

ALASKA LEGISLATURE

1449

HOUSE and SENATE FINANCE COMMITTEE FILES, 1995-1996

HB

545

HFIN

FILE

no/oby

AMENDMENT

OFFERED IN THE HOUSE

BY

TO: CSHB 545 (STA)

Page 1, line 11:

Following "Administration":

Insert "and to set the eligibility criteria for the differential and the differential rate itself, outside of the collective bargaining context."

Page 2, following line 10:

Insert new subsections to read:

"(e) An employee eligible for the cost-of-living differential is entitled to receive the following pay differential unless a different rate is established by the director of personnel under (f) of this section:

Communities of Residence	Percent Increase Above Out-of-State Rate
Anchorage	0.0
Juneau	0.0
Ketchikan/Prince of Wales	5.0
Valdez/Cordova	5.0
Petersburg/Wrangell/Sitka	5.0
Kodiak	5.0

(f) The director of personnel in the Department of Administration may adopt regulations to adjust the pay differential as set out in (e) of this section and establish a differential for employees residing in places not designated in (e) of this section. The differential is not subject to collective bargaining under AS 23.40.070 - 23.40.260. The

differential shall be established or adjusted under this subsection to reflect changes in the cost of living between communities of residence in this state and the cost-of-living in Bellingham, Washington, as a base of 100. The director of personnel shall conduct a cost of living survey every five years. The cost-of-living differential is subject to legislative review on an annual basis."

Reletter the following subsection accordingly.

HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: April 17, 1996

FURTHER REFERRALS:

Date of Committee Action: 4/24/96

The FINANCE Committee considered:

HB 545

HOUSE BILL NO. 545

PUB. EMPLOYEE COST OF LIVING DIFFERENTIAL

“An Act relating to the cost-of-living differential for certain public employees residing in the state and the criteria for determining eligibility for the differential; and providing for an effective date.”

recommends it be replaced with the following committee substitute CS HB 545 (FIN) the same title
 a new title

additional referral to _____ Committee
 attached amendment(s)

ADOPTS: _____ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) _____ APPROVES PREVIOUS: (Dept/Date) _____
 fiscal note(s) _____ fiscal note(s) _____

zero fiscal note(s) _____ zero fiscal note(s) DOA, DOR, DOT
3/22/96

SIGNING WITH RECOMMENDATIONS	DP	DNP	NR	AM
<i>Richard J. Foster</i> Foster	X			
<i>Mark Hanley</i> Hanley	X			
<i>Edna Mulder</i> Mulder	X			
<i>Jan Parnell</i> Parnell	X			
<i>Vin Volunina</i> Volunina	X			
<i>Ben Grosser</i> Grosser	X			
<i>Tim Brown</i> Brown	X			
<i>Mike Kelly</i> Kelly	X			
<i>Gene Theriault</i> Theriault	X			

CO CHAIR'S SIGNATURE *Mark Hanley* *Richard J. Foster*
HANLEY FOSTER

FISCAL NOTE

No.
 Bill Version: HB 545
 (H) Publish Date: 3/22/96

STATE OF ALASKA
 1996 LEGISLATIVE SESSION

Revision Date: _____ Dept. Affected: DOT&PF
 Title: Cost of Living Differential for certain public BRU: Office of the Commissioner
employees and criteria for determining eligibility Component: various
 Sponsor: Rules
 Requester: Governor COMPONENT SERIAL NO. 530

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	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	0.0	0.0	0.0	0.0	0.0	0.0

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

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1008 GF/MHTIA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY96) cost: \$ 0.0

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)

This fiscal note assumes that the bill will not significantly change the current determination of eligibility for Cost of Living Differential

Prepared by: Sam Kito III Phone: 465-3900
Special Assistant
 Division: Office of the Commissioner Date: 3/19/96
 Approved by: *Joseph L. ...* Date: 3/19/96
Commissioner
 Agency: Department of Transportation and Public Facilities

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Revision Date: _____ Dept. Affected: Revenue
 Title: Cost of Living Differential BRU: Permanent Fund Dividend Division
 Component: Permanent Fund Dividend Division
 Sponsor: Governor
 Requestor: Rules Committee COMPONENT SERIAL NO. 981

Expenditures/Revenues: (Thousands of Dollars)

	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
OPERATING EXPENDITURES						
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						
CHANGE IN REVENUES ()						

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY96) cost \$ 0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

This bill does not appear to impact Permanent Fund Dividend Division operations as it is currently drafted. There is no impact to the operating budget.

Prepared by: Nanci Jones Phone: 465-2323
 Division: Permanent Fund Dividend Date: March 20, 1996
 Approved by Commissioner: Wilson Condon Date: March 20, 1996
 Agency: Department of Revenue

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FISCAL NOTE

No. 3
 Bill Version: RB 545
 (H) Publish Date: 3/22/96

STATE OF ALASKA
1996 LEGISLATIVE SESSION

Revision Date: _____
 Title: "Relating to state residency definition and criteria for cost of living differential"
 Sponsor: Rules Committee
 Requestor: Governor

Dept. Affected: Administration
 BRU: Office of the Commissioner
 Component: Labor Relations
 COMPONENT SERIAL NO. 58

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING EXPENDITURES	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	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES	0	0	0	0	0	0
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CHANGE IN REVENUES ()	0	0	0	0	0	0
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FUND SOURCE: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
OTHER						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY 96) cost: \$ 0-

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary.)

There is no fiscal impact to the Department of Administration.

Prepared by: Dianne Corso, Manager
 Division: Labor Relations Section

Phone: 465-4404
 Date: _____

Approved by Commissioner: Mark Boyer *M. Boyer*
 Agency: Department of Administration

Date: 3/19/96

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CHRONO.CLD

ALASKA MARINE HIGHWAY SYSTEM
A.S. 23.40.210
COST OF LIVING DIFFERENTIAL,
CHRONOLOGICAL LISTING OF EVENTS

1977 Legislation Passed

1978-80 Bargaining Unit Agreements with Marine Unions allowed to run out before implementing Cost of Living Differential (COLD).

1980 COLD implemented in Marine Union Agreements. Residency Affidavits developed.

1981 MM&P and IBU members filed suit challenging residency requirement.

1980-83 Issue fairly inactive. The dollar amount of the COLD was relatively small.

1983-1984 It was recognized that COLD was going to develop into a significant amount in future contract years. The State made it an important issue in contract negotiations, putting the Unions on notice an all out effort would be made to identify non-residents.

May, 1985 The Emergency Medical Notification form was made part of the residency certification.

