks are rarely the dealmaker. Barry Rubin, a professor of public and environmental affairs at Indiana University, notes that of a firm's variable costs—charges that come on top of fixed expenses like lease payments—state and local taxes make up at least 3%. Giveaways are likely to have little impact unless other factors are virtually equal.

But that hardly stopped the city of

NEW YORK: CoopCo \$20 million in tax relief, AT&T moved staff members to New Jersey

DreamWorks wasn't leaving the area—it needs the specialized talent that lives there—yet Los Angeles mayor Richard Riordan didn't want the project to go to neighboring Burbank or Universal City. Complains congressman Nate Hinken, a Democrat who represents part of inner-city Los Angeles and was the lone dissenter when the council voted on the project: "We're being asked to help the rich. This is a bunch of fat cats getting together and giving to one another."

Other states have treated California the way the Spanish did Mexico: they have plundered it, taking more than 800 large employers between 1988 and '92. So Republican Governor Pete Wilson pushed through a package of incentives, including across-the-board tax credits aimed at high-tech manufacturers, and created so-called Red Teams of public and private officials to persuade wavering companies not to move. One payoff came last year when a Long Beach-led team assembled an \$80 million package that kept McDonnell Douglas from shifting part of the production of its new MD-11 jetliner to other states.

But California can't arbitrarily lower its cost of labor or real estate. Intel, the world's largest maker of microchips, chose Albuquerque, New Mexico, as the site for a new \$1.3 billion semiconductor plant, stuffing its own headquarters location in pricey Silicon Valley. New Mexico sweetened the deal further by giving Intel a 30-year exemption from property taxes for the plant, which

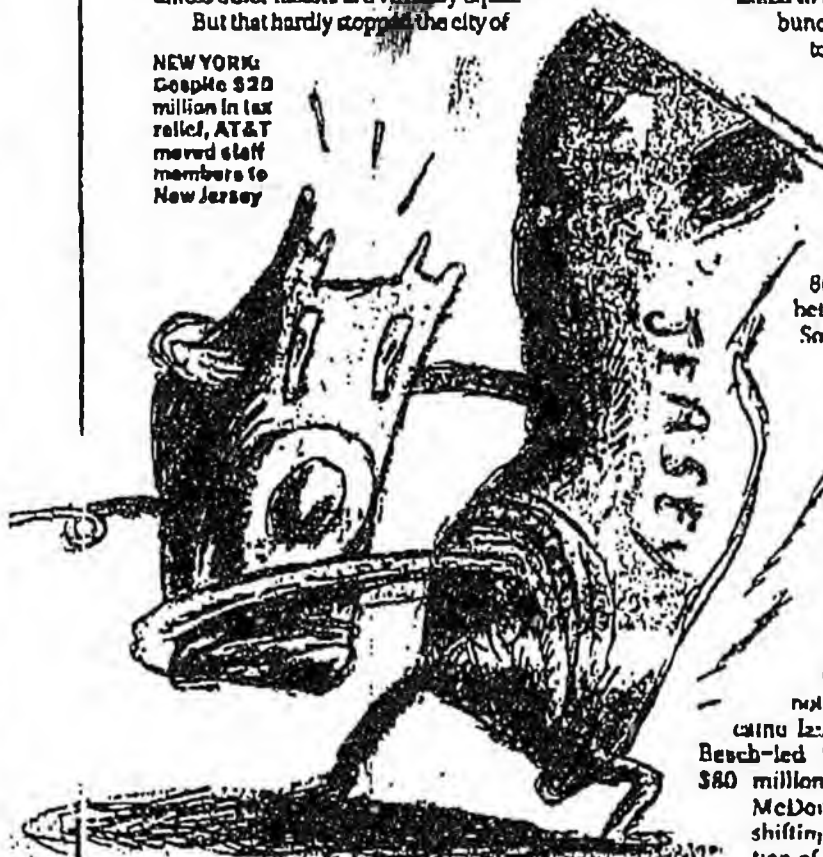
Intel says will create 3,000 jobs. The exemption formed the bulk of a 30-year, \$568 million incentive package from New Mexico that works out to nearly \$100,000 per job. (New Mexico's unemployment rate stands at 6.3%, compared with 7.6% for California.) Oregon used property-tax abatements to help land two more Intel facilities—a \$735 million plant expansion in Aloha and a new \$2.2 billion microchip factory in Hillsboro.

In the midst of this scramble, some governments are setting up controls to keep the fight from getting completely out of hand. Connecticut, for example, has created "clawback" agreements that require corporations that fail to meet job targets to repay tax subsidies. Minnesota scaled back \$420 million in aid to Northwest Airlines after it delivered fewer than 1,000 of 1,500 promised jobs. Washington has also grown concerned. Senator Jeff Bingaman, a New Mexico Democrat, wants the Commerce Department to decide whether companies that receive tax benefits should be required to file cost-benefit analyses and stand behind their job pledges.

Such proposals might surely slow the incentive race. "You can ask, 'Wouldn't it be better to let the free market run its course and not have governments compete against each other this way?'" says North Carolina attorney general Michael Easley. "But that's just not an option when you have 49 other states plus foreign countries using incentives." In other words, the Governor will be keeping his checkbook handy.

—Reported by Jordan Sotnick/Sacramento, James L. Craft/Chicago, Thomas McCarroll/New York and Lisa H. Taylor/Raleigh

MINNESOTA: Northwest stayed but delivered fewer jobs than promised



Los Angeles from showering \$85 million in tax credits and other incentives on DreamWorks SKG, the new Hollywood studio formed by moguls Steven Spielberg, Jeffrey Katzenberg and David Geffen. Also on the deal were four high-tech companies, including IBM and Silicon Graphics, that are teaming up with DreamWorks to build an entertainment factory on 880 acres of wetlands where Howard Hughes once assembled his lumbering wooden "Spruce Goose" plane.



A NO-WIN WAR BETWEEN

Politicians are handing out fatter tax breaks than ever to lure jobs to their areas

By JOHN GREENWALD

SELF-IMPOSED RAPE" THAT IS THE twisted phrase North Carolina attorney William Maready uses to describe the fevered frequency with which U.S. cities, counties and states are flinging open their coffers to attract big businesses and the jobs they bring. Maready, a trial lawyer whose challenge to the practice was turned back by the North Carolina supreme court last month, is hardly alone in attacking the use of taxpayer funds in the relocation sweepstakes. "We're spending billions of dollars to fund the moving van," says state senator Charles Horn of Ohio, which trucked more than \$2.4 billion last year to lure or keep companies in industries ranging from banking to steel. "In the process, we're draining our budgets in education, research and technology—the very things our future depends on."

With many state budgets strained and many corporations in a downsizing mode, conflicts over job-development subsidies are white-hot. Critics denounce incentives as welfare for private enterprise that isn't paying off. "This is an issue whose time has come because too many giveaways are gnawing away at the tax base of our communities," says Jim Benn, executive director of the Federation for Industrial Retention and Renewal, a grass-roots research group in Chicago. "Teachers and firemen are being laid off, and homeowners and small businesses are getting stuck with even more of the burden."

While some incentives seem to pull in enough new jobs and taxes to recoup the lost revenues, other giveaways fail to do so. The pain is most acute when corporations pocket the money and then cut their work force or defect to a new location. New York City knows the feeling only too well. In a case that still rankles, it handed AT&T \$20 million in tax relief in the 1980s, only to see the phone company later disconnect and move most of its corporate staff to New Jersey. Still, the city is frenetically defending its turf with handouts, especially to financial companies such as Citicorp in Boston.

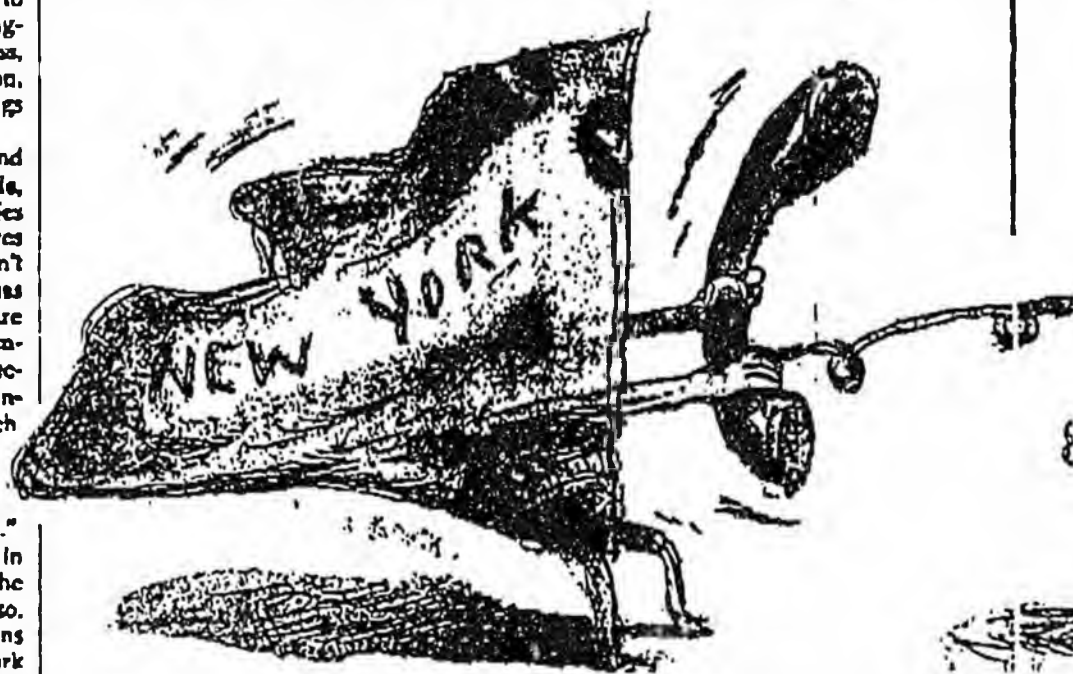
Even the winners of this war between the states may have lingering doubts about the price they have paid. Alabama

pledged property-tax relief and other giveaways worth some \$250 million—or more than \$160,000 per job—to persuade Mercedes-Benz to locate in the town of Vance (pop. 400) a \$520 million plant that will begin building sport-utility vehicles next year. A new crop of state leaders declare that their predecessors could have driven a harder bargain.

Experts say that how well incentives pay off depends on how shrewdly local politicians weigh the costs and benefits. "Incentives shouldn't be a one-size-fits-all deal," says Ken Kuhl, manager of Arthur Andersen's business-relocation service in Atlanta. "What's outrageous for one community may be perfectly reasonable for

dispenses tax breaks to recruit and retain big businesses. The state agency recently kicked in \$28 million to a \$99 million war chest that New York City hopes will keep both the Coffee, Sugar & Cacao Exchange and the New York Cotton Exchange from moving to New Jersey with their 6,000 jobs.

Corporations, skilled at negotiating the price of everything from toilet paper to aircraft, can play states off against one another, as the two commodity exchanges did. Martha Hunt, president of the Connecticut Economic Resource Center, contends that her state has no choice but to play the game. Says she: "Our neighbors would pick our industrial base dry if we sat on our hands and did nothing."



another." The trouble comes when politicians get caught up in battles with rival cities and states and frantically hurl money at corporations.

State development agencies deny these bidding wars, but none is going to be the first to walk away. "If this is what we have to do, by God, we're going to show that we can be competitive," says Charles Gargano, chairman of New York's Empire State Development Corporation, which

Not are such sentiments confined to the hard-pressed Northeast. "The people of North Carolina want us to get jobs," declares Democratic Governor Jim Hunt. "They want us to compete." At Hunt's urging, the Tar Heel State's Development Board has proposed a package of tax incentives that include cutting the corporate income tax from 7.75% to less than 7%.

