

HB

548

SFIN

FILE

SENATE FINANCE COMMITTEE REPORT

DATE: 5/2/96

FURTHER:

DATE TURNED INTO OFFICE: 5/06/96

The Finance Committee considered CS FOR HOUSE BILL NO. 548(WTR)

authorizing the amendment of Northstar Unit oil and gas leases between the State of Alaska and BP Exploration (Alaska) Inc.; efd.

REPORTED OUT OF
SFC 5/06/96

and recommends:

- be replaced with S CS CS HB 548 (FIN)
- adopt previous _____ CS _____
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to the _____ Committee

- Senate Bill:**
- same title
 - new title
- House Bill:**
- same title
 - technical change
 - new: SCR# _____

SIGNING <u>DO</u> PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
		<i>Steve King</i>	✓		
		<i>Paul E. Kelly</i>	✓		
		<i>Wendell J. Berg</i>	✓		
		<i>Paul A. Grunoff</i>	✓		
Co-Chair: <i>Bob Thompson</i>	✓	Co-Chair: <i>J. No</i>	✓		
Co-Chair: <i>Richard Halsted</i>	✓	Co-Chair:			

NEW FISCAL NOTE(S):

Department Date Zero Fiscal

PREVIOUS FISCAL NOTE(S):*

Department Date Zero Fiscal

Nat. Resources / O&G	11/30/96	∅	
Nat. Resources / Pipeline Coordinator	3/29/96		431.1

APPROPRIATION -- no fiscal note

*include fiscal notes accompanying Governor's bill

FISCAL NOTE

No. 3

Bill Version: CSHB 548 (WTR)

(H) Publish Date: 4/30/96

STATE OF ALASKA

BII

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: Pipeline Coordinator
 Sponsor: House Rules Committee
 Requestor: House Resources Component Serial No. 1191

Expenditures/Revenues	(Thousands of Dollars)					
	FY97	FY98	FY99	FY00	FY01	FY02
OPERATING EXPENDITURES						
PERSONAL SERVICES	147.01	147.01	125.01			
TRAVEL	25.01	25.01	25.01			
CONTRACTUAL	243.01	243.01	75.01			
SUPPLIES	12.01	12.01	5.01			
EQUIPMENT	3.01	3.01				
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	431.01	431.01	231.01			
CAPITAL EXPENDITURES	0.01	0.01	0.01	0.01	0.01	0.01
CHANGE IN REVENUES						

FUND SOURCE	(Thousands of Dollars)					
1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
1001 Designated Program Receipts	431.01	431.01	231.01			
TOTAL	431.01	431.01	231.01			

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

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

ANALYSIS: (Attach a separate page if necessary)

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

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

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

Fiscal Analysis Continued...

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

FISCAL NOTE

STATE OF ALASKA
1996 LEGISLATIVE SESSION

BILL NO. CSHB548(RES)

Revision Date:	<u>Original</u>	Dept Affected:	<u>Natural Resources</u>
Title:	<u>An act authorizing, approving, and ratifying the</u>	BRU:	<u>Resource Development</u>
	<u>amendment of the Northstar Unit oil and gas leases...</u>	Component:	<u>Oil and Gas Development</u>
Sponsor:	<u>Rules by request of the Governor</u>		
Requestor:	<u>House Finance</u>	Component Serial No.	<u>#439</u>

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 (1002,1004)	0.0	1,900.0	20,900.0	38,400.0	36,900.0	15,650.0

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: \$ _____

POSITIONS	FY97	FY98	FY99	FY00	FY01	FY02
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 realize a significant increase in revenues from royalties and taxes from the Northstar Unit development over the next six years if this bill is passed. 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. If this is the case, DNR predicts that the state might receive about \$36 million in royalty and tax revenues over the next six years.

With passage of this bill, early the development of the Northstar field is possible. Full oil production is anticipated by 1999. Within this same six-year period, state revenues could be \$130 million more, including \$12 million from "supplemental royalties."

SEE ATTACHED TABLE FOR A FULL FINANCIAL ANALYSIS.

Prepared by:	<u>Ken Boyd, Director</u>	Phone:	<u>269-8800</u>
Division:	<u>Oil and Gas</u>	Date:	<u>30-Apr-96</u>
Approved by Commissioner:	<u>[Signature]</u>	Date:	<u>30-Apr-96</u>
Agency:	<u>Natural Resources</u>		

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HB548 FISCAL NOTE ATTACHMENT

State Revenues (without Northstar Lease Amendments)										
Year	State Royalty	State Supplemental Royalty	State Share of Federal Royalty	DNR Revenues	Severance Tax	Spill & Conserv. Tax	Property Tax	Corporate Income Tax	DOR Revenues	Total State Revenues
(Thousands of 1996 Dollars)										
1997	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
1998	00.0	00.0	00.0	00.0	00.0	00.0	00.0	00.0	00.0	00.0
1999	00.0	00.0	00.0	00.0	00.0	00.0	00.0	(200.0)	(200.0)	(200.0)
2000	00.0	00.0	00.0	00.0	00.0	00.0	400.0	(700.0)	(300.0)	(300.0)
2001	1,900.0	00.0	100.0	2,000.0	00.0	00.0	1,700.0	(1,000.0)	700.0	2,700.0
2002	<u>19,800.0</u>	<u>00.0</u>	<u>1,250.0</u>	<u>21,050.0</u>	<u>8,100.0</u>	<u>200.0</u>	<u>3,400.0</u>	<u>800.0</u>	<u>12,500.0</u>	<u>33,550.0</u>
	\$21,700.0	\$0.0	\$1,350.0	\$23,050.0	\$8,100.0	\$200.0	\$5,500.0	(\$1,100.0)	\$12,700.0	\$35,750.0

State Revenues (with Northstar Lease Amendments)										
Year	State Royalty	State Supplemental Royalty	State Share of Federal Royalty	DNR Revenues	Severance Tax	Spill & Conserv. Tax	Property Tax*	Corporate Income Tax	DOR Revenues	Total State Revenues
(Thousands of 1996 Dollars)										
1997	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$400.0	(\$700.0)	(\$300.0)	(\$300.0)
1998	1,800.0	00.0	100.0	1,900.0	00.0	00.0	1,600.0	(100.0)	1,500.0	3,400.0
1999	19,600.0	00.0	1,300.0	20,900.0	8,100.0	200.0	3,100.0	800.0	4,100.0	25,000.0
2000	35,700.0	400.0	2,300.0	38,400.0	14,800.0	400.0	4,300.0	2,900.0	7,600.0	46,000.0
2001	35,300.0	1,300.0	2,300.0	38,900.0	13,100.0	400.0	4,700.0	3,200.0	8,300.0	47,200.0
2002	<u>32,200.0</u>	<u>2,400.0</u>	<u>2,100.0</u>	<u>36,700.0</u>	<u>10,300.0</u>	<u>400.0</u>	<u>4,400.0</u>	<u>3,300.0</u>	<u>8,100.0</u>	<u>44,800.0</u>
	\$124,600.0	\$4,100.0	\$8,100.0	\$138,800.0	\$46,300.0	\$1,400.0	\$18,500.0	\$9,400.0	\$29,300.0	\$166,100.0