June, 1985 The office of the Attorney General assisted in developing notification letters to employees, establishing residency criteria, prepared a new residency certification form.

October, 1985 Letter sent to several employees questioning residency. A second letter was sent giving until November 1 to clarify residency. A notice was then placed on all vessels. A letter was sent to the Unions indicating those employees not cooperating.

1985-86 Correspondence, grievances, threats from individuals' attorneys but no further suits.

1986 A new Certification of Residency was developed. AS 01.10.055 residency criteria was made part of it. Letters again sent in November, December in the same manner as in October, 1985.

1988 U.S. Supreme Court refused to hear the appeals to lower court ruling in favor of the State, thus allowing COLD to stand.

June 1988 Correspondence with Permanent Fund to attempt to develop better certification requirements to better identify non residents

February 1989 Director orders draft Policy and Procedure developed for annual certification of residency. Strongly resisted by Marine Unions. *Admin and Law advise Regulations*

no action

N-13

March 1990 Jeffrey Cole, A.G., Anchorage became interested in our COLD while prosecuting one of our crew members in another matter. The crew member signed a sworn statement to his outside Alaska address and had been collecting COLD from the State. Our residency certification forms were sent to Cole who felt they would not hold up in court. He offered to rewrite them and helped develop policy and procedures. Director had staff pursue strategies with Department of Law and Administration.

no followup

The Ombudsman, David Haas, also took interest in our COLD situation at this time.

January, 1991 Commissioners Turpin wrote the Department of Law a memo requesting their assistance in establishing regulations similar to those of the Permanent Fund. Ronald Lorensen, A.G., responded opening a file in February, 1991 and assigned the project to Kathleen Strasbaugh.

failed to act

Knowles has introduced leg. currently not scheduled by Sen. Frank Hofford

NO action

March, 1991 A.G. Valerie VanBrocklin, A.G., Anchorage had taken over for Jeffrey Cole and the unfinished business of developing a residency certification and wrote a lengthy review and recommendation on the subject. Nothing was moving on developing regulations so it was decided to go ahead with a new residency certification that could result in prosecution. A.G. Joe Galdhof took over the responsibility of bringing offenders to prosecution and indicated that given names, he would start proceedings.

April, 1992 Jerry Bryant, OMB, became interested in the AMHS COLD situation and collected AMHS correspondence and files.

August, 1992 After review of the issue by OMB and the Attorney General's office, prosecution was decided against and instead, repayment and disciplinary action would be required. A letter from Commissioner Turpin went to all vessel employees, advising them of this latest action.

March 1996

Knowles admin. settles COLD dispute w/10 MEBA empl. Establishes PFD residency criteria as standard for determining eligibility for COLD. Introduces legislation to permanently establish PFD def. Bills stalled in H. SA (one hearing) and Sen. Fin. no hearing scheduled/DCA Comm. Boyer has requested hearing of chairs - no response to date 4/10/96

Used
4/17/96
MB

STATE OF ALASKA

TONY KNOWLES, GOVERNOR

DEPARTMENT OF ADMINISTRATION

OFFICE OF THE COMMISSIONER

P.O. BOX 110200
JUNEAU, ALASKA 99811-0200
PHONE: (907) 465-2200
FAX: (907) 465-2135

April 17, 1996

The Honorable Mark Hanley, Co-Chair
House Finance Committee
Alaska State Legislature
State Capitol
Juneau, Alaska 99801-1182

Dear Mr. Chairman:

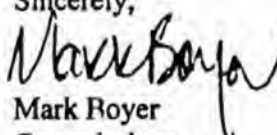
I would request that you schedule a hearing for CSHB 545(STA), "An act relating to the cost-of-living differential for certain public employees residing in the state and the criteria for determining eligibility for the differential" as soon as possible.

The bill is a very important tool that will help the state prevent abuses that have occurred in this program in the past. The House State Affairs Committee amended the bill to include the Permanent Fund Dividend definition of "state resident". The bill sets up a new framework of eligibility criteria and defines state residency for the purpose of pay differentials (COLD) for the marine bargaining units that are required by statute and by the collective bargaining agreements. It codifies the state's interpretation of the pay differentials and will help avoid conflicts and legal actions on this issue which will save state funds that are now spent on these disputes.

The state has been in active disputes with employees of the marine highway system over a definition of state residency and the eligibility criteria for the pay differential since 1992. Arbitrators have used different, and sometimes inconsistent, criteria in resolving the disputes. Confusion over the criteria and whether it is subject to union bargaining has also led to court litigation. This diverse situation has made it difficult for the Alaska Marine Highway System to administer the COLD program.

This bill resolves most of the uncertainty in the program by applying the permanent fund dividend definition of state resident, which has been tested in court. In addition, this bill authorizes the Department of Administration to adopt regulations to further clarify the criteria for pay differentials as the need arises. This would make it clear that the department has the authority and that criteria for determining eligibility for the differential is not subject to collective bargaining.

Your early consideration of this request would be appreciated. If you have any additional questions, please contact my office at 465-2200.

Sincerely,

Mark Royer
Commissioner

MB/nn
cc: Pat Pourchot
Dianne Corso

HOUSE COMMITTEE REPORT

4/17/96

(7) Date Referred to Committee: March 22, 1996

FURTHER REFERRALS:

Finance

Date of Committee Action: 4-16

The STATE AFFAIRS Committee considered:

HB 545

HOUSE BILL NO. 545

PUB. EMPLOYEE COST OF LIVING DIFFERENTIAL

"An Act relating to the cost-of-living differential for certain public employees residing in the state and the criteria for determining eligibility for the differential; and providing for an effective date."

recommends it be replaced with the following committee substitute CS HB 545(STA) [] the same title [x] a new title

[] additional referral to _____ Committee [] attached amendment(s)

ADOPTS: _____ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) APPROVES PREVIOUS: (Dept/Date) [] fiscal note(s) [] fiscal note(s)

[] zero fiscal note(s) (3) [x] zero fiscal note(s) Admin, Rev, DOT 3/22/96

Table with columns: SIGNING WITH RECOMMENDATIONS, DP, DNP, NR, AM. Rows include names like Jeannette James, James Porter, etc.

CHAIR'S SIGNATURE Jeannette James

TONY KNOWLES
GOVERNOR



HB 545
P O Box 110001
Juneau Alaska 99811-0001
(907) 465-3500
Fax (907) 465-3532

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

March 22, 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 that would clarify how the state applies the cost of living pay differential for public employees. This bill sets up a framework of eligibility criteria and defines state residency for the purpose of pay differentials which are required for certain public employees under collective bargaining agreements. By codifying the state's interpretation of the pay differentials, this legislation will help avoid conflicts and legal actions on this issue.