The dirty little secret in the incentives game is that the real criteria for site selection

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

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OPINION SECTION

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NORTHSTAR DEAL
LEGISLATORS DEMAND THEIR SAY

By Daily Jews 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

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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 competitor 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

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 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 we're 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."

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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 led 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 encompass 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.

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-

cadecades 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 7

Northstar would generate Alaska jobs

Continued from Page 7

interested in these benefits, however, and if wants the Legislature to reject the agreement. Its single-minded focus is the effect on the competitive bid process, and on the political intrigue surrounding the issue.

Consider these facts:

- The leases were issued 17 years ago. Until BP acquired them in 1995 and began working to reduce development costs, they were basically 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 Amerada Hess and Shell decided to sell their interests. BP won.

- It's unclear how many companies could honor the North Slope experience, expertise and infrastructure that can be used to make Northstar viable. It's about the interest and commitment. Without the work BP has done to reduce costs, the leases would still have no value over which to debate.

- The attorney general ruled such a change is legal with legislative ratification.

- It's been done before. In 1993, DNR removed net-profit share leases from Thelus Island leases held by Exxon and its partners in exchange for a royalty increase. It did so without legislative approval or public review.

- The agreement negotiated between DNR and BP makes earlier development possible. It guarantees new jobs, new business, new revenue, and access to new economic development opportunities for Alaskans. It also guarantees public review through the legislative process.

- Alaskans deserve the opportunity to consider the relative importance of these benefits as they decide whether the agreement is a good deal for the state.

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Copies of minutes listed below were originally included in this file. The minutes are available on the legislative computer database. In order to save space copies of minutes have not been left in the files.

Mary Pagenkopf

House Resources
4-15-96 5:05 pm
HB 548



Alaska State Legislature

Senate Resources Committee

Official Business

State Capitol
Juneau AK 99801

Memo

TO: All Legislators

FROM: Senator Loren Leman, Chairman *Loren Leman*

DATE: April 18, 1996

RE: Committee Substitute for Senate Bill 318: Northstar Lease Amendment

Attached is a sectional analysis and copy of the Senate Resources Committee Substitute for SB 318 for your use.

Sectional Analysis of CSSB (RES) for SB 318

Section 1.

Section 1 has been redrafted and expanded into two sections, both of which are "findings". The new Section 1 consists of 13 separate Articles comprised of "Findings of Fact". The finding of facts section is based upon testimony before the Senate Resources Committee, and upon documents submitted for the record by the Department of Law, the Department of Natural Resources and BP Exploration (Alaska) Inc.

Section 2.

Section 2, which previously consisted of a listing of the Northstar Unit leases, and provided legislative ratification of the commissioner of Natural Resources' March 22, 1996 agreement with BPXA to amend the leases, now instead contains "Additional Facts and Policy". This section reflects the legislature's articulation and balancing of the state's interests related to ratifying the negotiated amendments to the Northstar Unit leases. It also reaffirms that it is the general policy of the state to enforce the competitively bid terms of its oil and gas leases, and confirms the legislature's intent that the state's oil and gas resources be diligently and timely developed. Finally, Section 2 also provides policy direction to the commissioner that, with the exception of the negotiated amendment authorized under Sec. 3 of the CSSB 318, he is not to renegotiate the competitively bid terms of any state oil and gas lease without prior explicit authorization by the legislature through the passage of a general act granting the authority to do so.

Section 3.

Section 3, was previously the effective date cite, providing for an immediate effective date. The section has been redrafted. Subsection (a) lists the state oil and gas leases in the Northstar Unit. Subsection (b) provides that the commissioner may amend the Northstar Unit lease provisions, as amended and incorporated in this subsection. (Note: the remainder of subsection (b) consists of a redrafted agreement and exhibits) Subsection (c) provides that "Notwithstanding any other provision of law, the "Amendment to the Northstar Unit Leases Between the State of Alaska and BP Exploration (Alaska) Inc." as described in (b) of this section, if voluntarily agreed to by the commissioner of natural resources and BP Exploration (Alaska) Inc. is approved and ratified."

The original agreement between BP Exploration (Alaska) Inc. and the State of Alaska has been amended in the following manner:

- The word "First" has been deleted from the title of the agreement and from the preamble to remove any ambiguity as to whether additional amendments to the agreement are authorized.
- Several non-material typographical errors were corrected throughout the body of the agreement.

1980 Leases

- The language of Paragraph 28 (c) in the original agreement has been amended by removing the reference to "project schedule" and "project" and replacing them with "sanction schedule" and "sanction", respectively. This was done to reflect the fact that Exhibit C of the agreement, to which Paragraph 28(c) relates, is actually a sanction schedule, not a project schedule, per se. No action other than sanctioning is scheduled under Exhibit C. In addition, a provision making the project sanction irrevocable has been inserted.
- The last two sentences of Paragraph 28 (c) in the original agreement, which provided that "[t]he State may waive performance of an obligation under the project schedule by prior written consent." and "[t]he performance of any obligation required under the project schedule is subject to the provisions of paragraph 32.", have been deleted. Since the only obligation under the "project schedule" was sanction, retention of the original language would have allowed the parties to waive one of the most crucial benefits of the agreement—BPXA's commitment either to proceed with development or to relinquish its leases within one year—by prior written agreement, and without legislative review.
- The language of Paragraph 32. ("Force Majeure") has been amended to make its terms consistent with the amendment to Paragraph 28 (c) noted above. The amendment carves out a narrow exception to the numerous circumstances which BPXA and the State have agreed would constitute force Majeure events under the agreement. The amendment recognizes each of the force majeure events enumerated by the State and BP Exploration (Alaska) Inc. "(other than the obligation to provide project sanction within twelve (12) months of the passage by the legislature of an Act authorizing an Amendment to the Northstar Unit leases for the project)".

- The language of Paragraph 41. in the original agreement, entitled "Employment of Alaskan Residents", has been replaced in its entirety with a new paragraph 41 entitled "Fabrication of Production and Processing Modules Within Alaska and Employment of Alaskan Residents". The amendment retains the original language which makes clear that BPXA's obligations under the agreement are subject to "the constraints of law" and must be in compliance "with all valid federal, State and local laws in hiring Alaska residents and contractors; and shall not discriminate against Alaska residents or contractors." With this disclaimer, however, the requirement to hire Alaskans and to fabricate and install on-site production and processing facilities has been made explicit. These changes were made in response to testimony by the Department of Natural Resources and the Department of Law confirming that the principal non-monetary obligations of BPXA under the terms of the original agreement are unenforceable. The amendment also clarifies that all expenses associated with "the design, fabrication, construction and installation of the production and processing modules required for the development of the Northstar oil field will be the sole responsibility of BP Exploration (Alaska) Inc.

1983 Lease

- The language of Paragraph 4 (f) of the original agreement ("Force Majeure"), has been amended by insertion of the same force majeure language incorporated in the 1980 Leases, as described above.
- The language of Paragraph 20 (c) has been amended to replace the references to "project schedule" and "project" with references to "sanction schedule" and "sanction" to conform with the amendments to the 1980 Leases, as described above.
- The language of Paragraph 3 ("Employment of Alaskan Residents") has been replaced in its entirety with the same language used to amend Paragraph 41 of the 1980 Leases, as noted above.

Rather than authorizing the commissioner of the Department of Natural Resources to amend the Northstar leases as originally contemplated, subsection (c) has been redrafted to provide that "Notwithstanding any other provision of law, the "Amendment to the Northstar Unit Leases Between the State of Alaska and BP Exploration (Alaska) Inc." as described in (b) of this section, if voluntarily agreed to by the commissioner of

natural resources and BP Exploration (Alaska) Inc. is approved and ratified."

Section 4.

Section 4 is a new section providing for an effective date. Instead of becoming effective immediately, as originally contemplated by the agreement and the original bill, section 4 provides that "[t]hese amendments take effect on the first day following delivery of a letter from the commissioner of the Department of Natural Resources to the Revisor of Statutes, with copies to the President of the Senate and the Speaker of the House of Representatives, confirming that BP Exploration (Alaska) Inc., or its parent entity has made an irrevocable commitment of full funding (project sanction) to develop the Northstar Oil Field.

—END OF ANALYSIS—

9-GS2065\C
Cook
4/17/96

**CS FOR SENATE BILL NO. 318(RES)
IN THE LEGISLATURE OF THE STATE OF ALASKA
NINETEENTH LEGISLATURE - SECOND SESSION**

BY THE SENATE RESOURCES COMMITTEE

**Offered:
Referred:**

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

A BILL

FOR AN ACT ENTITLED

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

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

5 * Section 1. FINDINGS OF FACT. Based upon extensive public testimony, as well as the
6 review of the written documents and presentations made by BP Exploration (Alaska) Inc.
7 (BPXA), the Department of Law, and the Department of Natural Resources related to the
8 proposal of BP Exploration (Alaska) Inc. and the Department of Natural Resources to amend
9 certain of the lease terms of State of Alaska oil and gas leases within the Northstar Unit
10 (NSU), the legislature makes the following findings of fact:

11 **ARTICLE 1. THE STATE'S NET PROFIT SHARE AND HISTORY OF THE**
12 **NORTHSTAR LEASES BEFORE UNITIZATION.**

13 (1) The net profit share provision of four of the state leases now included in
14 the Northstar Unit was the competitively bid variable when the leases were originally offered

1 for lease. The leases were offered with a fixed per acre cash bonus and a fixed royalty of 20
2 percent, and bidders were asked to submit sealed competitive bids based upon the percentage
3 of net profits that the bidder would share with the state. According to the Department of
4 Natural Resources, the average of the winning net profit share bids for these leases was "about
5 89 percent." As to the fifth state lease, the net profit share and royalty were fixed by the
6 Department of Natural Resources at 40 percent and 12 1/2 percent, respectively, and the
7 competitively bid variable was the amount of bonus offered by the bidders.

8 (2) The leases for which the net profit share was the bid variable, ADL Nos.
9 312798, 312799, 312808, and 312809, were offered for lease in State of Alaska Competitive
10 Oil and Gas Lease Sale 30, that was held in December 1979. These four leases were issued
11 in 1980 for a primary term of 10 years. The fifth lease, ADL 355001, was offered in State
12 of Alaska Competitive Oil and Gas Lease Sale 39 in May 1983, and was issued in June 1983.
13 The primary term of ADL 355001 was also 10 years.

14 (3) The original lessees of the Northstar leases included Amerada Hess Co.,
15 Shell Oil Co. (Shell), Enterprise Oil Co. (Enterprise), and Murphy Oil Co. In 1990, Amerada
16 Hess Co. bought Enterprise's interest in the leases for \$2,000,000.

17 (4) Three years after the initial four state leases were issued, Shell Oil Co.
18 discovered the Northstar oil field while drilling the Seal Island No. 1 Well. Thereafter, during
19 the period 1984 - 1986 additional wells were drilled to delineate the Northstar field. Those
20 wells included Shell Seal Island No. 2 (1984); Shell Seal Island No. 3 (1985); Shell Seal
21 Island No. 4 (1985); Amerada Hess Co. Northstar No. 1 (1985); and Amerada Hess Co.
22 Northstar No. 2 (1986).

23 (5) Near the end of the 10-year primary term for the initial four state leases
24 and the two Outer Continental Shelf (OCS) leases that later came to be included in the
25 Northstar Unit, Amerada Hess Co. and its partners approached the Department of Natural
26 Resources and the federal Minerals Management Service with a proposal to form the Northstar
27 Unit.