Change in State Revenues (with Northstar Lease Amendments)										
Year	State Royalty	State Supplemental Royalty	State Share of Federal Royalty	DNR Revenues	Severance Tax	Spill & Conserv. Tax	Property Tax*	Corporate Income Tax	DOR Revenues	Total State Revenues
(Thousands of 1996 Dollars)										
1997	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$400.0	(\$700.0)	(\$300.0)	(\$300.0)
1998	1,800.0	0.0	100.0	1,900.0	0.0	0.0	1,600.0	(100.0)	1,500.0	3,400.0
1999	19,600.0	0.0	1,300.0	20,900.0	8,100.0	200.0	3,100.0	1,000.0	4,300.0	25,200.0
2000	35,700.0	400.0	2,300.0	38,400.0	14,800.0	400.0	3,900.0	3,600.0	7,900.0	46,300.0
2001	33,400.0	1,300.0	2,200.0	36,900.0	13,100.0	400.0	3,000.0	4,200.0	7,600.0	44,500.0
2002	<u>12,400.0</u>	<u>2,400.0</u>	<u>850.0</u>	<u>15,650.0</u>	<u>2,200.0</u>	<u>200.0</u>	<u>1,000.0</u>	<u>2,500.0</u>	<u>(4,400.0)</u>	<u>11,250.0</u>
	\$102,900.0	\$4,100.0	\$6,750.0	\$113,750.0	\$38,200.0	\$1,200.0	\$13,000.0	\$10,500.0	\$16,600.0	\$130,350.0

A F A X

Alaska State Legislature

Date: May 6, 1986

To: Legal Services

Fax #: 2029 Phone #: 2450

From: Sen. Finance Committee - Jerry

Phone #: 4935

Re: please incorporate attached amendments into CS HB 548(WTR)
9-GH2065\U for final FIN. Many thanks.

Following this page, please find 4 pages(s). If this does not reach you in full, please inform us ASAP.



THANK YOU.

#1
5/6/96pm
SR
moved
adopted
contingent
fit title

Amendment to CS FOR HOUSE BILL No. 548(WTR):

1) Following the new Sec. 4 entitled AUDITING AND REPORTING, add a new Sec. 5 entitled

governor and

LIMITATION OF AUTHORITY. Except as provided under sec. 3 of this Act, the commissioner of natural resources may not negotiate the amendment of the competitively bid terms of any state oil and gas lease without ~~an~~ explicit authorization by the legislature through the passage of a general act granting the authority to do so

new legislation granting

2) Renumber the following sections.

and which clarifies the policy and authorities of the executive branch to negotiate, modify, and submit to the legislature proposed modifications. This prohibition does not apply to actions of the commissioner under AS 38.05.180(j)(1)(B) and (C).

conceptual amend by Rieger
Amend #15, adopted
authorization of N.S. law
lease to fit title

no } Halford
Zharoff
Donlay

per Betty: the conceptual amendment as drafted by Legal Services was not acceptable to Senator Rieger; therefore this amendment was not included.
5/6/96
at 10:05pm.

Amendment to CS FOR HOUSE BILL No. 548(WTR):

- 1) Following the new Sec. 4 entitled AUDITING AND REPORTING, add a new Sec. 5 entitled

LIMITATION OF AUTHORITY. Except as provided under sec. 3 of this Act, the commissioner of natural resources may not negotiate the amendment of 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.

- 2) Renumber the following sections.

Replaced by Amend #1

5/6/96 #
5

Sharp
moved

BS Call for
the question

Adopted

AMENDMENT to CS for HB 548 (WTR):

page 4, line ~~7~~ 7-9 delete all material

Insert: (3) the individual possesses a resident fishing,
trapping or hunting license or receives a permanent fund dividend;
and

P4. edit.

Delete "to make"

Insert "has"

Sharp

AMENDMENT #12

Adopted

In the Senate Finance Committee

To : CSHB 548(WTR)

Page 3, line 20: after "regarding" insert :
"the interpretation of the reporting obligations set out in"

Page 4, line 1: after "of" insert:
"accounting and reporting under the"

Page 4, line 13: after "of" insert:
"accounting and reporting under the"

Page 4, line 21: after "of" insert:
"accounting and reporting under the"

Page 4, line 29: after "of" insert:
"accounting and reporting under the"

Clarifies Am #5

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FOR: HB 548

Sen. Sharp moved
w/o objection adopted
#13

Amendment to CS for HB 548 (WTR):

P. 7, L. 26: After the words "to the legislature", insert a new Sec. 4 entitled:

AUDITING AND REPORTING. Four years after the effective date of this Act, the Legislative Budget and Audit Committee is instructed to undertake an audit of the lessee's compliance with their obligations under the "First amendment to the Northstar Unit Leases between the State of Alaska and BP Exploration (Alaska) Inc." (Northstar Agreement) and make a report of its findings to the President of the Senate and the Speaker of the House of Representatives.

Renumber the following sections accordingly.

moved Sen. Frank
w/o objection, adopted

#14

AMENDMENT to CS for HOUSE BILL No. 548(WTR)

Page 7, Line 26

Insert

The Commissioner of Labor shall also prepare and present to the legislature annually a comprehensive report by company on resident hire in the oil fields of the North Slope of Alaska which shall indicate residency of employees by Borough, unorganized Borough or Economic Region which compares the lessee's effort on voluntary resident hire to the comparable data for other North Slope oil field projects.

moved Sen. Frank
w/o object. adopted
#14
FRANK

AMENDMENT to CS for HOUSE BILL No. 548(WTR)

Page 7, Line 26

Insert

The Commissioner of Labor shall also prepare and present to the legislature annually a comprehensive report on resident hire in the oil fields of the North Slope of Alaska which shall indicate residency of employees by Borough which compares the lessee's effort on voluntary resident hire to the comparable data for other North Slope oil field projects.

by company

conceptual amendment:

5/6/96 #2
RP
moved

Amendment to CS FOR HOUSE BILL No. 548(WTR):

Page 7, line 26: After the words "to the legislature", insert a new Sec. 4 entitled:

AUDITING AND REPORTING. Four years after the effective date of this Act, the Legislative Budget and Audit Committee is instructed to undertake an audit of the lessees' compliance with their obligations under the "First Amendment to the Northstar Unit Leases between the State of Alaska and BP Exploration (Alaska) Inc." (Northstar Agreement), and to determine, based upon that review, whether the state has received the full value of the employment and construction benefits to which the lessees' have committed. If the Legislative Budget and Audit Committee concludes that the lessee has not complied fully with its commitments, including those commitments made as a matter of record during lessees' testimony before the legislature in support of the Northstar Agreement, it is to determine the monetary value of any unfilled obligation and make a report of its findings to the President of the Senate and the Speaker of the House of Representatives.