The state has been in disputes with employees of the marine highway system over a definition of state residency and the eligibility criteria for the pay differential. Arbitrators have used different, and sometimes inconsistent, criteria in resolving the disputes. Confusion over the criteria and whether it is subject to union bargaining has also led to court litigation. This diverse situation has made it difficult to administer the differential program.

This bill resolves most of the uncertainty in the program by applying the permanent fund dividend definition of state resident, which has been tested in court. In addition, this bill authorizes the Department of Administration to adopt regulations to further clarify the criteria for pay differentials as the need arises. This would make it clear that the department has this authority and that criteria for the pay differential is not subject to collective bargaining.

I urge your prompt action on this bill.

Sincerely,

A handwritten signature in cursive script, appearing to read "Tony Knowles".
Tony Knowles
Governor

HB

548

HFIN

FILE

9-GH2065R
Chenoweth
4/29/96

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

BY

Offered:
Referred:

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

FOR AN ACT ENTITLED

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

26 (b) The legislature believes that

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

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

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

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

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

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

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

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

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

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

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

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

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

31 (1) holds an Alaska business license;

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

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

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

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

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

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

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

1 available and qualified. Subject to the foregoing:

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

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

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

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

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

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

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

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

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

4/30/96

TONY KNOWLES, GOVERNOR

PLEASE REPLY TO

1031 WEST 11TH AVENUE SUITE 200
ANCHORAGE, ALASKA 99501-1392
PHONE (907) 269-5100
FAX (907) 276-3697

KEY BANK BUILDING
100 CUSHMAN ST. SUITE 400
FAIRBANKS, ALASKA 99701-4673
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FAX (907) 451-2346

P.O. BOX 110300-DIMOND COURT - OUS
JUNEAU, ALASKA 99811-0300
PHONE (907) 465-3600
FAX (907) 465-6735

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

APR 22 1996

April 22, 1996

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

Re: SB318 (Northstar Unit net profit
share reduction)

Dear Senator Leman:

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

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

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

Hon. Loren Leman

April 22, 1996

Page 2

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

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

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

Very truly yours,

BRUCE M. BOTELHO
ATTORNEY GENERAL

By: 