28 ARTICLE 2. FORMATION OF THE NORTHSTAR UNIT AND
29 ACTIVITIES UNDER THE INITIAL PLAN OF DEVELOPMENT.

30 (1) Following lengthy negotiations between the Amerada Hess Co., the
31 Department of Natural Resources, and the Minerals Management Service, the Department of

1 Natural Resources and the Minerals Management Service approved formation of the Northstar
2 Unit and its initial Plan of Development, thereby extending the ten-year primary term of the
3 leases committed to the unit.

4 (2) The term of the Northstar Unit was limited initially to five years, however,
5 from January 24, 1990, until January 23, 1995, and the Plan of Development required by the
6 Department of Natural Resources provided specific and detailed conditions designed to
7 encourage expedited evaluation and development of the field.

8 (3) According to the Department of Natural Resources, as a condition of its
9 approval of the initial five-year Plan of Development for the unit, "[t]he state lessees were
10 permitted to make progressively larger annual payments to the state in lieu of drilling a well
11 in the Plan of Development. The extension fee payments were to be paid by the State lessees
12 to the State under the following schedule: January 31, 1991—\$1 million; January 31,
13 1992—\$2 million; January 31, 1993—\$2 million; January 31, 1994—\$3 million and
14 January 31, 1995—\$4 million, unless the fee obligation was extinguished by the drilling of
15 a well in the unit area." As further conditions of its approval, the Department of Natural
16 Resources also required Amerada Hess Co. and its partners to conduct certain petrological and
17 petrophysical analyses, to gather an additional 250 line-miles of geophysical (seismic) data
18 over the unit area, and to complete facilities design and reservoir engineering studies
19 (pre-production studies) during the initial Plan of Development.

20 (4) Amerada Hess Co. and its partners made the scheduled "in lieu of drilling"
21 payments for the first three years of the five-year Plan of Development period, with payments
22 totaling \$5 million. Amerada Hess Co. then elected to drill the Amerada Hess Co. Northstar
23 No. 3 Well in 1994, extinguishing its remaining financial obligations to the state under the
24 terms of the Plan of Development for the Northstar Unit. Amerada Hess Co. and its partners
25 also timely complied fully with each of the other conditions set out by the Department of
26 Natural Resources in its approval of the initial Plan of Development.

27 (5) Following the drilling of the Amerada Hess Co. Northstar No. 3 Well
28 earlier in 1994, Amerada Hess Co. met with representatives of the Department of Natural
29 Resources and the Minerals Management Service in June 1994, to inform the agencies of its
30 decision not to proceed with development of the Northstar Unit.

31 (6) Under the terms of the Northstar Unit Agreement, Amerada Hess Co. and

1 its partners were required to submit a proposed Plan of Development to the Department of
2 Natural Resources late in October 1994, 90 days before the expiration of the first Plan of
3 Development, or the unit, which had already extended the Northstar Unit leases five years
4 beyond their initial primary term, would terminate.

5 (7) Having made the decision not to proceed with development of the unit,
6 Amerada Hess Co. did not submit a proposed second Plan of Development, and under the
7 terms of the unit agreement and the department's regulations, the Department of Natural
8 Resources issued a Notice of Default to Amerada Hess Co. and its partners on November 3,
9 1994.

10 (8) By subsequent letter dated December 12, 1994, the Department of Natural
11 Resources amended its November 3, 1994, Notice of Default to provide that Amerada Hess
12 Co. could cure the default either by providing an updated Plan of Development within 90 days
13 or by voluntarily agreeing to terminate the Northstar Unit Agreement. The Department of
14 Natural Resources' December 12, 1994, letter concluded "[f]inally, if the NSU terminates,
15 three State of Alaska leases will continue beyond their primary term pursuant to paragraph
16 5(d) of the lease. The three leases are ADLs 312798, 312799 and 312809. This is further
17 notice that within 90 days of termination of the NSU the lessees shall file a Plan of
18 Development in compliance with the requirements set forth in paragraph 17 of the lease."

19 (9) Amerada Hess Co. and Shell began efforts to sell their respective interests
20 in the Northstar Unit leases sometime during 1994. Neither the exact timing nor the details
21 of Amerada Hess Co.'s and Shell's efforts to market the leases are a matter of public record.

22 (10) Amerada Hess Co. and Shell subsequently sold their interests in the
23 Northstar leases to BP Exploration (Alaska) Inc. early in 1995. BP Exploration (Alaska) Inc.
24 has characterized the terms of its purchase of the Northstar Unit lease interests as a
25 "competitive process." However, BP Exploration (Alaska) Inc. has declined to make public
26 the terms of its purchase or the identity of its competitors for the purchase of Amerada Hess
27 Co.'s and Shell's interest in the Northstar Unit leases, citing a confidentiality agreement
28 between the parties that prohibits its doing so. The state played no role in the offering or
29 selling of Amerada Hess Co.'s and Shell's interest in the Northstar Unit leases to BP
30 Exploration (Alaska) Inc., nor was it offered the opportunity to compete for the leases.

31 (11) In its purchase of the Northstar Unit leases from Amerada Hess Co. and

1 its partners, BP Exploration (Alaska) Inc. inherited the net profit share development accounts
2 for those leases. The amount of accrued costs in the Northstar Unit net profit share
3 development accounts has been estimated by the Department of Natural Resources to be
4 \$262,000,000. Under the terms of the leases and the Department of Natural Resources'
5 regulations, although BP Exploration (Alaska) Inc. did not actually spend the \$262,000,000
6 in the development accounts, it would be entitled to recover those costs, plus its actual future
7 costs of development, with interest, before it would be obligated to pay the state a share of
8 net profits from the development of the Northstar Unit leases.

9 (12) Department of Natural Resources Commissioner Shively has testified that
10 "[T]he implications for the state in that is the longer the development is delayed, the less
11 money the state is going to get in net profits leasing. And so timing was critical to me as we
12 negotiated this deal with BP."

13 (13) BP Exploration (Alaska) Inc.'s president, Mr. John Morgan, has testified
14 "[I]n making that acquisition (purchase of the Northstar leases) we did understand and it was
15 clear to us that the issue of net profit leases represented a problem, and a problem that would
16 need to be overcome with the state, if development was to proceed."

17 (14) BP Exploration (Alaska) Inc.'s president, Mr. Morgan, also has testified
18 that ". . . part of the risk we took when we acquired the leases was that the State of Alaska
19 may not agree to a modification of the terms that would allow us to go forward with
20 development, and we did that knowingly and clearly."

21 ARTICLE 3. BP EXPLORATION (ALASKA) INC.'S SUCCESSION
22 AS NORTHSTAR UNIT OPERATOR AND THE DEPARTMENT OF
23 NATURAL RESOURCES' APPROVAL OF THE 2ND PLAN OF
24 DEVELOPMENT FOR THE NORTHSTAR UNIT.

25 (1) On January 13, 1995, BP Exploration (Alaska) Inc. wrote the Department
26 of Natural Resources and the Minerals Management Service to request that the agencies
27 approve a 90-day extension to the Department of Natural Resources' earlier Notice of Default
28 for the Northstar Unit.

29 (2) Effective January 19, 1995, the DNR approved assignment of the state
30 Northstar Unit leases to BP Exploration (Alaska) Inc. as had been requested earlier, and on
31 January 20, 1995, both the Department of Natural Resources and the Minerals Management

1 Service approved BP Exploration (Alaska) Inc. as the successor operator of the Northstar Unit;

2 (3) On January 23, 1995, the day the Northstar Unit was scheduled to
3 terminate under the Department of Natural Resources' Notice of Default for failure of the
4 operator to provide a proposed Plan of Development, BP Exploration (Alaska) Inc., in its
5 capacity as the new unit operator, submitted a proposed two-year Plan of Development for the
6 Northstar Unit. According to documents in the Department of Natural Resources' unit files,
7 BP Exploration (Alaska) Inc. indicated "that with more time it could submit a more detailed
8 and decisive plan."

9 (4) The following day, on January 24, 1995, the Department of Natural
10 Resources and the Minerals Management Service approved BP Exploration (Alaska) Inc.'s
11 request for an extension to file a more detailed Plan of Development until April 30, 1995.

12 (5) On March 30, 1995, BP Exploration (Alaska) Inc. submitted a revised Plan
13 of Development and a request to extend the Northstar Unit Agreement for a three-year term
14 coincident with its revised Plan of Development.

15 (6) It is unclear from the record why the term of the second Plan of
16 Development was increased from the originally proposed two-year term to a three-year term,
17 thus extending the time during which the Department of Natural Resources cannot move to
18 force production from the Northstar Unit leases.

19 (7) On June 2, 1995, the Department of Natural Resources "conditionally"
20 approved BP Exploration (Alaska) Inc.'s revised three-year Plan of Development.

21 (8) According to the Department of Natural Resources, "[a]s part of the
22 conditional approval, BPXA was required to submit annual program reports and a final report
23 to the agencies that synthesizes the data and studies performed by BPXA during the extension
24 period and BPXA's conclusions and recommendations regarding the development of the NSU.
25 The POD does not require BPXA to start production during the three year term. Assuming
26 BPXA complies with the conditions of the second POD, the unit will not expire until April 30,
27 1998."

28 ARTICLE 4. BP EXPLORATION (ALASKA) INC.'S
29 INITIAL EFFORTS TO AMEND THE NET PROFIT
30 SHARE LEASE TERMS.

31 (1) Both BP Exploration (Alaska) Inc.'s President, Mr. Morgan, and

1 Department of Natural Resources Commissioner Shively have testified that at sometime
2 between January and April 1995, before the Department of Natural Resources' approval of BP
3 Exploration (Alaska) Inc.'s revised Plan of Development and extension for the Northstar Unit,
4 BP Exploration (Alaska) Inc. approached the administration, asking that it support the
5 incorporation of provisions that would allow the commissioner of the Department of Natural
6 Resources to modify net profit share terms of oil and gas leases in the royalty modification
7 legislation that the administration requested last session (HB 207). Mr. Patrick Coughlin,
8 petroleum investment manager for the division of oil and gas, testified that BP Exploration
9 (Alaska) Inc. requested incorporation of the net profit provisions sometime in late January or
10 early March (1995) during the drafting of the original version of HB 207.

11 (2) Testimony before the committee by both BP Exploration (Alaska) Inc. and
12 the Department of Natural Resources reflects that the parties decided, however, not to pursue
13 authority to amend the terms of net profit share leases in that legislation. According to
14 Commissioner Shively, ". . . I felt, and ultimately I think BP felt, that adding another issue
15 to the mix was probably not appropriate."

16 (3) Commissioner Shively testified that, after having decided not to pursue
17 incorporation of the net profit share amendment provisions within the framework of HB 207,
18 "he committed to BP at the time to discuss Northstar, but under the conditions that I believed,
19 at the time, that I probably did not have the legal authority to make a deal with them on
20 Northstar. And so therefore, that the individual deal itself would have to come to the
21 legislature. That was always part of the discussions."

22 (4) Based upon testimony by both Commissioner Shively and BP Exploration
23 (Alaska) Inc.'s Mr. Morgan, it is clear that even had HB 207 been amended to include explicit
24 authority for the commissioner to reduce the state's net profit share under the same
25 circumstances as the commissioner was ultimately authorized to reduce the state's royalty
26 share under the terms of HB 207, to encourage production that otherwise would not be
27 economically feasible, the commissioner could not have done so in this instance because
28 production from the Northstar Unit would be economic without amendments to the net profit
29 share provisions.