Eight years following the effective date of this Act, the Legislative Budget and Audit Committee shall consult with the Departments of Revenue and Natural Resources to estimate the total revenues which would have accrued to the State of Alaska under the original royalty and net profit share provisions and to determine the actual revenues then accrued under the amended royalty and net profit provisions of the Northstar Unit leases. The results of the Legislative Budget and Audit Committee's evaluation shall be reported to the President of the Senate and the Speaker of the House of Representatives.

2) Renumber the following sections.

5/10/96 #3

Amendment to CS FOR HOUSE BILL No. 548(WTR):

1) Page 1, line 5, after "FINDINGS AND INTENT. (a)" insert Based upon the findings of fact set out in the "Findings of Fact of the Senate Resources Committee Regarding SB 318" dated April 24, 1996 and the public record established by house and senate committees regarding HB 548.[T] t

2) Page 1, line 6 through Page 2, line 13, delete all text and replace with language from Page 1, line 8 through Page 2, line 27 of version "F" of CS FOR SENATE BILL NO 318(RES) with the following changes:

Page 2, line 25, after "must be maintained", add and

Page 2, line 27, after "and leases", delete [; AND THEREFORE] and add ,

5/6/96 #4

Amendment to CS FOR HOUSE BILL No. 548(WTR):

1) In Sec. 6, delete the language [THIS ACT TAKES EFFECT IMMEDIATELY UNDER AS 01.10.070(C)] and insert This Act takes 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 approved in writing the total amount of expenditures required for development of the Northstar project (project sanction).

5/6/96 #6

AMENDMENT

TO: HB 548

By: Senate Finance Committee

PAGE 3:

SECTION 2. DELETE ALL MATERIAL AND REPLACE WITH:

The legislature sets forth its intent regarding the meaning of certain words and phrases used in the "First Amendment to the Northstar Unit Leases between the State of Alaska and BP Exploration (Alaska) Inc. ("Amendment")". Specifically, the legislature sets forth its intent regarding Paragraph 41 of the 1980 leases entitled "Employment of Alaskan Residents" and Paragraph 31 of the 1983 Lease entitled "Employment of Alaskan Residents" in the Amendment (collectively "Employment Paragraphs"). The legislature intends that the Alaska residents, contractors, vendors and suppliers participating in the Northstar project are truly Alaskan and that Alaska residents throughout the state be given an opportunity to obtain employment on the Northstar project.

The legislature believes that its findings made in AS 36.10.005(a)(1)c(8) and (11)c(18), (c), and (d), regarding an employment preference for Alaska residents on state construction projects are equally applicable to the Amendment. The legislature believes that the state has a compelling interest in reducing the level of unemployment among its residents.

For purposes of Employment Paragraphs, the legislature intends that the phrases "Alaska resident," "residents of Alaska," and "resident personnel" mean an individual who is physically present in the state with the intent to remain in the state indefinitely and to make a home in the state. An individual demonstrates that intent by maintaining a residence in the state for one year before the date of hire. Other acceptable proof of that intent includes evidence that the individual:

- 1) was registered to vote in Alaska for the year previous to the date of hire;
- 2) attended school in Alaska within the year previous to the date of hire;
- 3) possessed an Alaska driver's, fishing, trapping, or hunting license for at least one year before the date of hire; or
- 4) received an Alaska permanent fund dividend for the year previous to the date of hire.

The hiring entity may also require that the individual state under oath that the individual is not claiming residency outside of the state or obtaining benefits under a claim of residency outside of the state.

For purposes of the Employment Paragraphs, the legislature intends that the word "available" means Alaska residents who are located anywhere in the state, not just residents located in the area of the state where the work is to be performed. The legislature further intends that the word "qualified" means an individual who either currently possesses the requisite education, training, skills or experience to perform the work necessary for a particular position or is capable of performing such skills after completing one of the job training programs that are contemplated in the Employment Paragraphs.

The legislature understands that nonresidents will be hired only if there is no available and qualified Alaska resident to perform the work. For purposes of the Employment Paragraphs, the legislature intends that the requirement to "advertise for available positions locally" includes advertising in newspapers and other publications located throughout the state, including rural areas, not just in the location where the work is to be performed. The legislature further intends that the requirement to "use Alaska job service organizations" includes those offices maintained by the Department of Labor whose functions are to aid the unemployed in finding employment and any job service organization located throughout the state, not just the location where the work is to be performed.

For purposes of the Northstar project, the legislature intends that the phrases "Alaska contractors", "Alaska firms", "Alaska vendors", and "Alaska suppliers" mean a contractor, firm, vendor or supplier that:

(1) has held an Alaska business license for one year before performing any work in connection with the Northstar leases; and

(2) has maintained for one year a place of business within the state that deals in the supplies, services or construction of the nature required for the project before performing any work in connection with the Northstar leases; and

(3) is

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

(b) a partnership and more than 50 percent of the partners are Alaska

residents;

(c) a corporation that has been incorporated in the state; or

(d) is a joint venture composed entirely of ventures that qualify under (1),

(2), and (3) (a), (b) or (c) above.

For purposes of the Northstar project, the legislature intends that the requirements that the lessee "furnish the Department of Labor a quarterly report regarding the Alaska residents on the leased area in compliance with regulations by the Commissioner of Labor" and "[t]he report must also include statistical data concerning the number of resident personnel hired within the past year for this lease" comply with the reporting requirements of 8 AAC 30.062 and shall include information regarding the number of nonresidents hired within the past year, and the number of Alaska contractors and non-Alaska contractors hired within the past year. The legislature intends that the provisions of the Amendment and this letter of intent be enforced to the greatest extent permissible under the constitution of the State of Alaska.