James L. Baldwin
Assistant Attorney General

JLB:clh

R. Brown

Initial Feedback from discussions with Legislators

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

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

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

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

EM Luttrell
2 January 1996

Northstar

Key Variables Affecting Economics



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

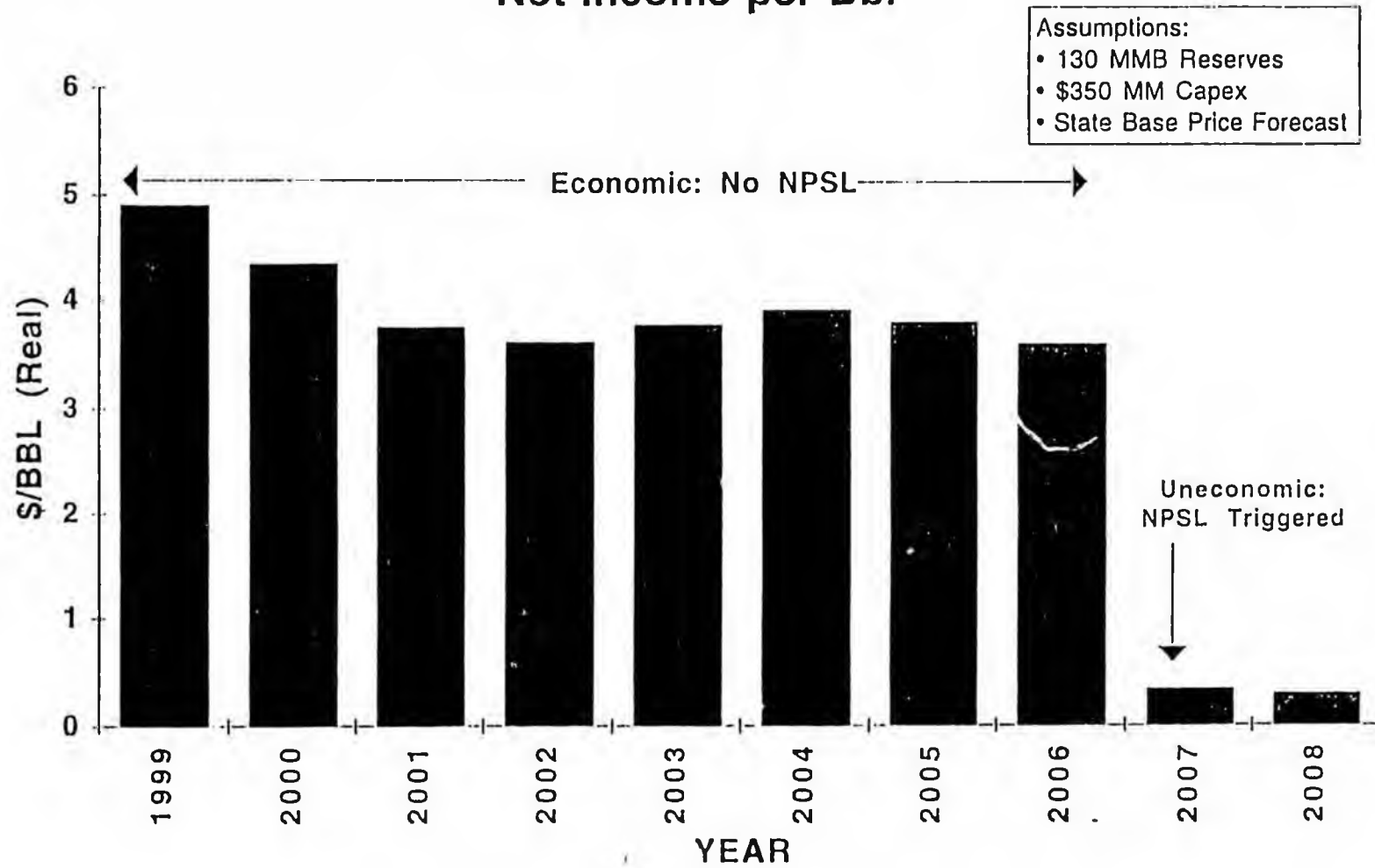
revised 4/30/96

Northstar

NPSL Problem

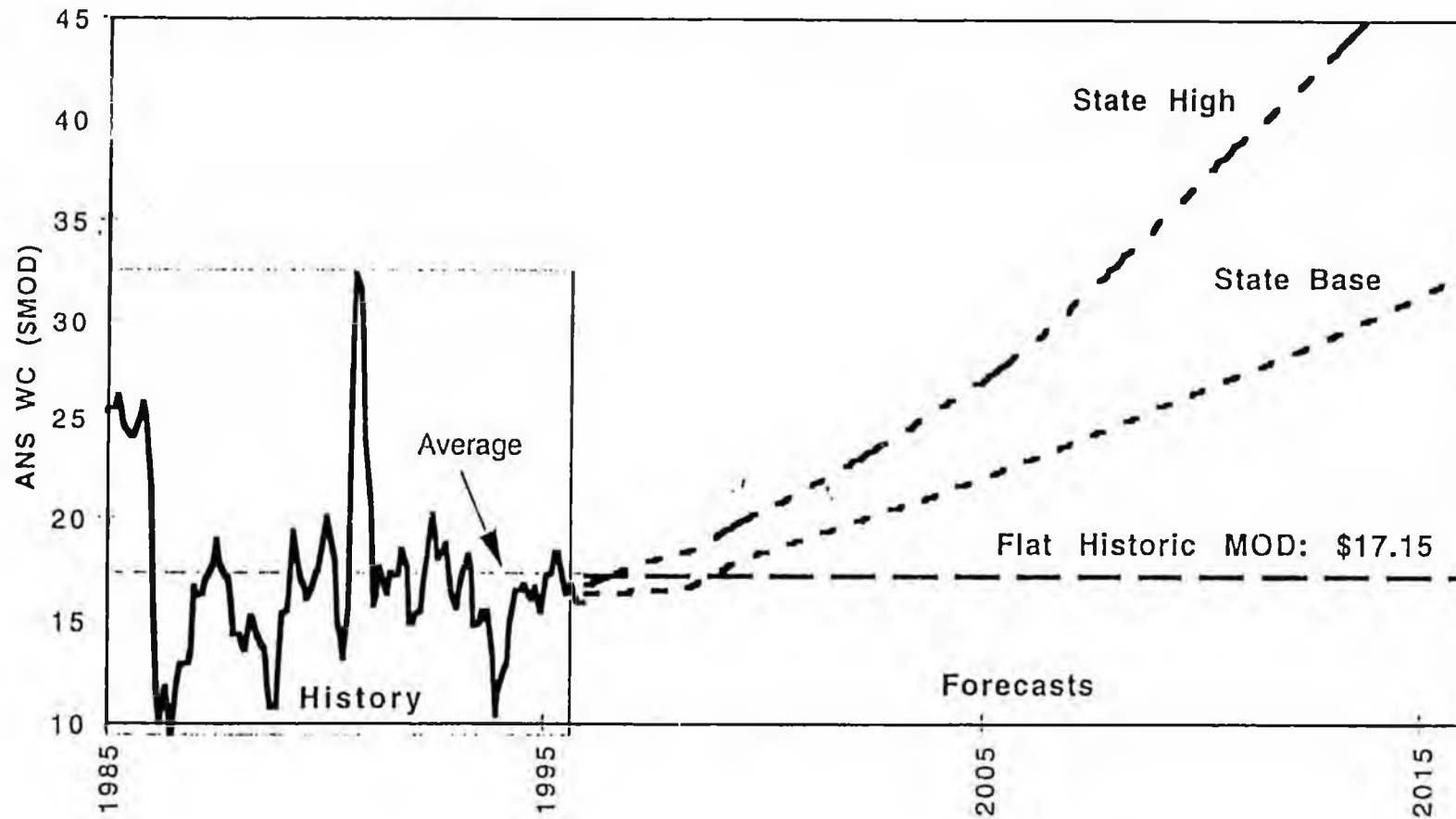


Net Income per Bbl



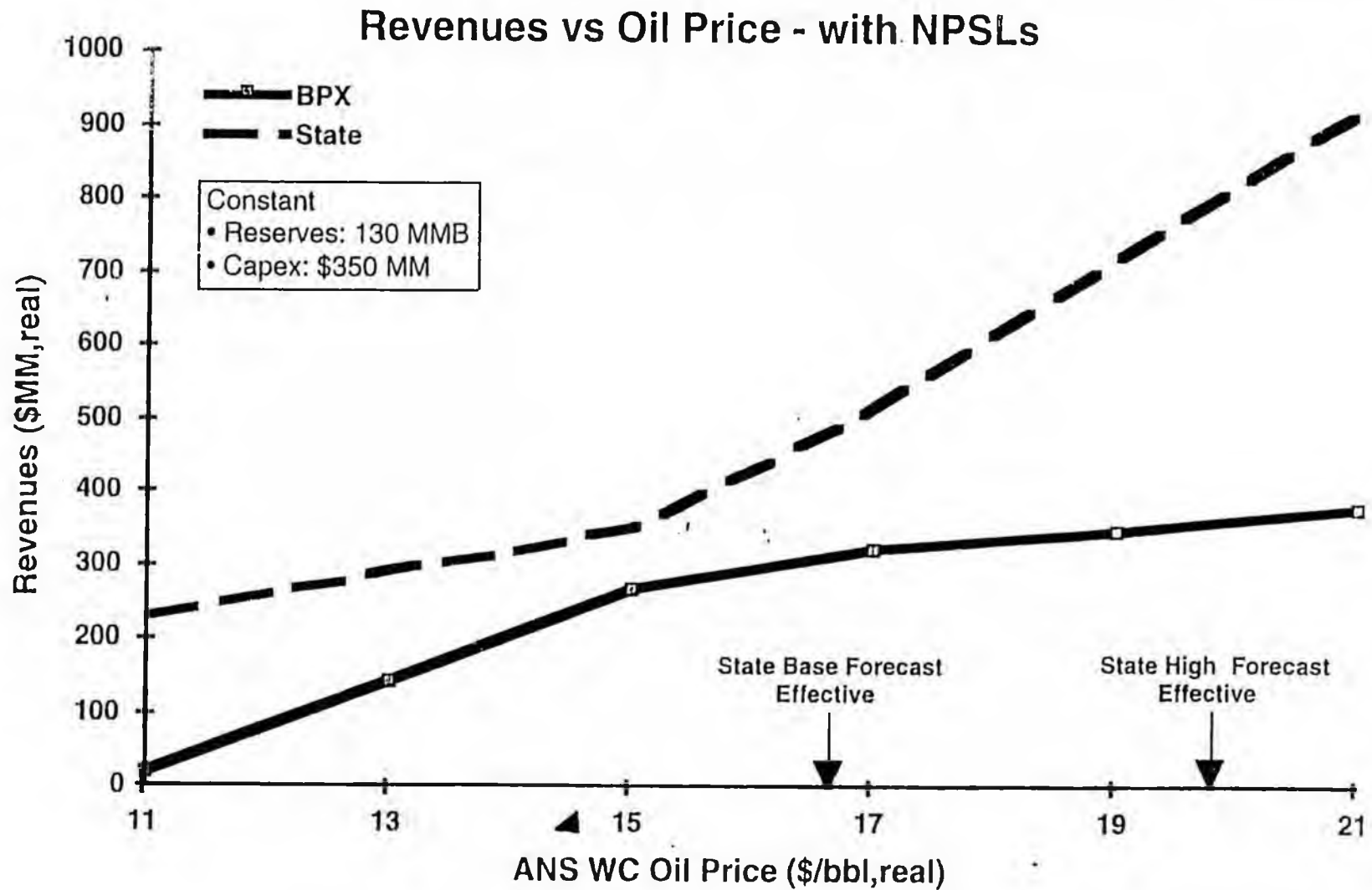
Northstar

Future Price in Context of History

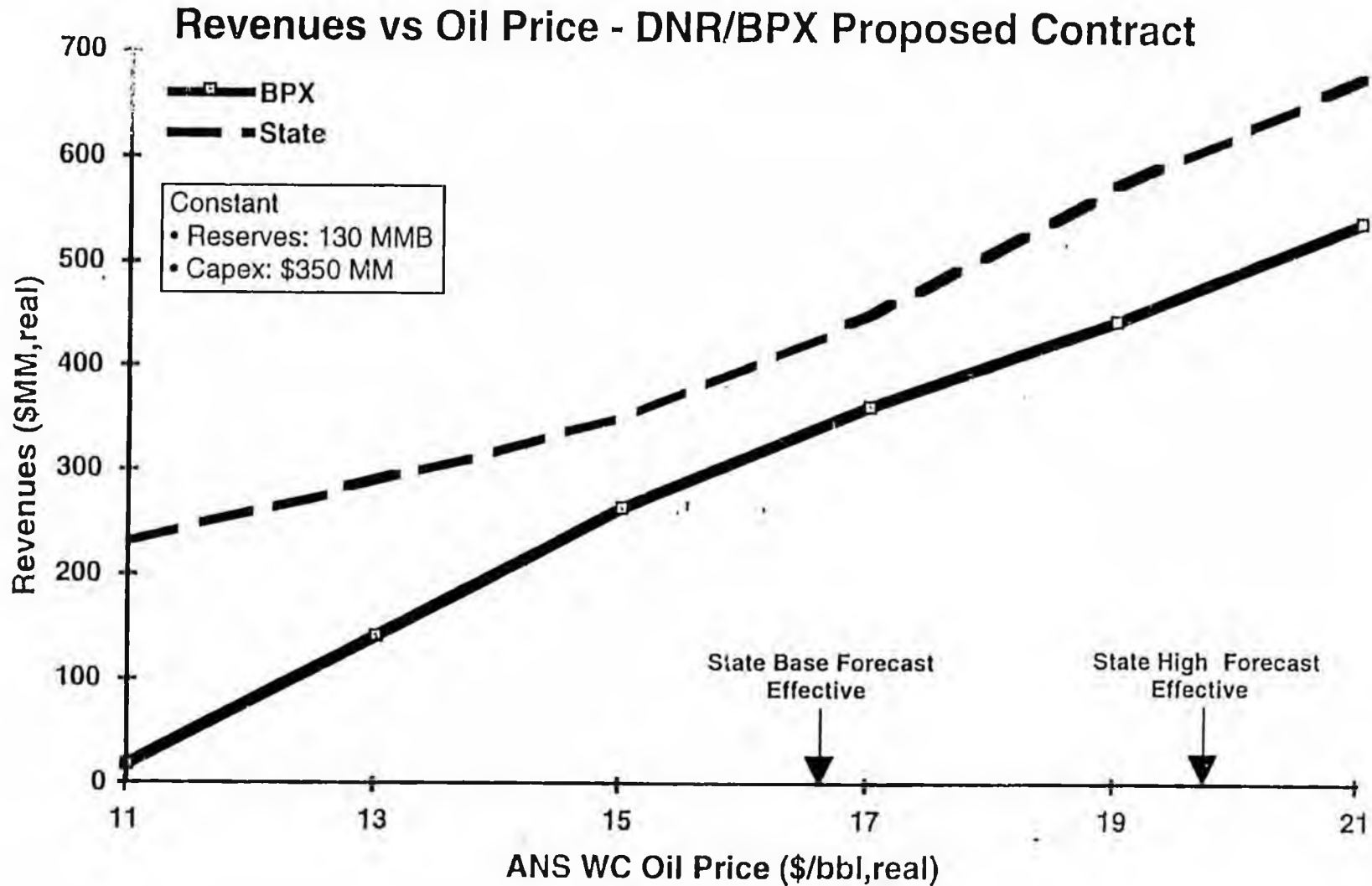




Revenues vs Oil Price with NPSLs