30 ARTICLE 5. THE ECONOMICS OF DEVELOPING THE
31 NORTHSTAR LEASES UNDER THEIR

EXISTING TERMS.

1
2 (1) The director of the division of oil and gas, Mr. Ken Boyd, has testified that
3 "BPXA currently estimates that 76.8% of the recoverable reserves underlie the state leases in
4 the Northstar Unit (NSU). The Division's Resource Evaluation Group has reviewed this
5 estimate and other confidential estimates, and believes the 75 to 80% is a reasonable range.
6 This range could be slightly higher if BPXA develops the known reserves to the Northwest."

7 (2) Both the Department of Natural Resources and BP Exploration (Alaska)
8 Inc. have testified that BP Exploration (Alaska) Inc.'s development of the Northstar Unit
9 leases under the original lease terms would be economic. According to BP Exploration
10 (Alaska) Inc.'s President, Mr. Morgan, "[W]e have never argued that the development of
11 Northstar could not be profitable under the terms including the net profit arrangements. In
12 profitability in terms of return on capital, this would be possible. This is not a marginal oil
13 field."

14 (3) The Department of Natural Resources' independent analysis of the
15 Northstar Unit economics comes to a similar conclusion. Commissioner Shively has testified
16 "[t]oday both we, and I think British Petroleum, estimate that around 135 mm barrels of oil
17 could be recovered from this field. It is not a marginal field; it is not the kind of field we
18 talked about last year with HB 207. It is a field fully capable of carrying its own under the
19 appropriate economic conditions."

20 (4) BP Exploration (Alaska) Inc.'s President, Mr. Morgan, has testified ". . .
21 that with the net profit arrangement in place, at the level that it exists, BP would not be
22 prepared to go ahead with the development of a Northstar project, even though, if you run the
23 economics, you can show that the return on investment for the project is a sound sort of return
24 on investment."

25 (5) Based upon BP Exploration (Alaska) Inc.'s own analysis, development of
26 the Northstar project "would have an estimated BP Net Revenue of approximately \$485
27 million and a full project Rate of Return (ROR) of around 21%."

28 (6) BP Exploration (Alaska) Inc. has testified that its rate of return for a
29 "hypothetical incremental investment" later in field life (2007) would be 21 percent without
30 the net profit share lease terms versus 10 percent with the net profit share lease terms.

31 (7) In its September 1995 report to the Governor's Oil and Gas Policy Council

1 entitled "Review of International Competitiveness of Alaska's Fiscal System" (Little Report),
2 the Arthur D. Little Co. concluded "[Oil] companies generally look for a rate of return of
3 about 15% . . . Projects with lower returns usually do not generate enough profits to encourage
4 companies to commit time and resources to their development."

5 (8) Commissioner Shively testified "I do not believe that no oil company in
6 the world could develop this field under the current provisions. When we did the economic
7 analysis, we believe the rate of return is sufficient for somebody to want to do it. On the
8 other hand, BP has told us that they would not do it, and therefore, I cannot make a finding
9 that under the current situation the development of the field is not economically feasible. It,
10 in my mind, is economically feasible under both considerations. Both of the considerations
11 of the net profits and using the supplemental royalty. BP has said for them it is not
12 developable under the net profit conditions."

13 (9) Based upon BP Exploration (Alaska) Inc.'s estimates of the recoverable
14 reserves and project development costs, the Northstar Unit has a per barrel development cost
15 of \$2.90. For comparison, other North Slope projects which BP Exploration (Alaska) Inc. has
16 sanctioned (approved and committed the funding to develop), the year in which the
17 developments were sanctioned and BP Exploration (Alaska) Inc.'s estimated per barrel cost
18 of developing each are: Kuparuk (1982) - \$6.65 per barrel; Endicott (1985) - \$5.40 per barrel;
19 Prudhoe Bay Unit: GHX-2 (1992) - \$4.45 per barrel; Pt. McIntyre (1992) - \$2.30 per barrel;
20 and Niakuk (1992) - \$2.50 per barrel.

21 (10) BP Exploration (Alaska) Inc. estimates the per barrel development costs
22 for both the Milne Point Unit - Schrader Bluff development and the Northstar project, neither
23 of which have yet been sanctioned by BP Exploration (Alaska) Inc. management, to be \$1.80
24 per barrel, and \$2.90 per barrel, respectively.

25 ARTICLE 6. REVENUE TRADE-OFFS FROM
26 THE LEASING OF THE NORTHSTAR LEASES
27 WITH THE NET PROFIT SHARE AS THE
28 COMPETITIVE BID VARIABLE.

29 (1) The Department of Natural Resources' decision to offer the Northstar leases
30 with the net profit share as the competitive bid variable in 1979 represented a conscious
31 trade-off of larger immediate bonus payments for the potential to receive a share of the

1 lessees' net profits from the development of any field subsequently discovered. Since oil and
2 gas exploration is inherently risky, with commercial discoveries occurring far less frequently
3 than dry holes, the Department of Natural Resources' bid strategy entailed risk sharing with
4 the lessees. Compared to other bidding terms available to the Department of Natural
5 Resources, the selection of net profit share terms allowed successful bidders to obtain the
6 leases for less cash than would otherwise have been required.

7 (2) Based upon its review of the bonus revenue received for the federal leases
8 within the Northstar Unit, which were leased with a 16 2/3 percent sliding scale royalty and
9 the bonus as the bid variable, the Department of Natural Resources estimates the state's
10 Northstar Unit leases could have brought \$268,406,052, as opposed to the \$15,469,000
11 actually received, had the leases been offered with a 12 1/2 percent royalty, no net-profit share
12 and with the bonus as the bid variable.

13 (3) Assuming the Department of Natural Resources' estimate of bonuses is
14 correct and based upon the annual realized rate of returns reported by the Alaska Permanent
15 Fund Corporation in its 1995 report, the balance of the 50 percent of the \$268,406,052 that
16 would have been deposited to the permanent fund would have been \$704,588,494 at year-end
17 1995.

18 (4) The Department of Natural Resources has provided estimates of the bonus
19 revenues that the state would receive today if the Northstar Unit leases were returned to the
20 state for reoffering in a competitive sale with bonus as the bid variable, with royalty set at 12
21 1/2 percent or 20 percent, with no net profit share and with estimated recoverable reserves,
22 capital and operating costs as estimated in its economic modeling of the agreement with BP
23 Exploration (Alaska) Inc. For a 12 1/2 percent royalty and at discount rates of 10 percent and
24 15 percent, the Department of Natural Resources estimates that the mean value of anticipated
25 bonuses would be \$225,000,000 and \$130,000,000, respectively. For a 20 percent royalty and
26 at discount rates of 10 percent and 15 percent, the Department of Natural Resources estimates
27 the mean value of anticipated bonuses would be \$182,000,000 and \$98,000,000, respectively.

28 ARTICLE 7. BP EXPLORATION (ALASKA) INC.'S
29 REFUSAL TO DEVELOP THE NORTHSTAR
30 UNIT LEASES UNLESS THE NET PROFIT
31 SHARE PROVISIONS ARE AMENDED.

1 (1) Notwithstanding the acknowledged profitability of developing the Northstar
2 field under its existing lease terms, BP Exploration (Alaska) Inc.'s President, *Mr. Morgan* has
3 testified that BP Exploration (Alaska) Inc. will not develop the Northstar Unit leases unless
4 the State of Alaska agrees to eliminate the net profit share provisions of the leases.

5 (2) There is no precedent, nor is there explicit legislative authority for the
6 commissioner of natural resources to retroactively change the competitively bid variable of
7 a state oil and gas lease.

8 (3) The Department of Natural Resources has testified that BP Exploration
9 (Alaska) Inc. did not inform the state of its unwillingness to develop the Northstar Unit leases
10 without amendment of the net profit share terms until some time after the department had
11 approved the current Plan of Development and the three-year extension of the unit term.

12 (4) The Department of Natural Resources has testified that there is an implied
13 covenant for lessees of Alaska's oil and gas leases to diligently explore and develop their
14 leases. The Department of Natural Resources also has testified, however, that since the
15 department has approved a three-year Plan of Development for the Northstar Unit leases that
16 does not explicitly require development of the field, it believes that so long as BP Exploration
17 (Alaska) Inc. meets the requirements of that plan, it would be seen as fulfilling its obligation
18 to develop, and cannot be forced to proceed with production during the term of the current
19 plan which does not expire until June 1998.

20 (5) The Department of Natural Resources has testified that BP Exploration
21 (Alaska) Inc.'s refusal to develop the Northstar Unit leases represents the first occasion in
22 which a state oil and gas lessee has confirmed that it could develop an oil field economically,
23 but that it is unwilling to do so unless the state renegotiates the competitively bid terms of the
24 leases.

25 (6) The Department of Natural Resources has testified that if the department
26 had not approved a further three-year extension for the Northstar Unit in June 1995, the leases
27 within the unit that did not have wells upon them certified to be capable of production in
28 paying quantities would have reverted to the state, becoming available for releasing. Under
29 the lease provisions and the regulations, the department could then have given notice to BP
30 Exploration (Alaska) Inc. to begin production from those leases that did have wells certified
31 as capable of production in paying quantities within a reasonable time to do so, that could not

1 have been less than six months.

2 (7) As to why the Department of Natural Resources did not insist on a firm
3 commitment from BP Exploration (Alaska) Inc. last year that it would develop the Northstar
4 Unit leases before the department agreed to extend the Northstar Unit for three years,
5 Commissioner Shivley has testified ". . . [I]f we had all the information in the spring of last
6 year that we had today, we might have made another decision; we did not have that
7 information."

8 (8) The Department of Natural Resources' approval of the second Plan of
9 Development, and the resulting three-year extension, effectively eliminated any leverage the
10 department might have had otherwise to expedite BP Exploration (Alaska) Inc.'s development
11 of the Northstar Unit leases without amendment of the leases.

12 (9) Both the Department of Natural Resources and the Department of Law
13 have testified that the Department of Natural Resources did not consult with the Department
14 of Law regarding whether the state might have any legal basis for moving earlier than 1998
15 to force production under the lease terms, given the unique facts in this case.

16 ARTICLE 8. THE DEPARTMENT OF NATURAL RESOURCES' AND
17 BP EXPLORATION (ALASKA) INC.'S NEGOTIATIONS TO AMEND
18 THE NORTHSTAR UNIT LEASES.

19 (1) Based upon BP Exploration (Alaska) Inc.'s representation that it would not
20 develop the Northstar Unit leases under their existing terms, the Department of Natural
21 Resources entered into confidential negotiations with BP Exploration (Alaska) Inc. in the fall
22 of 1995 to amend the state's oil and gas lease terms.

23 (2) As its principal reason for proceeding with the negotiations to amend the
24 leases, the Department of Natural Resources cited its desire to assure that production begins
25 earlier than it otherwise would under the timeline estimated by the Department of Revenue.
26 The Department of Natural Resources maintains that, if the legislature does not pass SB 318,
27 the earliest that the department could now force BP Exploration (Alaska) Inc. to develop the
28 field would be 2002;

29 (3) Department of Natural Resources' Commissioner Shivley has testified that,
30 "[t]he negotiations were long--longer than I had hoped. I had hoped to have this agreement
31 to the legislature earlier; they were at times very difficult, but I believe that we have

1 negotiated a deal that is in the best interests of the state."

2 (4) BP Exploration (Alaska) Inc.'s President, Mr. Morgan, has testified that ".
3 . . I can't stress enough, that from BP's perspective, this was a long and very formal
4 negotiating process, that I don't see the agreement contained in this bill as in any way being
5 an incentive to BP; I see it as a very balanced agreement coming out of that negotiation."