5/0/96 HJ

AMENDMENT

OFFERED IN SENATE FINANCE:
TO: HB 548(WTR)

Page, 7 Line 22:

Following "March 22, 1996." Insert:

If the agreement includes a provision confirming that the royalty or supplemental royalty share will be further adjusted based on production rates in excess of 50,000 bbl/day or cumulative production in excess of 130 million barrels, and setting forth a mechanism for such further adjustment; and

(a)

If the agreement includes a provision that the lessee agrees to utilize on-site production and processing modules for development of the Northstar oil field, and agrees to fabricate those modules within Alaska. BP Exploration (Alaska) Inc. will reimburse the State for any public funds expended to prepare, develop or operate any sites or facilities necessary for the fabrication, transportation or installation of the Northstar Unit production and processing modules. All expenses associated with the design, fabrication, transportation and installation of production and processing modules required for the development of the Northstar oil field will be the sole responsibility of BP Exploration (Alaska) Inc. and its contractors.

(b)

5/6/96 # 8

AMENDMENT

OFFERED IN SENATE FINANCE:
TO: HB 548(WTR)

Page, 5 Line 24:

following 1996: DELETE [IF THE AMENDMENT INCLUDES A PROVISION AS FOLLOWS:]

Page 5, Line 25 through Page 7, Line 18:

DELETE ALL MATERIAL AND INSERT THE FOLLOWING:

Paragraph 41 of each of the leases described in (a)(1)-(4) and Paragraph 31 of the lease described in (a)(5) of this section are replaced in their entirety as follows:

FABRICATION OF PRODUCTION AND PROCESSING MODULES WITHIN ALASKA AND EMPLOYMENT OF ALASKAN RESIDENTS.

Lessee agrees to utilize on-site production and processing modules for development of the Northstar oil field, and agrees to fabricate those modules within Alaska. BP Exploration (Alaska) Inc. will reimburse the State for any public funds expended to prepare, develop or operate any sites or facilities necessary for the fabrication, transportation or installation of the Northstar Unit production and processing modules. All expenses associated with the design, fabrication, transportation and installation of production and processing modules required for the development of the Northstar oil field will be the sole responsibility of BP Exploration (Alaska) Inc. and its contractors.

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 hire residents of Alaska. Lessee shall advertise for available positions locally and use Alaska job service organizations to notify the Alaskan public. For work n connection with this lease, lessee shall purchase materials and services from Alaska vendors, suppliers, and consultants and shall contract with Alaska firms for fabricating the modules for on-site production and processing facilities in Alaska. Lessee shall submit annually to the Director, Division of Oil and Gas, for transmission to the President of the Senate and the Speaker of the House of Representatives, 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 with this lease. Lessee shall furnish the Department of Labor, for transmission to the President of the Senate and the Speaker of the House of Representatives, a quarterly report regarding the employment of Alaska residents on the lease areas in compliance with regulations by the Department of Labor. The report must also include statistical data concerning the number of resident personnel hired within the past year for this lease.

Page 7: Line 22

Following "1996." Insert:

If the agreement includes a provision confirming that the royalty or supplemental royalty share will be further adjusted based on production rates in excess of 50,000 bbl/day or cumulative production in excess of 130 million barrels, and setting forth a mechanism for such further adjustment, and

Page 7: Lines 23-26:

DELETE ALL MATERIAL

Shamp / Amend to CS HB 349 (JR)

Pg 5

5/6/96 # 9

Line 29 Delete

BS
moved
withdraw

'not discriminate against'

Insert "give preference"

Line 30 Add in front of
Alaska, "to"

and after contractor add
to the maximum extent
possible

Shaw / Amendment to CS HB349 (OTR)
Pg 5

9

Line 29 Delete

"not discriminate against"

Insert "give preference"

Line 30 Add in front of
Alaska, "to"

and after contractor Add

to the maximum extent
possible

5/6/96

#10

AMENDMENT to CS for HOUSE BILL No. 548 (WTR)

Page 7

INSERT NEW SECTION #5 and Renumber accordingly.

The Commissioner of Labor shall prepare and present to the legislature annually a comprehensive report on resident hire in the oil fields of the North Slope of Alaska which shall indicate residency of employees by Borough.

Amendment #11

AMENDMENT to CS for HB 548 (WTR):

page 7, line 26: After the words "to the legislature", insert a new Sec. 4 entitled:

AUDITING AND REPORTING. Four years after the effective date of this Act, the Legislative Budget and Audit Committee is instructed to undertake an audit of the lessee's compliance with their obligations under the "First amendment to the Northstar Unit Leases between the State of Alaska and BP Exploration (Alaska) Inc." (Northstar Agreement), including those commitments made as a matter of record during lessee's testimony before the legislature regarding the "Agreement" and make a report of its findings and opinions to the President of the Senate and the Speaker of the House of Representatives.

Renumber the following sections accordingly.

*moved Sen. Sharp
w/o objection adopted*

AMENDMENT #12

In the Senate Finance Committee

To : CSHB 548(WTR)

Page 3, line 20: after "regarding" insert :

"the interpretation of the reporting obligations set out in"

Page 4, line 1: after "of" insert:

"accounting and reporting under the"

Page 4, line 13: after "of" insert:

"accounting and reporting under the"

Page 4, line 21: after "of" insert:

"accounting and reporting under the"

Page 4, line 29: after "of" insert:

"accounting and reporting under the"

5/6/96

By: Senator Georgianna Lincoln

Letter of Intent for SB318

The legislature sets forth its intent regarding the meaning of certain words and phrases used in the ^{Amendment} Amendment to the Northstar Unit Leases between the State of Alaska and BP Exploration (Alaska) Inc. ("Amendment"). Specifically, the legislature sets forth its intent regarding Paragraph 41 of the 1980 Leases entitled "Employment of Alaskan Residents" and Paragraph 31 of the 1983 Lease entitled "Employment of Alaskan Residents" in the Amendment (collectively "Employment Paragraphs"). The legislature intends that the Alaska residents and contractors discussed in the Employment Paragraphs are truly Alaskan and that Alaska residents throughout the state be given an opportunity to obtain employment on the Northstar project.

The legislature believes that its findings made in AS 36.10.005(a)(1)c(8) and (11)c(18), (c), and (d), regarding an employment preference for Alaska residents on state construction projects are equally applicable to the Amendment. The legislature believes that the state has a compelling interest in reducing the level of unemployment among its residents.

For purposes of Employment Paragraphs, the legislature intends that the phrases "Alaska resident," "residents of Alaska," and "resident personnel" mean an individual who is physically present in the state with the intent to remain in the state indefinitely and to make a home in the state. An individual demonstrates that intent by maintaining a residence in the state for one year before the date of hire. Other acceptable proof of that intent includes evidence that the individual: (1) was registered to vote in Alaska for the year previous to the date of hire; (2) attended school in Alaska within the year previous to the date of hire; (3) possessed an Alaska driver's, fishing, trapping, or hunting license for at least one year before the date of hire; or (4) received an Alaska permanent fund dividend for the year previous to the date of hire. The hiring entity may also require that the individual state under oath that the individual is not claiming residency outside of the state or obtaining benefits under a claim of residency outside of the state.