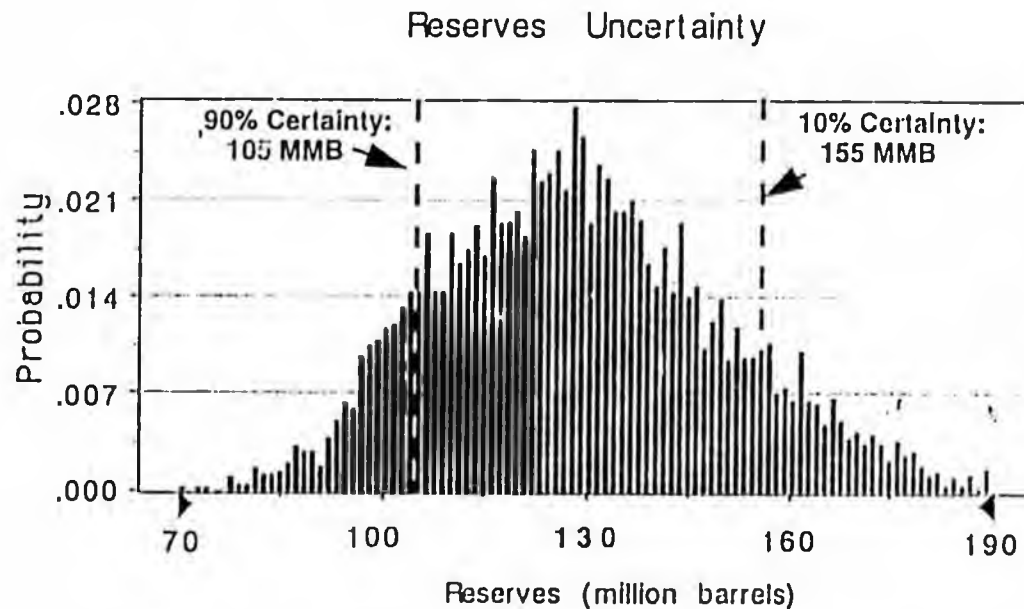


Revenues vs Oil Price with Agreement



Northstar

Reserves: Current Uncertainty



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

Estimated Oil In Place: 260 MMB

Sources of Uncertainty

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

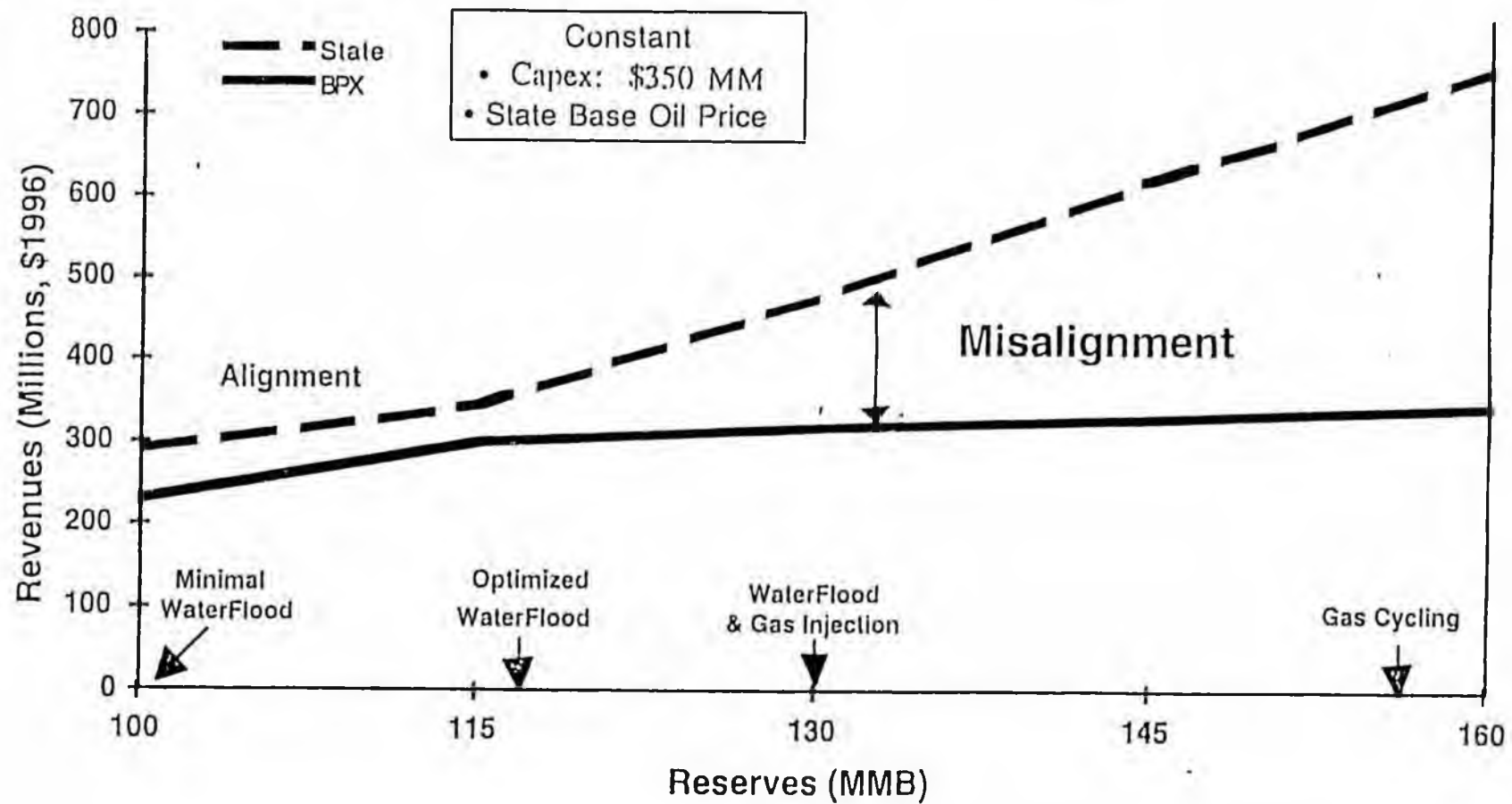
Other Recovery Mechanisms

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