6 (5) Under the terms of the agreement negotiated by BP Exploration (Alaska)
7 Inc. and the Department of Natural Resources, the state agrees to waive its net profit interest
8 in the leases, and in return is to receive an increased royalty rate on one of the five leases,
9 from 12 1/2 percent to 20 percent, as well as the potential to receive a "supplemental royalty"
10 on all of the leases, depending upon whether oil prices rise sufficiently in the future beyond
11 a specified threshold (trigger) price. In addition, BP Exploration (Alaska) Inc. has made
12 certain nonbinding commitments to increases in state employment, conditional commitments
13 to construct certain undefined modules, and facilities necessary to develop the Northstar Unit
14 within Alaska and has agreed to relinquish the Northstar Unit leases if BP Exploration
15 (Alaska) Inc.'s management does not sanction the project within one year after the effective
16 date of legislation ratifying amendment of the leases.

17 ARTICLE 9. LEGAL ANALYSIS BY THE DEPARTMENT OF LAW.

18 (1) As to whether the commissioner has the authority to amend the state's net
19 profit share lease terms in a situation where those terms were the competitive bid variable in
20 a sale, the Attorney General has testified that "Clearly what we are faced here is with a
21 diminution of revenues that would come to the state . . . and that would require the
22 commissioner in order to make the changes to make a finding that this project otherwise
23 would not be economically feasible. And that was a conclusion which the commissioner
24 would not and could not make. And once again, whether 180 (AS 38.05.180) would apply,
25 in this instance it could not apply. And again, our reasoning supports the need to put this
26 matter before the legislature."

27 (2) As to whether legislative ratification of a negotiated agreement between the
28 commissioner of the Department of Natural Resources and BP Exploration (Alaska) Inc. to
29 modify the terms of the Northstar Unit leases would violate the Constitution of the State of
30 Alaska's prohibition against local or special legislation, the Department of Law representative
31 has testified that "[I]t will be the department's responsibility to carefully articulate the state's

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

5 (3) The Department of Law representative has testified that "[i]f there is
6 valuable consideration received by both the state and the leaseholder, the benefit to the state
7 may be characterized as direct."

8 (4) The Department of Law representative has also testified that "[b]ecause the
9 State leased the oil rights at the Northstar field pursuant to the constitutional mandate to obtain
10 the maximum public benefit, an effort to expedite production vitally affects the public
11 interest."

12 (5) The Department of Law has also testified "[w]e believe that a compelling
13 case can be made that there is adequate consideration to support a finding of a direct and
14 substantial public benefit flowing from the reduction of the net profit share."

15 (6) As to whether the promises of local manufacture and assembly of facilities
16 must be binding terms of the Northstar Agreement in order to meet the "statewide
17 significance" test, the Department of Law representative has testified "[t]hat there needs to be
18 a record made here in the legislature of the State interests that are behind this very narrowly
19 focused piece of legislation. As far as the promises to be binding I think it is enough that
20 there's some good and sound reason for this kind of legislation."

21 (7) The Department of Law representative has testified that "[w]hether the
22 agreement bears fruit I don't think is as important as the fact that you are doing it in good
23 faith belief that it will happen. I don't know if I can tell you that it has to be binding. That's
24 not a consideration of our opinion. It's merely a fact that there must be some sound
25 reasonable basis for making this legislation as narrow as it is."

26 (8) The Department of Law representative has testified "[w]e think this
27 transaction has state-wide significance because of the amount of revenue that's involved, the
28 fact the major population center of the railbelt area would be the beneficiary of some of the
29 economic activity connected with the development of the Northstar Unit, that fact that
30 petroleum revenues form such a large percentage of the total revenues to the State. It makes
31 this a very good case for being a matter of state-wide significance."

1 (9) As to whether the expenditures (loss of state revenues) under the Northstar
2 Agreement meet the "public purposes" test under art. IX, sec. 6, of the Alaska Constitution,
3 the Department of Law representative has testified "[i]t's been our opinion in the past that the
4 courts will generally find a public purpose if the legislature declares it to be a public purpose.
5 That's been the reasoning of the courts. From our side, analyzing it even further than that,
6 because we don't like to stop there sometimes being the executive branch. We also analyze
7 it as this mutually of consideration that there has to be some equal exchange in order for there
8 to be a public purpose."

9 (10) As to the consideration which the state must receive under the Northstar
10 Agreement, the Department of Law representative has testified "[t]here has to be, in order to
11 satisfy the public purpose doctrine, a direct public benefit and not an indirect public benefit--
12 when you're giving up public revenues or foregoing some debt that's owed you by some third
13 party. There has to be a direct public benefit and not an indirect benefit. The direct benefit
14 cannot only flow to the other interest and there appears to be direct public benefit here in
15 connection with the way this agreement is structured."

16 (11) As to whether the consideration which the State expects to receive under
17 the Northstar Agreement actually must be received, the Department of Law representative has
18 testified "[n]o, I don't think so, not under the public purpose doctrine. The public purpose
19 doctrine is the one legal issue that worries me the least. I think this transaction easily passes
20 the public purpose doctrine test. The courts have been very deferential to legislative
21 determinations of what is in the best interests of the State to expend its money on or to forego
22 its revenues on or to receive additional revenues on. The courts have been very deferential
23 in that regard and I don't see that as being a major factor influencing the validity of this
24 particular transaction."

25 (12) As to whether an aggrieved bidder may have standing to challenge the
26 Department of Natural Resources' negotiated amendments to the competitively bid lease terms,
27 the Department of Law representative has testified "We note that the issue is present, that
28 someone can raise this as a means of attacking the validity of the lease amendments. What
29 we conclude is that if the legislature were to enact specific authorization, both ratifying and
30 approving the contract, and authorizing the department to undertake the lease change, that, we
31 think, would overcome the competitive bidding argument."

1 (13) The Department of Law representative has testified that "[o]ther persons
2 who competed for the leases may claim that since the net profit share was the sole variable
3 in the lease sale, it is such a material term that a change cannot be made without violating the
4 competitive bidding statute. Uncertainty concerning the state's prospects for prevailing on any
5 litigation on this issue gives an additional basis for our advice that the department seek
6 independent statutory authority for the Northstar transaction."

7 (14) As to whether the legislature's passage of SB 318 will effectively shield
8 the Department of Natural Resources' negotiated amendments to the Northstar Unit leases from
9 legal challenge, the attorney general has testified "I guess my own judgment on this . . . we
10 can't give you the certainty that absent this kind legislation, we would prevail on the argument.
11 That's precisely, again, I think one of the reasons we brought this to the legislature, and Jim's
12 (Assistant Attorney General Jim Baldwin) comments earlier about seeing legislative action as
13 being an effective vaccination, as it were, against that kind of challenge."

14 (15) The attorney general has testified that "[w]ith legislative action, I think
15 we have a high degree of confidence that we would prevail on this issue."

16 ARTICLE 10. THE DEPARTMENT OF NATURAL RESOURCES' AND
17 BP EXPLORATION (ALASKA) INC.'S VIEW OF THE LEGISLATURE'S ROLE
18 IN RATIFICATION AND PASSAGE OF SB 318.

19 (1) Although both BP Exploration (Alaska) Inc.'s President, Mr. Morgan, and
20 Commissioner Shively have testified that they believe legislative approval of the amendments
21 is necessary, both have confirmed their intent that the legislature's role in reviewing the
22 negotiated amendments should be limited to voting for or against ratification of the agreement
23 that they have negotiated, and should not include amending the terms of the agreement.
24 Commissioner Shively testified "[w]ell, Mr. Chairman, John Morgan just said, we have
25 presented this as an up or down vote. And we did it for a variety of reasons. One, the
26 negotiations we went through were long and complex. It was late in the session. On the other
27 hand, if there are things that BP believes that they would like to agree to, we will certainly
28 look at them."

29 (2) BP Exploration (Alaska) Inc.'s President, Mr. Morgan, testified "I have to
30 say that from our perspective, we have in good faith reached a negotiated agreement with the
31 administration, and I believe that any variation of those terms would cast that whole

1 negotiating process into doubt. So it's both my belief that that was the intent of the
2 administration in introducing the bill, and it would certainly be my very strong preference that
3 this should be handled essentially on an approval or disapproval basis, without the introduction
4 of any significant or material changes."

5 ARTICLE 11. THE EFFECTS OF THE AMENDMENTS ON THE STATE'S SHARE
6 OF REVENUE FROM THE DEVELOPMENT OF THE NORTHSTAR UNIT.

7 (1) Based upon the Department of Natural Resources' analyses, the negotiated
8 amendments to the Northstar Unit leases will reduce expected state revenue from the
9 development of the Northstar Unit. However, the Department of Natural Resources cannot
10 precisely define the state's future revenue losses. Commissioner Shively noted that "the only
11 thing we know about all these numbers (the DNR's economic modeling of the effects of
12 amending the NSU leases), is since they are projections, is that they are wrong, we just don't
13 know how wrong."

14 (2) The Department of Natural Resources' Mr. Coughlin has testified regarding
15 potential state revenue loss that "[i]f you look at it as if they (BP Exploration (Alaska) Inc.)
16 would go ahead and develop it because it's, they say, an economic field, the state loses, in
17 essence, \$48 million by trading a net profit share for the supplemental royalty."

18 (3) The Department of Natural Resources' representative has testified that its
19 evaluation of the economic consequences to the state of amending the Northstar Unit leases
20 to remove the net profit provisions is based upon the assumption that the "mean" recoverable
21 oil reserves from the Northstar Unit are likely to be 130,000,000 barrels, and that there is a
22 10 percent probability that recoverable reserves will be greater than 105,000,000 barrels and
23 a 90 percent probability that recoverable reserves will be less than 160,000,000 barrels."

24 (4) The Department of Natural Resources has testified that its analysis of the
25 economic consequences to the state of amending the Northstar Unit lease terms to remove the
26 net profit provisions is based upon an assumed peak production rate from the field of 50,000
27 barrels per day.

28 (5) As to whether the Department of Natural Resources, in the course of its
29 negotiations with BP Exploration (Alaska) Inc. had considered whether to add some sort of
30 corrective factor to the agreement to compensate if the reserves ultimately prove to be
31 considerably larger than estimated, Commissioner Shively has testified "[w]e did have a

1 proposal at one time on the table that would have taken that into account. That's not where
2 we ended up. It was part of a more complicated formula that was developed by our division
3 of oil and gas that was part of one of our counter-offers."

4 (6) The Department of Natural Resources' petroleum economist, Mr. Kevin
5 Banks, who was responsible for evaluating the economic effects of the Northstar Unit lease
6 amendments, has testified that the negotiated agreement is an "okay" deal rather than a "good"
7 deal for the state. In response to the question of why he characterized the deal as "okay"
8 rather than "good", Mr. Banks, testified "I think it has to do with the fact that the net profit
9 share has considerable up-side for the state. If there's any change in the economics of the
10 field that improves, if prices are considerably higher, for example, or if production is any
11 higher. As some of the materials we sent over to you earlier would indicate, the net profit
12 share really pours in. By the same token, it's exactly the problem that BP has with it: that
13 for any increase in the "benefits" that might be associated with the higher production rates or
14 higher prices, or some other economic feature, the state gets all of it, virtually all of it. And
15 it has a fairly serious impact on the economics and the incentives for incremental kinds of
16 projects for the company. And that's why I say it's "okay." There is a high side to this that
17 I think we can't ignore."