For purposes of the Employment Paragraphs, the legislature intends that the word "available" means Alaska residents who are located anywhere in the state, not just residents located in the area of the

state where the work is to be performed. The legislature further intends that the word "qualified" means an individual who either currently possesses the requisite education, training, skills, or experience to perform the work necessary for a particular position or is capable of performing such skills after completing one of the job training programs that are contemplated in the Employment Paragraphs.

The legislature understands that nonresidents will be hired only if there is no available and qualified Alaska resident to perform the work. For purposes of the Employment Paragraphs, the legislature intends that the requirement to "advertise for available positions locally" includes advertising in newspapers and other publications located throughout the state, including rural areas, not just in the location where the work is to be performed. The legislature further intends that the requirement to "use Alaska job service organizations" includes those offices maintained by the Department of Labor whose functions are to aid the unemployed in finding employment and any job service organization located throughout the state, not just the location where the work is to be performed.

For purposes of the Employment Paragraphs, the legislature intends that the phrases "Alaska contractors" and "Alaska firms" mean a firm or contractor that:

- (1) has held an Alaska business license for one year before performing any work in connection with the Northstar leases; and
- (2) has maintained for one year a place of business within the state that deals in the supplies, services or construction of the nature required for the project before performing any work in connection with the Northstar leases; and

(3) is

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

(b) a partnership and more than fifty percent of the partners are Alaska residents;

(c) a corporation that has been incorporated in the state; or

(d) is a joint venture composed entirely of ventures that

qualify under (1), (2), and (3), (a), (b) or (c) above.

For purposes of the Employment Paragraphs, the legislature intends that the requirements that the lessee "furnish the Department of Labor a quarterly report regarding the Alaska residents on the leased area in compliance with regulations by the Commissioner of Labor" and "[t]he report must also include statistical data concerning the number of resident personnel hired within the past year for this lease" comply with the reporting requirements of 8 AAC 30.062 and shall include information regarding the number of nonresidents hired within the past year, and the number of Alaska contractors and non-Alaska contractors hired within the past year. The legislature intends that the provisions of the Employment Paragraphs be enforced to the greatest extent permissible under the constitutions of the United States and the State of Alaska.



BP EXPLORATION

John C. Morgan
President, Alaska

BP Exploration (Alaska) Inc.
900 East Benson Boulevard
P.O. Box 196612
Anchorage, Alaska 98519-6612
(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 searift providing that suitable facilities to do this are available. We are working with our contractors to do everything possible to ensure the facilities will be available.

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

We appreciate the opportunity to provide comments to your committee.

Sincerely,

John C. Morgan



General Teamsters Local 959 State of Alaska

Affiliated with the International Brotherhood of Teamsters

ANCHORAGE ALASKA 99504 4320 BOULDER BLVD (907) 269-4122 FAX (907) 337-6668 GERALD L. MOOD SECRETARY/TREASURER

FALLENBERG'S ALASKA W/OT P.O. BOX 70609 (907) 452-2850 FAX (907) 452-2651
HINEALL ALASKA 99501 374 VANHOUSE BLVD (907) 434-3225 FAX (907) 434-1227

May 3, 1996

Senator Rick Halford
Senator Steve Frank
Co-Chairs, Senate Finance Committee
Alaska State Senate
Juneau, AK 99801

Dear Co-Chairmen:

As you are aware, I have previously corresponded with both the House and Senate Resource Committees expressing my concern with regard to the Administration's proposal on the North Star Leases.

After extensive conversations with officials of British Petroleum, its proposed subcontractors and members of the Administration, I am convinced the concerns raised in my previous correspondence have been eliminated and I now can strongly support the North Star proposal as it is embodied in the World Trade and State/Federal Relations committee substitute for House Bill 548.

My union along with several others have reached accord with subcontractors on this project to utilize our Alaskan hiring halls thus assuring a higher degree of residential hire than otherwise could have been expected absent such an agreement.

Because of the record established by Chairman Barnes during the World Trade Committee hearing conducted on April 29, 1996, I believe the legislation before you will pass constitutional muster. The review process established in the committee's substitute for HB 548 will keep this project under such a fine microscope that no prudent company wishing to continue to do business in this state dare violate it's spirit and intent.

Most importantly, BP's public commitment to utilize on-site production and processing modules and its further commitment to

Senator Rick Halford
Senator Steve Frank
May 3, 1996
Page 2

fabricate those modules within Alaska is an exciting development as other opportunities for future oil and gas exploration and production present themselves such as the eventual opening of ANWR. Without BP's public commitment this work most likely would have been performed in Canada or Louisiana.

Thank you for your consideration of my position on this most important matter. I urge you to pass the House World Trade and State/Federal Relations Committee substitute without amendment.

Sincerely,

TEAMSTERS LOCAL 959



Gerald L. Hood
Secretary-Treasurer

JFC
5/5/96

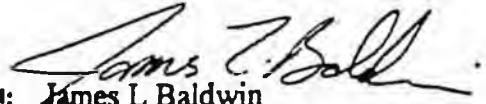
MEMORANDUM

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



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

TELEPHONE NO.: 465-3600

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 was signed into law by the governor and became ch. 85, SLA 1995.

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

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

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

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

2. Local or Special Legislation

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

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

Alaska Const. Art. II, Sec. 19.

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

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

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

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

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

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

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

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

3. Public Purpose.

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

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

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

Because the State leased the oil rights at the Northstar field pursuant to the constitutional mandate to obtain the maximum public benefit, an effort to expedite production vitally affects the public interest. See Swindel v. Kelly, 499 P.2d 291, 298 n.27 (Alaska 1972) (ruling that State Constitution recognizes value of all public lands); 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. McKinnon v. ALPETCO, 633 P.2d 281, 287 (Alaska 1981). A new contract can only be awarded through another round of competitive bids. Id.

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

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

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

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

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

JLB/clh

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.

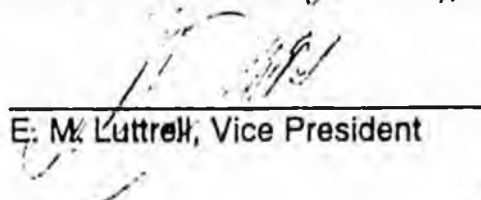
(b) The spot price is the price per barrel calculated in Article 3.3 of and Exhibit 4 to the ANS Royalty Litigation Settlement Agreement ("ANS Agreement"), dated December 31, 1991, between the State and BPXA, for the crude oil referred to

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.