Reserves Impact with NPSLs



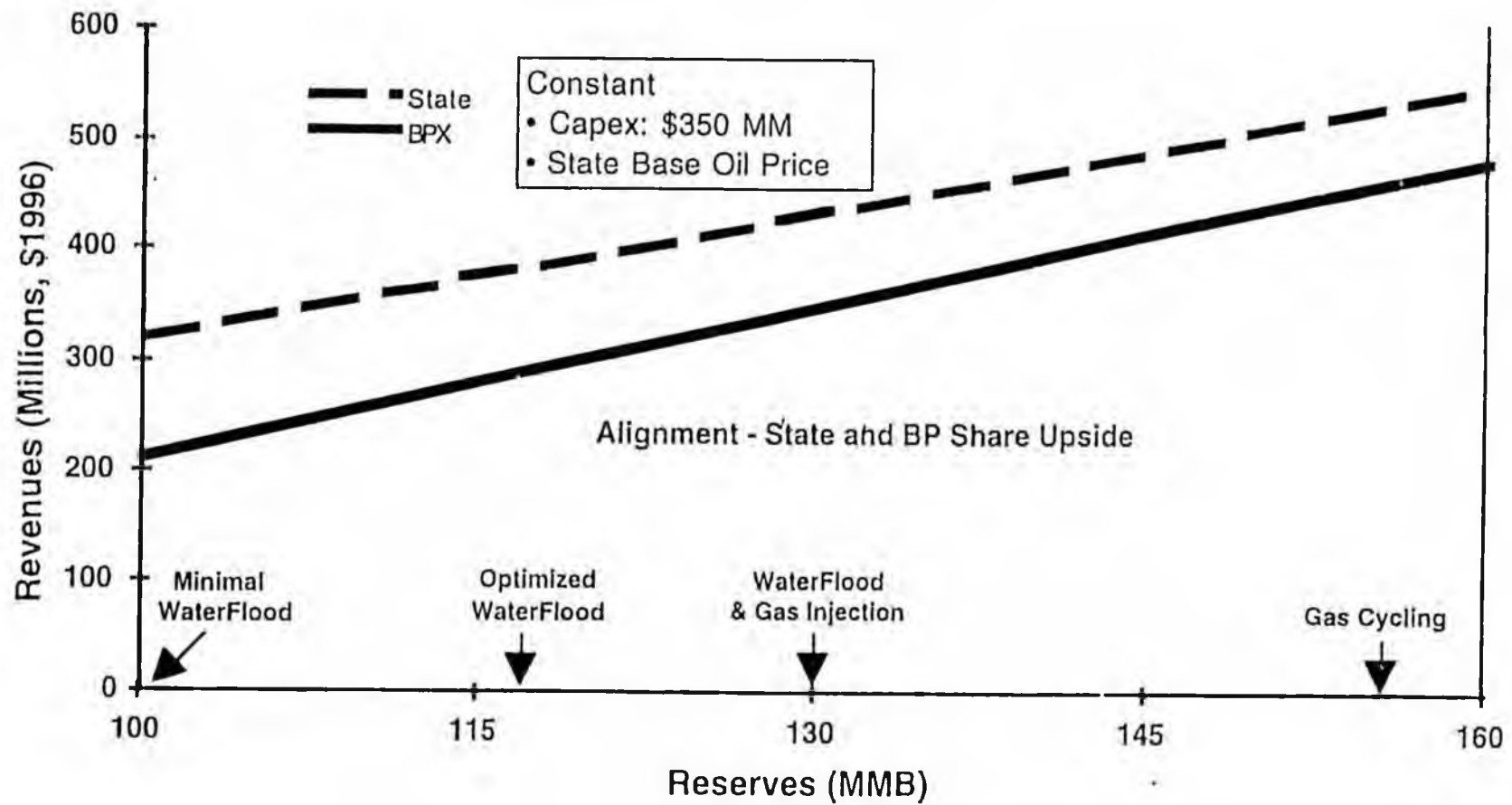
Revenues vs. Reserves with NPSLs



Reserves Impact with Agreement



Revenues vs. Reserves with Agreement

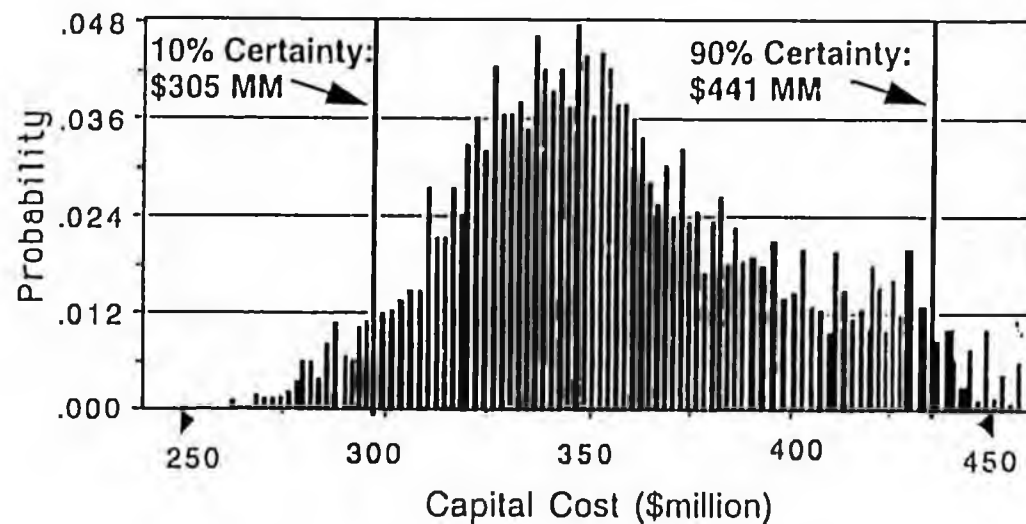


Northstar

Capital Cost: Current Uncertainty



Capital Cost Uncertainty within Class III Framework



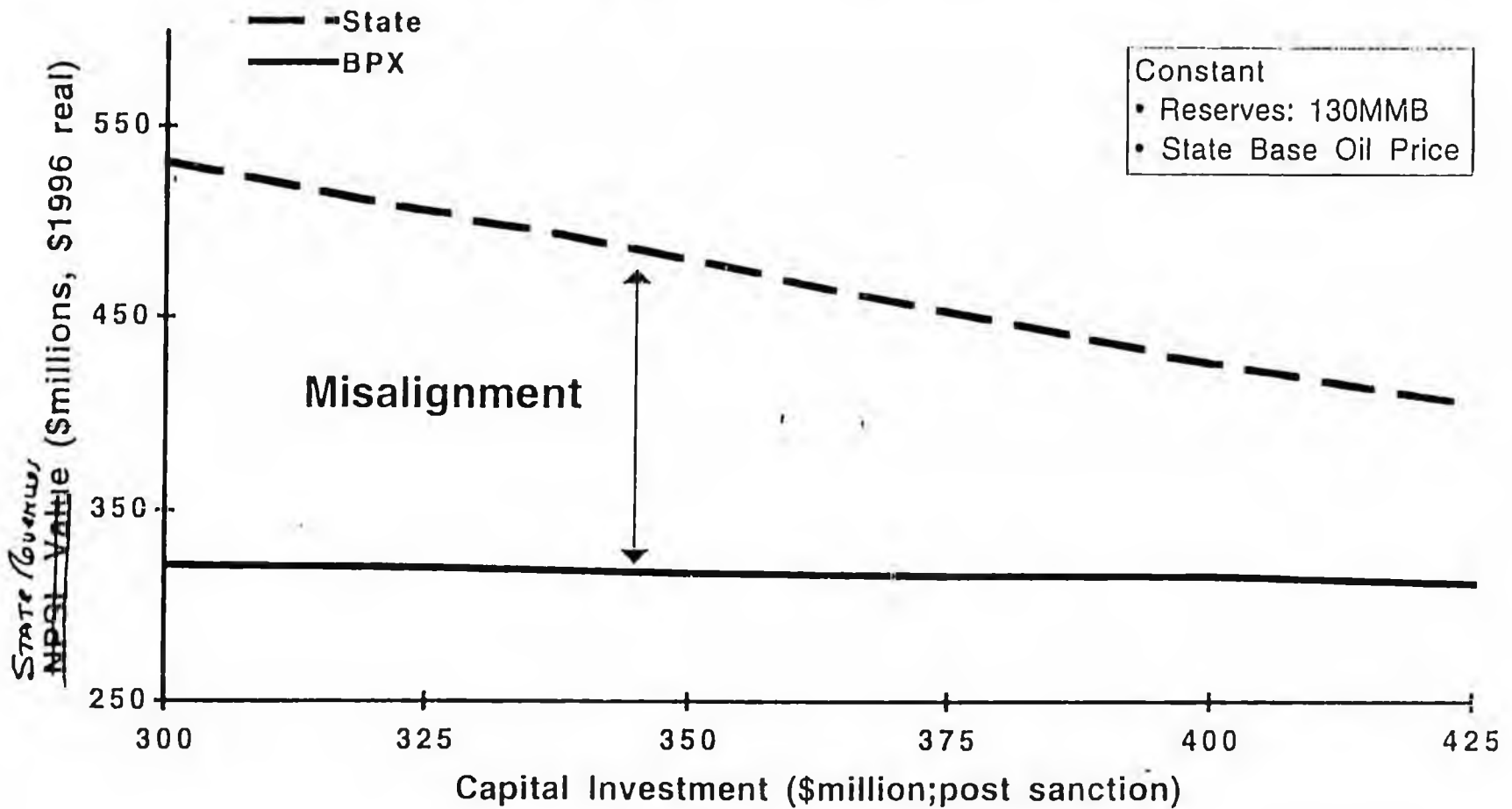
Sources of Cost Uncertainty (\$mm):