18 ARTICLE 12. THE NONMONETARY TERMS OF THE DEPARTMENT OF
19 NATURAL RESOURCES/BP EXPLORATION (ALASKA) INC. NEGOTIATED
20 AMENDMENTS TO THE NORTHSTAR UNIT LEASES AND THE
21 ENFORCEABILITY OF THOSE TERMS.

22 (1) As to whether the terms in the negotiated agreement between the
23 Department of Natural Resources and BP Exploration (Alaska) Inc. regarding local hire and
24 local contracting are enforceable, Commissioner Shively has testified "I do not believe we
25 could--that that language allows us to enforce to the extent BP is morally committed to do,
26 and I don't think you can write language to do that."

27 (2) Although the agreement to amend the Northstar Unit leases purportedly
28 provides for automatic termination of the leases, making them available for releasing under
29 the state's competitive oil and gas leasing program, should BP Exploration (Alaska) Inc. not
30 sanction the project within 12 months, Commissioner Shively has testified that the agreement
31 contains a provision that allows the state to waive the obligation by prior written consent.

1 (3) The Department of Law has testified that any waiver of BP Exploration
2 (Alaska) Inc.'s commitment to perform under the sanction schedule would have to be done
3 "reasonably and not arbitrarily," and Commissioner Shively has testified "I have no intention
4 of waiving that. I mean that's a very important part of the arrangement, and I mean, I think
5 that if we cannot get this project going, then we need to reassess those leases and get them
6 back out onto the public market."

7 (4) In response to the question of how would the administration, or a court if
8 the need should arise, measure compliance given the number of disclaimers and qualifiers, and
9 the lack of any specific performance measures in the agreement, Commissioner Shively has
10 testified "I think we have stated this before. What we are asking BP to do, and what they
11 have committed to do, I do not believe is enforceable by law."

12 ARTICLE 13. POLICY IMPLICATIONS OF THE PASSAGE OF SB 318.

13 (1) As to where the state ultimately ends up if, as a matter of precedent, it has
14 to negotiate against itself in other instances to encourage its existing lessees to honor the terms
15 of their competitively bid contracts, Commissioner Shively has testified "[A]ny of these things
16 puts the state in a difficult position. We've, on the other hand, there have been provisions that
17 allow the state to modify lease terms in the law and in the lease since Statehood. This is not
18 a new concept. I was actually just reading an article the other day about the recent leases or
19 arrangements that were made between the Venezuelan government and a number of private
20 companies, and one of the conclusions of that article was that the first thing the companies
21 were going to do down there was go back in and renegotiate their terms. And so, it does put
22 the government in a difficult position. It's why I think in things like this and also like heavy
23 oil, we need to do some economic and other analyses, which we did. But I think in this day
24 and age this is part of how the government manages its resources. But it is not new. We've
25 made changes to the leases before. We have not made changes in this particular way, but we
26 have done these before, and once you start down that road, which we started down years ago,
27 yes, the state does put itself in a difficult position, but not an impossible position."

28 (2) In response to the question of how the commissioner can test whether, and
29 to what extent the state must give up public resources to promote the development of the
30 state's resources, if, as here, there are no standards and no rules, Commissioner Shively has
31 testified "When you make these decisions, it's like anything else, you have to use your best

1 judgment. I happen to believe that one of the problems with government is that we try to set
2 all of these sorts of rules and guidelines, and it's what makes government unworkable. What
3 you need is people that can make judgments, that can look at difficult situations, assess the
4 information, and say this is a good idea or a bad idea. I see nothing wrong with that. I think
5 that's better government, but this idea that we have now that if you just have enough rules and
6 enough regulations, everything is going to be perfect is nuts. I mean, even the bidding
7 process doesn't necessarily guarantee the state that you get your full value for your resources.
8 You get the most somebody wants to pay for it. That may or may not be full value."

9 * Sec. 2. ADDITIONAL FINDINGS AND POLICY. Based upon the findings of facts set
10 out above, the legislature finds:

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

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

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

18 (4) unless the net profit share provisions of the Northstar Unit are amended,
19 production of oil and gas from the unit is highly unlikely to begin before the year 2002;

20 (5) because of the development account provisions of the net profit share
21 leases, the later that these leases are developed, the less "net profits" the state receives;

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

24 (7) amending the net profit share provisions of the Northstar Unit leases to
25 provide for a supplemental royalty, instead of a share of net profits, will provide economic
26 benefits of oil and gas production to the people of the state by encouraging production from
27 the Northstar Unit earlier than it might otherwise occur under the terms of the Northstar Unit
28 Agreement and the unit's approved Plan of Development;

29 (8) the development of the unit and the associated construction of unit facilities
30 within the state will provide additional revenue to the state and increased job opportunities;

31 (9) the expedited development of the unit may result in increased state revenue

1 from future oil and gas lease sales;

2 (10) the expedited development of the unit may result in technological
3 breakthroughs and other cost savings that may make other development opportunities in the
4 state economically feasible;

5 (11) notwithstanding the anticipated benefits that may result from the
6 amendment of the Northstar Unit's net profit share lease terms, the legislature reaffirms that
7 it is the policy of the state to enforce the competitively bid terms of its oil and gas leases and
8 that the commissioner of natural resources should assure that the state's oil and gas resources
9 are being diligently and timely developed;

10 (12) the public's confidence that the terms of the state's oil and gas leases are
11 being fairly and uniformly administered must be maintained;

12 (13) it is important to assure that there is no appearance of favoritism in the
13 state's administration of its oil and leases; and therefore

14 (14) except as provided under sec. 3 of this Act, the commissioner of natural
15 resources is directed not to negotiate the amendment of the competitively bid terms of any
16 state oil and gas lease without prior explicit authorization by the legislature through the
17 passage of a general act granting the authority to do so.

18 * Sec. 3. (a) The State of Alaska and BP Exploration (Alaska) Inc. are parties to the
19 following leases in the Northstar Unit:

20 (1) ADL 312798, effective February 1, 1980;

21 (2) ADL 312799, effective February 1, 1980;

22 (3) ADL 312808, effective February 1, 1980;

23 (4) ADL 312809, effective February 1, 1980; and

24 (5) ADL 355001, effective August 1, 1983.

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

27 AMENDMENT TO THE NORTHSTAR UNIT LEASES

28 BETWEEN THE STATE OF ALASKA AND

29 BP EXPLORATION (ALASKA) INC.

30 The State of Alaska ("State") and BP Exploration (Alaska) Inc.
31 ("BPXA") are parties to the following leases in the Northstar Unit: ADL

1 312798, effective February 1, 1980; ADL 312799, effective February 1, 1980;
2 ADL 312808, effective February 1, 1980; and ADL 312809, effective
3 February 1, 1980 (collectively the "1980 Leases"); as well as ADL 355001,
4 effective August 1, 1983 (the "1983 Lease"). The parties agree to amend the
5 1980 Leases and the 1983 Lease as set forth in this amendment to the Northstar
6 Unit leases.

7 1980 Leases

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

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

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

12 7. SUPPLEMENTAL ROYALTY. (a) In addition to the
13 royalty paid and computed under paragraphs 8, 10, and 11 below,
14 Lessee shall pay to the State a supplemental royalty ("supplemental
15 royalty"). Lessee shall pay the supplemental royalty, if owed, upon the
16 same production volume for which royalty is paid ("production
17 volume"). The supplemental royalty payment for a given month equals
18 the supplemental royalty value times the supplemental royalty
19 percentage rate ("percentage rate") times the production volume for that
20 month. The percentage rate shall be calculated monthly by reference
21 to: (1) an ANS West Coast spot price ("spot price"); and (2) a
22 supplemental royalty trigger price ("trigger price"). If the spot price is
23 equal to or less than the trigger price, then the percentage rate equals
24 zero. If the spot price is greater than the trigger price, then the
25 percentage rate equals [the spot price per barrel minus the trigger price
26 per barrel] times 1.5 percent per dollar per barrel. The percentage rate
27 may never exceed 7.5 percent.

28 (b) The spot price is the price per barrel calculated in Article
29 3.3 of and Exhibit 4 to the ANS Royalty Litigation Settlement
30 Agreement ("ANS Agreement"), dated December 31, 1991, between the
31 State and BPXA, for the crude oil referred to as "ANS (USWC)" in the

1 ANS Agreement. The trigger price is \$17.35 per barrel through
2 April 30, 1997. On May 1, 1997, and each May 1 thereafter, the
3 trigger price shall be adjusted by an inflation factor equal to fifty
4 percent of the "inflation rate" defined as the Producer Price Index for
5 Industrial Commodities ("PPI") for December of the previous year, as
6 reported by April 30 of the current year, divided by the PPI for
7 December of 1995, as reported by April 30, 1996. The supplemental
8 royalty value for oil, gas, natural gas liquids and associated substances
9 is defined in paragraphs 10 and 11 below. Exhibit B is a sample
10 calculation to demonstrate the method of calculating supplemental
11 royalty for oil.

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

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

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

19 10. ROYALTY IN VALUE. Unless the State elects to receive
20 all or a portion of its royalty or supplemental royalty in kind as
21 provided in paragraph 12 below, Lessee shall pay to the State the value
22 of all royalty and supplemental royalty oil, gas and associated
23 substances as determined under paragraph 11 below. Royalty and
24 supplemental royalty paid in value shall be free and clear of all lease
25 expenses (and any portion of such expenses which is incurred away
26 from the leased area), including, but not limited to, expenses for
27 separation, cleaning, dehydration, gathering, saltwater disposal, and
28 preparing the oil, gas or associated substances for transportation off the
29 leased area. All royalty and supplemental royalty that may become
30 payable in money to the State shall be paid on or before the last day of
31 the calendar month following the month in which the oil, gas or

1 associated substances are produced. Royalty and supplemental royalty
2 payments shall be accompanied by copies of run tickets or such other
3 information relating to valuation of royalty and supplemental royalty as
4 the State may require, which may include, but is not limited to,
5 evidence of sales, shipments, and amounts of gross oil, gas and
6 associated substances produced.

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

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

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

16 (b) To compute the value of gas and natural gas liquids for
17 royalty and supplemental royalty purposes, this lease shall be deemed
18 a "Lease" under the terms of the 1995 ANS Gas Royalty Litigation
19 Settlement Agreement between BPXA and the State dated as of April 1,
20 1995, irrespective of any provision(s) of such agreement which would
21 otherwise exclude this lease therefrom.

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

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

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

30 (3) the volume weighted average field price actually
31 received by other producers in the same field or area for associated

1 substances of like kind and quality at the time such associated
2 substances are removed from the leased or unit area; or

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

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

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

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

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

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

29 14. APPORTIONMENT OF ROYALTY FROM APPROVED
30 UNIT. The landowner's royalty and supplemental royalty share of the
31 unit production allocated to each separately owned tract shall be

1 regarded as royalty to be distributed to and among, or the proceeds of
2 it paid to, the landowners, free and clear of all unit expense and free of
3 any lien for it. Under this provision, the State's royalty and
4 supplemental royalty share of any unit production allocated to the
5 leased area shall be regarded as royalty to be distributed to, or the
6 proceeds of it paid to, the State, free and clear of all unit expenses (and
7 any portion of such expenses which is incurred away from the unit
8 area), including, but not limited to, expenses for separation, cleaning,
9 dehydration, gathering, saltwater disposal, and preparing oil, gas or
10 associated substances for transportation off the unit area, and free of
11 any lien for it.