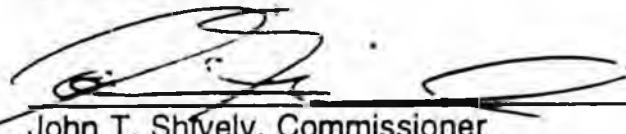
LESSEE:

BP EXPLORATION (ALASKA), INC.


E. M. Luttrell, Vice President

LESSOR:

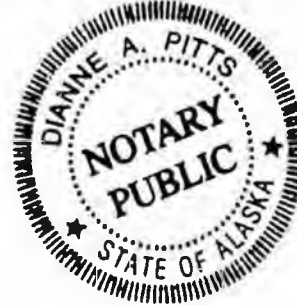
STATE OF ALASKA


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 December of the previous year ÷ PPI December 1995) - 1] x 0.5
= [(134.2 ÷ 126.2) - 1] x 0.5 = 0.0317 = 3.17 percent

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

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

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

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

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

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

EXHIBIT C

PROJECT SCHEDULE

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

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

TONY KNOWLES
GOVERNOR

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

HB548
P O Box 110001
Juneau Alaska 99811-0001
(907) 465-3500
Fax (907) 465-3532

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.

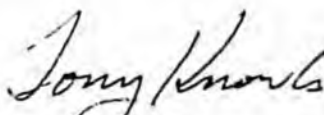
And third, the amendment replaces the current Alaska hire provisions in the leases with more forceful provisions that require BP Exploration (Alaska) Inc. to hire Alaskans, within the constraints of the law, and to contract with local construction and fabrication companies to build the project facilities. 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,



Tony Knowles
Governor

FISCAL NOT

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

STATE OF ALASKA
1996 LEGISLATIVE SESSION

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

Expenditures/Revenues (Thousands of Dollars)

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

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 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: 269-3800
 Division: Oil & Gas Date: 28-Mar-96
 Approved by Commissioner:  Date: 28-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)	(16.5)	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.

FISCAL NOTE

STATE OF ALASKA
1996 LEGISLATIVE SESSION

BILL NO.

HB 548

Title:

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

Dept. Affected

Natural Resources

BRU:

Resource Development

Sponsor:

House Rules

Components:

Oil & Gas Development

Requestor:

Serial #

EXPENDITURES/REVENUES: (THOUSANDS OF DOLLARS)

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

CAPITAL						
---------	--	--	--	--	--	--

REVENUE						
---------	--	--	--	--	--	--

FUNDING: (THOUSANDS OF DOLLARS)

General Fund						
Federal Fund						
Other						
TOTAL						

POSITIONS:

Full-Time						
Part-Time						
Temporary						

ANALYSIS: (ATTACH A SEPARATE PAGE IF NECESSARY)

attached analysis

prepared by:

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

House Special Committee on
World Trade and State Federal Relations
Rep. Ramona Barnes,
Chair

Date: 4-29-96
Phone: 465-3438
Phone:

SENATE CS FOR CS FOR HOUSE BILL NO. 548(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - SECOND SESSION

BY THE SENATE FINANCE COMMITTEE

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 the interpretation of the reporting obligations set out in Paragraph 41 of the
21 1980 Leases titled "Employment of Alaskan Residents" and Paragraph 31 of the 1983 Lease
22 titled "Employment of Alaskan Residents" in the Northstar Amendment, collectively the
23 "Employment Paragraphs." The legislature intends that the Alaska residents and contractors
24 discussed in the Employment Paragraphs are truly Alaskan and that Alaska residents
25 throughout the state be given an opportunity to obtain 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 accounting and reporting under the
2 Employment Paragraphs, that

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

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

8 (3) the individual possesses a resident fishing, trapping, or hunting license or
9 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 accounting and reporting under the
14 Employment Paragraphs,

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

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

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

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

31 (g) The legislature intends that, for purposes of accounting and reporting under the

1 Employment Paragraphs, the phrases "Alaska Contractors" and "Alaska firms" mean a firm
2 or contractor that

3 (1) holds an Alaska business license;

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

5 (3) is

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

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

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

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

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

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

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

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

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

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

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

24 (b) The commissioner of natural resources may amend the Northstar Unit leases
25 described in (a) of this section to the extent set out in the "First Amendment to the Northstar
26 Unit Leases Between the State of Alaska and BP Exploration (Alaska) Inc.", dated March 22,
27 1996, if the amendment includes a provision as follows:

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

30 "41. EMPLOYMENT OF ALASKAN RESIDENTS. Lessee
31 shall comply with all valid federal, State and local laws in hiring

1 Alaska residents and contractors and shall not discriminate against
2 Alaska residents or contractors. Within the constraints of law, lessee
3 shall employ Alaska residents and contractors to the extent they are
4 available and qualified. Subject to the foregoing:

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

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

27 "31. 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"; and

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

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

30 (b) The commissioner of labor shall also prepare and present to the legislature
31 annually a comprehensive report by company on resident hire in the oil fields of the North

1 Slope of Alaska, which shall indicate residency of employees by borough, unorganized
2 borough, or economic region, and which shall compare the lessee's effort on voluntary
3 resident hire to the comparable data for other North Slope oil field projects.

4 * Sec. 5. AUDITING AND REPORTING. Four years after the effective date of this Act
5 the Legislative Budget and Audit Committee shall undertake an audit of the lessee's
6 compliance with its obligations under the "First Amendment to the Northstar Unit Leases
7 between the State of Alaska and BP Exploration (Alaska) Inc." and make a report of its
8 findings to the president of the senate and the speaker of the house of representatives.

9 * Sec. 6. SEVERABILITY. Under AS 01.10.030, the provisions of this Act are severable.

10 * Sec. 7. This Act takes effect immediately under AS 01.10.070(c).



131 SOUTH ROBERTSON STREET
P.O. BOX 61780
NEW ORLEANS, LA 70161-1780
18041 801 8811

April 30, 1996

VIA FACSIMILE (907) 465-4928

Senator Rick Halford
Co-Chair, Senate Finance Committee
Alaska State Legislature
State Capitol (MS 3100)
Juneau, AK 99801-1182

Re: Senate Bill No. 318
State of Alaska Net Profit Share Leases
Northstar Unit, Beaufort Sea, Alaska

Dear Senator Halford:

I respectfully offer the following comments from the perspective of an independent oil company and working interest owner in the Northstar Unit in support of amending the net profit share leases under the terms negotiated by State of Alaska, Department of Natural Resources and BP Exploration (Alaska) Inc.