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

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

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

28 32. FORCE MAJEURE. If the State determines that Lessee has
29 been prevented, after diligent efforts made in good faith, from
30 complying with any express or implied promise, term, condition or
31 covenant of this lease (other than the obligation to provide project

1 sanction within twelve (12) months of the passage by the legislature of
2 an Act authorizing an Amendment to the Northstar Unit leases for the
3 project), from conducting drilling operations, or from producing or
4 marketing oil or gas from the leased area, by reason of war, riots, acts
5 of God, unusually severe weather, or any other cause beyond Lessee's
6 reasonable ability to foresee or control (including delays caused by
7 judicial decision or lack thereof or inability to obtain local, State, or
8 federal permits or environmental impact statements), whether similar to
9 those enumerated or not, Lessee's obligation to comply with such
10 provision shall be suspended, but not voided, and Lessee shall not be
11 liable for damages for failure to comply therewith. If Lessee's
12 obligations to conduct drilling or reworking operations are suspended
13 under this paragraph and the continuation of such operations without
14 suspension would have had the effect of preventing the expiration or
15 termination of this lease, this lease shall not terminate during the period
16 which the obligation to perform such operations is suspended. Nothing
17 in this paragraph shall be construed to suspend the obligation to pay
18 rentals, or to suspend the obligation to pay royalties, supplemental
19 royalties or other production payments from operations on the lease area
20 which are not suspended or from operations which are not affected by
21 any such suspension, to the State.

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

23 41. FABRICATION OF PRODUCTION AND PROCESSING
24 MODULES WITHIN ALASKA AND EMPLOYMENT OF ALASKAN
25 RESIDENTS. Lessee agrees to utilize on-site production and
26 processing modules for development of the Northstar oil field, and
27 agrees to fabricate those modules within Alaska. The State of Alaska
28 will not be responsible for contributing to any capital expenditures
29 required to prepare, develop or operate any sites or facilities necessary
30 for the fabrication, transportation or installation of the Northstar Unit
31 production and processing modules. All expenses associated with the

1 design, fabrication, transportation and installation of production and
2 processing modules required for the development of the Northstar oil
3 field will be the sole responsibility of BP Exploration (Alaska) Inc. and
4 its contractors.

5 Lessee shall comply with all valid federal, State and local laws
6 in hiring Alaska residents and contractors and shall not discriminate
7 against Alaska residents or contractors. Within the constraints of law,
8 Lessee shall employ Alaska residents and contractors to the extent they
9 are available and qualified. Subject to the foregoing:

10 Lessee voluntarily agrees to hire residents of Alaska. Lessee
11 shall advertise for available positions locally and use Alaska job service
12 organizations to notify the Alaskan public. For work in connection with
13 this lease, Lessee shall contract with Alaska firms and fabricate the
14 modules for on-site production and processing facilities in Alaska.
15 Lessee shall require its contractors to employ and train, when necessary,
16 residents of Alaska. Lessee shall submit annually to the Director,
17 Division of Oil and Gas, for transmission to the President of the Senate
18 and the Speaker of the House of Representatives, a report that details
19 the specific measures Lessee and its contractors and subcontractors have
20 taken or are planning to take to recruit qualified Alaska residents for
21 available jobs, describes on-the-job training opportunities, and describes
22 Lessee's efforts to hire Alaska firms for work in connection with this
23 lease. Lessee shall furnish the Department of Labor, for transmission
24 to the President of the Senate and the Speaker of the House of
25 Representatives, a quarterly report regarding the employment of Alaska
26 residents on the lease area in compliance with regulations by the
27 Department of Labor. The report must also include statistical data
28 concerning the number of resident personnel hired within the past year
29 for this lease.

30 1983 Lease

31 (1) Paragraph 4(f) and paragraph 34(7) are deleted and replaced in their

1 entirety with the following paragraph 4(f):

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

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

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

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

31 7. APPORTIONMENT OF ROYALTY FROM APPROVED

1 UNIT. The State's royalty and supplemental royalty share of the unit
2 production allocated to each separately owned tract must be regarded
3 as royalty to be distributed to or among, or the proceeds of it paid to,
4 the State, free and clear of all unit expenses and free of any lien for
5 them. Under this provision, the State's royalty and supplemental royalty
6 share of any unit production allocated to the leased ~~area~~ will be
7 regarded as royalty to be distributed to, or the proceeds of it paid to, the
8 State, free and clear of all unit expenses (and any portion of those
9 expenses incurred away from the unit area), including, but not limited
10 to, expenses for separating, cleaning, dehydration, gathering, saltwater
11 disposal, and preparing oil, gas, or associated substances for
12 transportation off the unit area, and free of any lien for them.

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

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

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

29 31. FABRICATION OF PRODUCTION AND PROCESSING
30 MODULES WITHIN ALASKA AND EMPLOYMENT OF ALASKAN
31 RESIDENTS. Lessee agrees to utilize on-site production and

1 processing modules for development of the Northstar oil field, and
2 agrees to fabricate those modules within Alaska. The State of Alaska
3 will not be responsible for contributing to any capital expenditures
4 required to prepare, develop or operate any sites or facilities necessary
5 for the fabrication, transportation or installation of the Northstar Unit
6 production and processing modules. All expenses associated with the
7 design, fabrication, transportation and installation of production and
8 processing modules required for the development of the Northstar oil
9 field will be the sole responsibility of BP Exploration (Alaska) Inc. and
10 its contractors.

11 Lessee shall comply with all valid federal, State and local laws
12 in hiring Alaska residents and contractors and shall not discriminate
13 against Alaska residents or contractors. Within the constraints of law,
14 Lessee shall employ Alaska residents and contractors to the extent they
15 are available and qualified. Subject to the foregoing:

16 Lessee voluntarily agrees to hire residents of Alaska. Lessee
17 shall advertise for available positions locally and use Alaska job service
18 organizations to notify the Alaskan public. For work in connection with
19 this lease, Lessee shall contract with Alaska firms and fabricate the
20 modules for on-site production and processing facilities in Alaska.
21 Lessee shall require its contractors to employ and train, when necessary,
22 residents of Alaska. Lessee shall submit annually to the Director,
23 Division of Oil and Gas, for transmission to the President of the Senate
24 and the Speaker of the House of Representatives, a report that details
25 the specific measures Lessee and its contractors and subcontractors have
26 taken or are planning to take to recruit qualified Alaska residents for
27 available jobs, describes on-the-job training opportunities, and describes
28 Lessee's efforts to hire Alaska firms for work in connection with this
29 lease. Lessee shall furnish the Department of Labor, for transmission
30 to the President of the Senate and the Speaker of the House of
31 Representatives, a quarterly report regarding the employment of Alaska

1 residents on the lease area in compliance with regulations by the
2 Department of Labor. The report must also include statistical data
3 concerning the number of resident personnel hired within the past year
4 for this lease.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

31 37. ROYALTY IN VALUE. Unless the State elects to receive

1 all or a portion of its royalty or supplemental royalty in kind as
2 provided in paragraph 38, lessee shall pay to the State the value of all
3 royalty and supplemental royalty oil, gas and associated substances as
4 determined under paragraph 36. Royalty and supplemental royalty paid
5 in value shall be free and clear of all lease expenses (and any portion
6 of such expenses which is incurred away from the leased area),
7 including, but not limited to, expenses for separation, cleaning,
8 dehydration, gathering, saltwater disposal, and preparing the oil, gas or
9 associated substances for transportation off the leased area. All royalty
10 and supplemental royalty that may become payable in money to the
11 State shall be paid on or before the last day of the calendar month
12 following the month in which the oil, gas or associated substances are
13 produced. Royalty and supplemental royalty payments shall be
14 accompanied by copies of run tickets or such other information relating
15 to valuation of royalty and supplemental royalty as the State may
16 require, which may include, but is not limited to, evidence of sales,
17 shipments, and amounts of gross oil, gas and associated substances
18 produced.

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

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

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

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

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

30 40. SUPPLEMENTAL ROYALTY. (a) In addition to the
31 royalty paid and computed under paragraphs 35, 36, 37 above, lessee

1 shall pay to the State a supplemental royalty ("supplemental royalty").
2 Lessee shall pay the supplemental royalty, if owed, upon the same
3 production volume for which royalty is paid ("production volume").
4 The supplemental royalty payment for a given month equals the
5 supplemental royalty value times the supplemental royalty percentage
6 rate ("percentage rate") times the production volume for that month.
7 The percentage rate shall be calculated monthly by reference to: (1) an
8 ANS West Coast spot price ("spot price"); and (2) a supplemental
9 royalty trigger price ("trigger price"). If the spot price is equal to or
10 less than the trigger price, then the percentage rate equals zero. If the
11 spot price is greater than the trigger price, then the percentage rate
12 equals [the spot price per barrel minus the trigger price per barrel] times
13 1.5 percent per dollar per barrel. The percentage rate may never exceed
14 7.5 percent.

15 (b) The spot price is the price per barrel calculated in Article
16 3.3 of and Exhibit 4 to the ANS Royalty Litigation Settlement
17 Agreement ("ANS Agreement"), dated December 31, 1991, between the
18 State and BP Exploration (Alaska) Inc. for the crude oil referred to as
19 "ANS (USWC)" in the ANS Agreement. The trigger price is \$17.35
20 per barrel through April 30, 1997. On May 1, 1997, and each May 1
21 thereafter, the trigger price shall be adjusted by an inflation factor equal
22 to fifty percent of the "inflation rate" defined as the Producer Price
23 Index for Industrial Commodities ("PPI") for December of the previous
24 year, as reported by April 30 of the current year, divided by the PPI for
25 December of 1995, as reported by April 30, 1996. The supplemental
26 royalty value for oil, gas, natural gas liquids and associated substances
27 is defined in paragraphs 36 and 37 above. Exhibit B is a sample
28 calculation to demonstrate the method of calculating supplemental
29 royalty for oil.

30 These amendments do not affect: (1) any future agreements which may
31 be reached for the handling of outside substances as that term is used in the

1 Northstar Unit Agreement effective January 24, 1990, or (2) the current
 2 valuation methodology for royalty for any other Alaska Net Profit Share leases
 3 between the State and BP Exploration (Alaska) Inc. or any affiliates or any
 4 future agreements which may be reached regarding a future valuation
 5 methodology for Alaska Net Profit Share leases. These amendments take effect
 6 on the first day following delivery of a letter from the commissioner of the
 7 Department of Natural Resources to the Revisor of Statutes, with copies to the
 8 President of the Senate and the Speaker of the House of Representatives,
 9 confirming that BP Exploration (Alaska) Inc. or its parent entity has made an
 10 irrevocable commitment of full funding (project sanction) to develop the North
 11 Star Oil Field. This amendment is dated for reference purposes as of _____
 12 _____ (Date).

13	LESSEE:	LESSOR:
14	BP EXPLORATION (ALASKA), INC.	STATE OF ALASKA
15	_____	_____
16	_____, Vice President	_____, Commissioner
17		Department of Natural Resources

18 STATE OF ALASKA)
 19) ss.
 20 Third Judicial District)

21 On _____, 1996, before me appeared _____,
 22 Commissioner, State of Alaska, Department of Natural Resources, and who
 23 executed this lease and acknowledged voluntarily signing it on behalf of the
 24 State of Alaska, as lessor.

25 _____
 26 Notary Public in and for the State of Alaska
 27 My Commission expires: _____

28 STATE OF ALASKA)
 29) ss.
 30 Third Judicial District)

31 On _____, 1996, before me appeared _____

1 Vice President of BP Exploration (Alaska), Inc. and who executed this lease
 2 and acknowledged voluntarily signing it on behalf of the BP Exploration
 3 (Alaska), Inc. as lessee.