Murphy Oil Corporation, based in El Dorado, Arkansas, has been in Alaska since 1966 as an investor and Operator. Murphy Exploration & Production Company, a subsidiary of Murphy Oil Corporation, holds a 1.92 percent working interest in Northstar, and we operate the Sandpiper Unit adjacent to Northstar in the Beaufort Sea which has proved hydrocarbons, but in smaller quantities, and it is still in the evaluation stage.

Independent oil companies like Murphy conduct most of the oil exploration and development activity in the Lower 48, but they're conspicuous in their virtual absence from Alaska due to Alaska's high costs, restrictive regulations and lack of economic incentives. One of the keys to attracting smaller independents to Alaska is reducing costs. An element in reducing costs is extending the reach of existing infrastructure, and conversely, the distance to new prospects.

As an illustration, in the Gulf of Mexico, independents like Murphy started by participating in developing large oil fields that generated sufficient returns to offset high development costs. Once facilities for those large fields were in place, we were able to begin exploring for and developing smaller nearby fields that wouldn't have been commercial without the offshore infrastructure already in place.

On the North Slope, Prudhoe Bay provides the anchor for other smaller fields. Without it, there

Senator Halford

April 30, 1996

Page 2

would be no Trans-Alaska Pipeline System. Without TAPS, there would be no Kuparuk. No Endicott. No Point McIntyre. No North Slope oil industry.

Without the critical mass now in place on the North Slope, it would not be feasible to consider developing Northstar, and Northstar is one of the incentives Murphy has to stay in Alaska, even with our small interest. As one of the original partners in Northstar, we've retained our interest in the hope that the field one day will produce oil. We believe that by providing new oil field infrastructure and technology, Northstar can truly play an important role in pioneering a new frontier in Alaskan oil development.

Without question, development of the Northstar oil field will bring significant benefits to Alaskans in the form of new jobs, businesses, government revenues and economic development. Less obvious, but perhaps equally significant to Alaskans, is what it could do to spark renewed interest among smaller, independent oil companies to invest in Alaska and diversify the Alaskan oil industry.

We view Northstar as a steppingstone as well. Infrastructure and technology developed for Northstar could possibly enhance the economics of developing our nearby Sandpiper Unit, a known oil and gas accumulation located about 12 miles west-northwest of Northstar.

With current state lease terms - which include an average 90 percent net-profits tax imposed in addition to royalties and other taxes once costs are recovered - it is extremely doubtful Northstar will be developed.

BP and the Department of Natural Resources have negotiated an agreement that removes this obstacle while guaranteeing early development, new jobs, new business, new government revenues and new economic development opportunities to Alaskans. It is our opinion this agreement should be ratified by the legislature which will result in the highest royalty rate on the North Slope to the State.

There are many sound reasons why Alaskans should support the agreement. From my perspective as an executive with an independent oil company that wants to invest in Alaska, they have as much to do with "intangibles" like the message Northstar development will send to other independents and smaller companies that are interested in investing in Alaska as with tangible benefits like jobs, revenues, business and growth.

That message would be that Alaska is truly "open for business" - not only to the major oil companies, but to independents like Murphy as well.

Murphy Oil has spent many years and a great deal of capital and manpower in Alaska with no return to date. Therefore, regardless of our past investments, we must continually compare our investment options in Alaska to those in other Frontier regions of the world.

Senator Halford
April 30, 1996
Page 3

We want to stay in Alaska. The question is whether the State is willing to remove the economic obstacles which were imposed in a different era when oil prices were expected to be significantly higher than the current prices.

We will certainly appreciate your support in passing the Northstar proposal.

Sincerely,



Woods W. Allen
Sr. Vice President

O:\ALASKA\LEGISLATION

NATCHIQ, INC.

ALASKA PETROLEUM
CONTRACTORS, INC.

HOUSTON CONTRACTING
COMPANY - ALASKA, LTD.

VRCA ENVIRONMENTAL
SERVICES, INC.

3 May 1996

Senator Rick Halford
Alaska State Legislature
State Capitol (MS3100)
Juneau, Alaska 99801-1182

Dear Senator Halford:

Thank you for taking a few moments of your time yesterday to discuss BP's Northstar project with me. As I mentioned to you, our company, through its operating subsidiaries Alaska Petroleum Contractors, Inc. (open shop) and Houston Contracting Company (union), has been involved with BP's Northstar project for the last 14 months on a continuous basis. Through the project's unique planning and management forum that was established in March of 1995, we have had an unusual opportunity to contribute to the overall project strategies and technical approaches while developing a very comprehensive knowledge of the project. Houston Contracting and Alaska Petroleum Contractors jointly contribute 6 full time construction engineers to this planning group which is called the Project Management Team (PMT). BPX and the other Northstar Alliance contractors, such as AIC and VECO, provide personnel to this team as well. The team in turn reports to a Senior Management Forum which includes senior managers from each participating company. This unique approach to project development establishes the very core of the project design and field constructability. One of the primary functions of the work teams and management group is the evaluation of various project alternatives and subsequent costs which include where the fabrication will be performed and who will perform it. To this point in the process the teams have a high degree of confidence that a very high proportion of the fabrication and installation work can be performed by Alaskan companies using Alaskan residents.

The economic considerations of this project have been well discussed and are well understood by all parties involved. However, the issue at hand seems to be the level of commitment BPX has to the State regarding the utilization of Alaskan companies and Alaskan residents. As a result of our in depth involvement with BPX on the PMT and Senior Management Forum, I can represent with a great level of confidence that Alaskans will be utilized to the fullest extent that is possible.

We have a concern about the attempts to write in guarantees, percentages or quotas for the use of Alaska labor. These attempts at guarantees significantly risk entangling the project in the same legal challenges that were previously encountered in attempts

A Subsidiary of Arctic Slope Regional Corporation

8700 Arctic Spur Road • Anchorage, Alaska 99516-1880 • (907) 344-3737 • FAX: (907) 267-3190

guarantees for the latter, they have issued numerous public and written statements concerning Alaska labor and companies, and thereby seriously jeopardize their corporate reputation and credibility should they not comply with their representation.

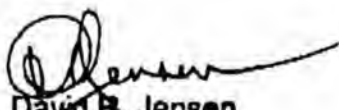
Very importantly, the small truckable module business has created quality jobs for Alaskans, but the demand is limited, and our facilities are under utilized. BP wants to change that with Northstar. It wants us to develop the expertise to build the much larger production modules Northstar - and the other new and smaller North Slope oil fields - will require. Modules so large they would have to be transported north by sea-lift. Modules that heretofore have been built in places like Louisiana, California and Washington.

And BP is willing to pay a premium to help move our Alaska-based industry forward. That investment could pay real dividends for Alaskans by helping a home grown industry develop the experience it needs to produce a competitively priced product for oil fields in Alaska and other parts of the world.

We strongly support passing the bill as it was initially presented by the administration, without amendments.

Sincerely,

NATCHIQ, INC.



David R. Jensen
President & CEO

405-4928
RMSOB

April 25, 1996

Senator Rock Halverson
Alaska State Legislature
State Capitol
Juneau, AK 99801

VIA FAX TRANSMITTAL

Re: Approval of Northstar Development Proposal

Dear Senator:

I am writing to you to request your support for the request made by BP Exploration (Alaska) to remove the net profit terms from the Northstar Units leases, in exchange for other considerations.

I am an Alaska resident working for Quality Fabrication, Inc. in Anchorage. This company fabricates structural steel, including the structures for truckable modules, for the oil companies, including BPX.

Last year our company worked over 100,000 hours on oil-field related projects. As an individual, I worked 12 months of 1995 on projects such as Milne Point. This work enabled me to pay for living expenses and other goods and services in our local economy.

Keep me working! Please support this agreement and pass the legislation required to allow Northstar to move forward.

Thank you for listening!

Sincerely,

Robert Halverson

MAY 04 1996

April 30, 1996

Dear Senator Halford:

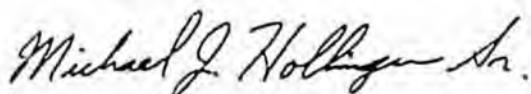
I reside in Eagle River and work for B.P. Exploration at Endicott. My concern is in regard to the development of the North Star Offshore Oil and Gas Field. As you know the larger oil fields on the North Slope are in decline, therefore it is imperative that the major oil companies and the Alaska State Legislature work together toward the development of new marginal oil and gas fields on the North Slope.

Due to the greater risk, capital expense and investment in developing and producing a marginal oil field such as North Star, there must be a change in the formula in which state royalties are paid from the production of these smaller oil fields, it cannot be business as usual.

I believe our state legislature must not only be wise and prudent, they also must be reasonable when negotiating with the major North Slope oil producers. A reasonable agreement should be negotiated with both sides being winners. If this does not become a reality soon, North Star will not be developed. Alaska will lose approximately 1/2 billion dollars in state revenue, plus a new fabrication facility built at the Port of Anchorage, at no expense to the state, not to mention approximately 500 construction and 50 permanent jobs for Alaskans.

If the state and major oil companies cannot come to a favorable agreement, more oil money will go to South America, China, Russia, etc., where risk and total investment are significantly less. Alaska's marginal oil fields will remain undeveloped while Alaska's North Slope continues in decline, and everyone is the loser.

Sincerely,



Michael J. Hollinger, Sr

Carol Jensen

4800 East 112th Avenue
Anchorage, AK 99516-1612
(907) 346-3321

May 3, 1996

To: Senate Finance Committee/Senator Halford, Senator Steve Frank Co-Chairs

RE: Northstar/BP

This is the last chance to stop this bill that is bad for Alaskans and good only for BP (and other oil companies who will demand the same deal).

Please read the article in the Anchorage Daily News Business Section 5/3/96 "Incentives Game Often Risky".

Between the Federal government and our State legislature, the oil companies are enjoying many breaks in royalty/tax breaks and incentives for "marginal" fields, heavy oil, etc. I'm tired of the state caving in to oil companies' extravagant lobbying and donation powers, while cutting needed services and environmental resource protections. The oil companies have been firing people so the company CEO's can become millionaires many times over. Oil company profits have been SOARING. THEY DO NOT NEED THESE BREAKS AND INCENTIVES. Don't buy into their threats of not developing or moving overseas. They know the oil is here. The potential for them to become much wealthier and more powerful is here. They will drill eventually without you giving away our public resources and future now.

There are many qualified oil and related field workers in Alaska who lost their jobs due company layoffs and the hiring of out-of-state workers and buying goods and services from out of state. If BP were serious about Alaskan hire and using Alaskan support companies, they wouldn't object to having it in this bill. Perhaps your committee should take a close look at Rep. John Davies amendments that failed in the House.

The House members who supported this bill said it was "rude" to think BP wouldn't live up to their local hire pledges. I think what BP, the Governor and the legislature is trying to do to the people of Alaska is more than "rude".

Thank you for your attention and consideration.


Carol Jensen

ALASKA COUNCIL ON EMERGENCY MEDICAL SERVICES

MAY 01 1996

ACEMS
P.O. Box 110616
Juneau, Alaska 99811-0616
(907) 465-3027



May 1, 1996

Senator Rick Halford
Room 508 State Capitol
Juneau, AK 99801-1182

Dear Senator Halford,

At its April 29, 1996 meeting, the Governor's Alaska Council on Emergency Medical Services voted to support three bills which impact injury prevention and emergency medical services programs.

We urge you to support C.S. for House Bill No. 366, the proposed legislation for marine safety training programs, sponsored by the Alaska Marine Safety Education Association (AMSEA). This bill would provide a stable source of funding for marine safety training in Alaska. AMSEA training has resulted in statistically significant reductions in loss of life among commercial fishers in Alaska. Commercial fishing is the most dangerous occupation in Alaska, resulting in many deaths and serious injuries each year. As prior funding sources expire, the financial viability of AMSEA is in jeopardy.

The Alaska Council on EMS also supports House Bill No. 57, an act related to a graduated licensing system for persons under 21 years of age, and urges you to support it. Statistics show that traffic crashes are the number one cause of death for youth nationwide. In Alaska, teenagers are 6.2 percent of the drivers, yet they cause almost 13 percent the total traffic crashes in the state. This bill is an injury prevention effort which supports safe driving practices by allowing young drivers to learn to drive over a period of time with restrictions, limiting poor driving practices by suspending a license for excessive point accumulation, and will save lives by keeping unsafe, teen drivers off the roads and highways.

C.S. for House Bill No. 204, known as the "zero tolerance" act, is also supported by the Council, and we urge your vote in support of this legislation. This bill strengthens existing laws and provides that the offender satisfy requirements of an alcohol safety action program either in the community or approved by the Department of Health and Social Services, thus ensuring that the offender receives training and education to deter the likelihood of committing the same offense.

I suggest you contact Mark Johnson, Chief of the Community Health and Emergency Medical Services Section, in the Department of Health and Social Services, for more information on these important issues.

Sincerely,

John Hall, M.D.
Chairman
Alaska Council on EMS

cc: Karen Perdue, DHSS Commissioner
Peter M. Nakamura, MD, MPH, DPH Director