4 _____
 5 Notary Public in and for the State of Alaska

6 My Commission expires: _____

7 Exhibit B

8 Calculation of the Supplemental Royalty Payment for Oil

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

11 Platt's Reported Daily

12 Assessment (\$/barrel)

13 Date	ANSWC	ANSWC	ANSWC	ANSWC
	Low	High	Daily Average	Daily Average
				(After Rounding) ¹
16 01/02/96	\$17.97	\$18.06	\$18.015	\$18.02
17 01/03/96	\$17.94	\$18.03	\$17.985	\$17.98
18 01/04/96	\$17.96	\$18.03	\$17.995	\$18.00
19 01/05/96	\$18.60	\$18.64	\$18.620	\$18.62
20 01/09/96	\$18.23	\$18.29	\$18.260	\$18.26
21 01/10/96	\$17.99	\$18.05	\$18.020	\$18.02
22 01/11/96	\$17.10	\$17.17	\$18.135	\$17.14
23 01/12/96	\$16.64	\$16.71	\$18.675	\$16.68
24 01/15/96	\$16.75	\$16.83	\$16.690	\$16.79
25 01/16/96	\$16.60	\$16.66	\$16.730	\$16.63
26 01/17/96	\$16.91	\$16.97	\$16.940	\$16.94
27 01/18/96	\$17.46	\$17.54	\$17.500	\$17.50
28 01/19/96	\$17.28	\$17.3	\$17.325	\$17.32
29 01/22/96	\$17.02	\$17.08	\$17.050	\$17.05

1 _____
 1 All source and calculated numbers shall be rounded as required in the ANS
 Agreement.

1	01/23/96	\$17.10	\$17.16	\$17.150	\$17.13
2	01/24/96	\$17.35	\$17.41	\$17.380	\$17.38
3	01/25/96	\$16.76	\$16.81	\$17.785	\$16.78
4	01/26/96	\$16.43	\$16.53	\$17.480	\$16.48
5	01/29/96	\$16.16	\$16.24	\$16.200	\$16.20
6	01/30/96	\$16.30	\$16.38	\$16.340	\$16.34
7	01/31/96	\$16.46	\$16.56	\$16.510	\$16.51

8 Monthly Average calculated from ANSWC Daily

9 Average (After Rounding) = \$17.2271 per barrel

10 ANS West Coast spot price for the January 1996

11 month of production = \$17.23 per barrel

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

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

18 = [(PPI December of the previous year ÷ PPI December 1995) - 1] x 0.5

19 = [(134.2 ÷ 126.2) - 1] x 0.5 = 0.0317 = 3.17 percent

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

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

23 = \$17.35 per barrel x (1 + 3.17 percent)

24 = \$17.35 x 1.0317

25 = \$17.90 per barrel

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

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

30 = (\$21.40 per barrel - \$17.90 per barrel) x 1.5 percent per dollar per barrel

31 = (21.40 - 17.90) x 0.015

1 = 0.05250 = 5.25 percent

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

7 Supplemental royalty payment = production volume x royalty value x supplemental
8 royalty percentage rate

9 = 1,550,000 barrels x \$17.71 per barrel x 5.25 percent

10 = \$1,441,151.25

11 EXHIBIT C

12 SANCTION SCHEDULE

13 The Northstar Development Project ("the Project") is described in the
14 document titled "Northstar Development Project, Conceptual Engineering
15 Report" dated February 1996. BPXA shall comply with the following sanction
16 schedule for the Project and shall provide satisfactory evidence of compliance
17 within fifteen (15) days of the date performance is due under the schedule:

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

29 (c) Notwithstanding any other provision of law, the "Amendment to the Northstar Unit
30 Leases Between the State of Alaska and BP Exploration (Alaska) Inc." as described in (b) of
31 this section, if voluntarily agreed to by the commissioner of natural resources and BP

1 Exploration (Alaska) Inc., is approved and ratified.

2 * Sec. 4. This Act takes effect on the first day following delivery of a letter from the
3 commissioner of natural resources to the revisor of statutes, with copies to the president of the
4 senate and the speaker of the house of representatives, confirming that BP Exploration
5 (Alaska) Inc. or its parent entity has made an irrevocable commitment of full funding
6 (projection sanction) to develop the Northstar Oil Field.

A M E N D M E N T

OFFERED IN THE HOUSE

BY REPRESENTATIVE GREEN

TO: HB 548

1 Page 1, line 5:

2 Delete all material and insert:

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

4 Page 2, lines 7 - 10:

5 Delete all material and insert:

6 "(7) the development of the Northstar Unit leases will provide additional
7 revenue to the state;"

8 Renumber the following paragraphs accordingly.

9 Page 2, following line 15:

10 Insert new subsections to read:

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

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

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

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

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

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

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

6 (2) the lessee, BP Exploration (Alaska) Inc., has made significant investments
7 in the state, is ranked as one of the state's largest private sector employers, and regularly
8 enters into contracts to obtain support services; consequently, the lessee's fulfillment of the
9 undertakings described in (1) of this subsection should materially contribute to existing
10 resident workforce employment opportunities and to the state's economic stability;

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

15 (4) the mutual commitments made by the parties to the lease in these
16 amendments to secure to state residents and businesses the advantages and benefits of both
17 expanded resident hire opportunities and additional work by in-state businesses are in the best
18 interests of the people of the state and are considerations of paramount importance to the
19 legislature in its decision to conditionally approve the proposed amendments of the Northstar
20 Unit leases.

21 (c) It is the intent of the legislature that the commissioner of natural resources not
22 exercise authority under sec. 2(b)(1) of this Act to amend the Northstar Unit leases until all
23 of the mutual representations made by the lessee and the state agencies that are set out in
24 (b)(1) of this section are substantially complied with."

25 Page 2, lines 23 - 29:

26 Delete all material and insert:

27 "(b) The commissioner of natural resources

28 (1) may amend the Northstar Unit leases described in (a) of this section to the
29 extent set out in the "First Amendment to the Northstar Unit Leases Between the State of
30 Alaska and BP Exploration (Alaska) Inc.", dated March 22, 1996;

31 (2) may not exercise the authority granted in (1) of this subsection unless the

1 governor, after being advised by the commissioners of commerce and economic development
2 and labor, as appropriate, first determines and certifies that

3 (A) the lessee, BP Exploration (Alaska) Inc.,

4 (i) has adopted a program to advertise for, recruit, and employ
5 qualified residents of the state in the development of these leases and the
6 governor further concludes that, by implementing that program, the lessee will
7 use its best efforts to advertise for, recruit, and employ qualified residents of
8 the state in the development of these leases;

9 (ii) has negotiated contracts with existing licensed Alaska firms
10 to fabricate the modules necessary to develop the Northstar Unit leases within
11 the state and the governor concludes that, in contracting with those firms, the
12 lessee has used its best efforts to encourage its contractors to employ and,
13 when necessary, train existing state residents; and

14 (iii) has entered into contracts with Alaska-licensed vendors,
15 contractors, and suppliers for the provision of supplies and services in the
16 development of these leases and the associated contracts; and

17 (B) the state agencies having specific responsibility for improving the
18 employment opportunities of state residents, including job service offices for
19 employment recruitment and state-sponsored or supported programs for training, are
20 actively supplementing and supporting the lessee's undertakings."

Calista Corporation

601 W. 5th Avenue, Suite 200 • Anchorage, AK 99501-2225 • (907) 279-5518 Facsimile (907) 272-5060

Sent Via Facsimile

Office of the President

April 24, 1996

The Honorable Bill Williams
The Honorable Joe Green
Co-Chairman
House Resources Committee
State Capitol, Room 124
Juneau, AK 99801-1182

Dear Co-Chairman Green and Williams,

Calista Corporation is in favor of House Bill 548, North Star Oil Field Lease Agreement, with provisions for local and in-state contracting ability. Our state must continue to work toward developing new projects to stabilize the future of our economic health and well being.

Over the lifetime of the lease of Northstar Oil Field, the state must continue to oversee exploration and production costs, and a fair taxation process should be equivalent to Prudhoe Bay exploration and production costs.

We hope this Bill will be an incentive for continued progress by our state to work with the oil companies in other fields on the North Slope.

Sincerely,

CALISTA CORPORATION



Matthew Nicolai
President

cc: Governor Knowles
Senator Lynn Hoffman
Senator ~~Christina~~ Anna Lincoln

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

April 23, 1996

Representative Bill Williams
State Capitol, Room 128
Juneau, AK 99801-1182

RE: Northstar Lease Terms

Dear Honorable Bill Williams,

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. EP'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

9-GH2065\G
Chenoyeth
4/25/96

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 (c) It is the intent of the legislature that the commissioner of natural resources not
16 exercise authority under sec. 2(b)(1) of this Act to amend the Northstar Unit leases until all
17 of the mutual representations made by the lessee and the state agencies that are set out in
18 (b)(1) of this section are substantially complied with.

19 * **Sec. 2. AMENDMENT OF LEASES AUTHORIZED.** (a) The State of Alaska and BP
20 Exploration (Alaska) Inc. are parties to the following leases in the Northstar Unit:

- 21 (1) ADL 312798, effective February 1, 1980;
22 (2) ADL 312799, effective February 1, 1980;
23 (3) ADL 312808, effective February 1, 1980;
24 (4) ADL 312809, effective February 1, 1980; and
25 (5) ADL 355001, effective August 1, 1983.

26 (b) The commissioner of natural resources

27 (1) may amend the Northstar Unit leases described in (a) of this section to the
28 extent set out in the "First Amendment to the Northstar Unit Leases Between the State of
29 Alaska and BP Exploration (Alaska) Inc.", dated March 22, 1996;

30 (2) may not exercise the authority granted in (1) of this subsection unless the
31 governor, after being advised by the commissioners of commerce and economic development

1 and labor, as appropriate, first determines and certifies that

2 (A) the lessee, BP Exploration (Alaska) Inc.,

3 (i) has adopted a program to advertise for, recruit, and employ
4 qualified residents of the state in the development of these leases and that, by
5 implementing that program, the lessee will employ qualified residents of the
6 state in at least 85 percent of the jobs that are related to the development of the
7 Northstar Unit leases;

8 (ii) has negotiated contracts to fabricate all modules necessary
9 to develop the Northstar Unit leases within the state, the contracts were
10 negotiated only with existing Alaska-licensed firms, and that in contracting
11 with those firms, the lessee has used its best efforts to require its contractors
12 to employ and, when necessary, train existing state residents; and

13 (iii) has entered into contracts with Alaska-licensed vendors,
14 contractors, and suppliers for the provision of supplies and services in the
15 development of these leases and the associated contracts; and

16 (B) the state agencies having specific responsibility for improving the
17 employment opportunities of state residents, including job service offices for
18 employment recruitment and state-sponsored or supported programs for training, are
19 actively supplementing and supporting the lessee's undertakings.

20 * Sec. 3. REPORTING PROVISIONS. The lessee, BP Exploration (Alaska) Inc., shall file
21 with the commissioner of labor at least every six months the reports that the commissioner
22 of labor determines are necessary to evaluate the lessee's efforts described under
23 sec. 2(b)(2)(A) of this Act.

24 * Sec. 4. This Act takes effect immediately under AS 01.10.070(c).

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.

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

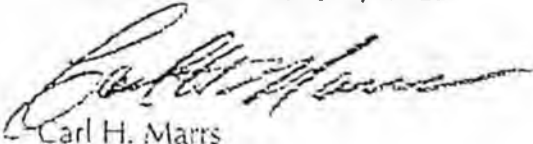
Cook Inlet Region, Inc. fully supports this negotiated agreement. For our part, we are satisfied that BP will do everything in its power to fulfill its commitments on local hire and local business participation in Northstar's development. We do not base this belief on misguided optimism, but on cold 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/Sp
0022a

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