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

Capex Impact with NPSLs



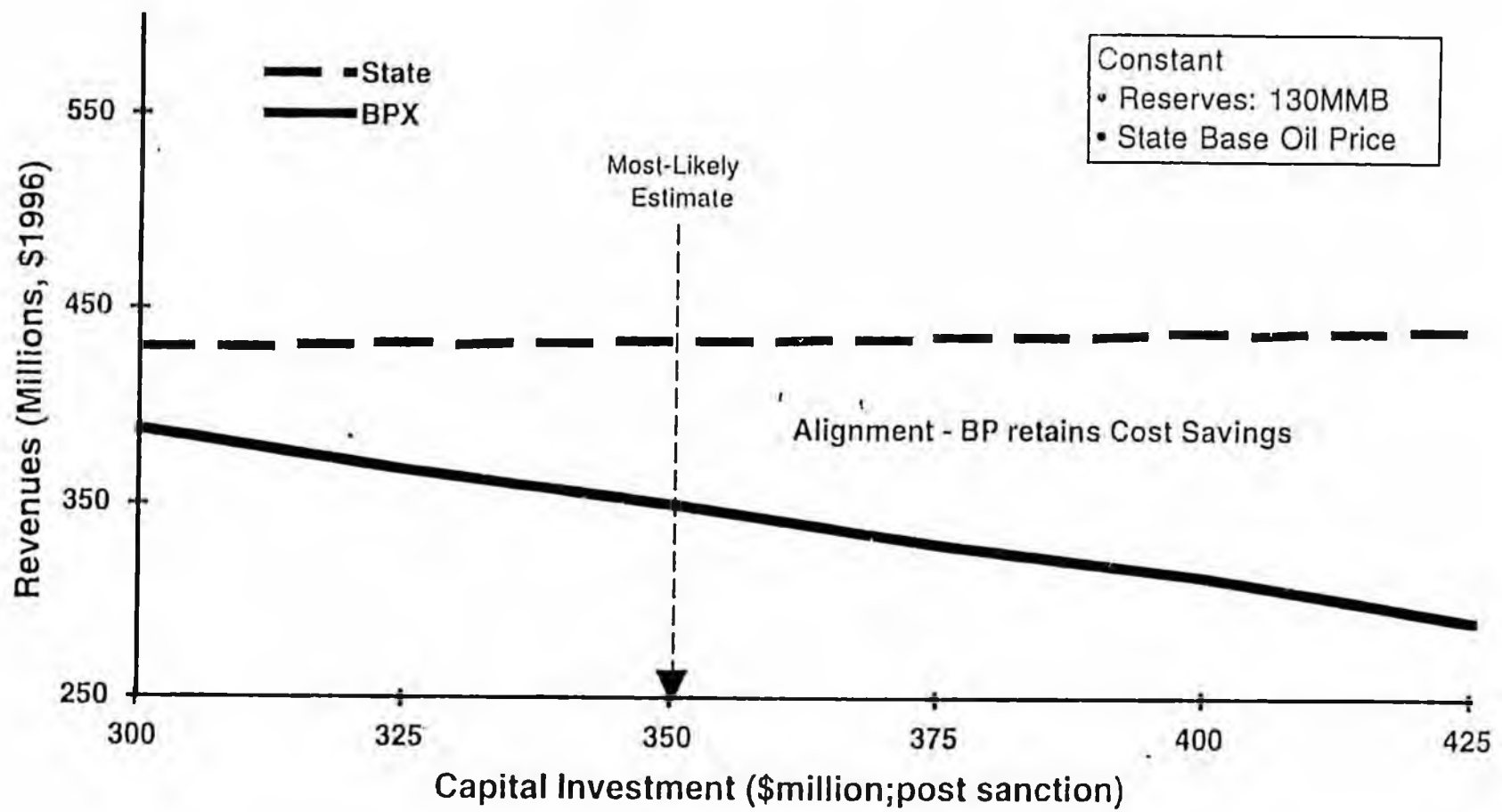
Revenues vs Capital Investment with NPSLs



Capex Impact with Agreement



Revenues vs Capital Investment with Agreement



Northstar

Misalignments

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

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



Revenue Shares

with State Base Prices

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

* Discounted net present value @10%

Northstar Economic Evaluation



Estimated Total Revenues

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

Totals may not add due to rounding.

Northstar Contract Leases

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

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

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

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

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

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

Benefits

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

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

Dept. of Nat. Resources Economic Evaluation

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

4/30/96

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

Attachment #1

Sale 30 (12/79) Northstar Bidding

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

ADL 312798		
Bid Group/Co.	Co. Interest	NPS Bid
Amerada Hess	100%	93.20000%
Texas Eastern	50%	80.56789%
Texaco	50%	
Amoco	100%	71.12500%
Texas Gulf	10%	61.67000%
Conoco	48%	
Placid	22%	
Cities Service	20%	
Murphy	10%	40.79133%
Shell	90%	
Phillips	50%	34.48464%
Chevron	50%	

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

ADL 312799		
Bid Group/Co.	Co. Interest	NPS Bid
Amerada Hess	100%	91.20000%
Amoco	100%	82.59999%
Texas Eastern	50%	80.56789%
Texaco	50%	
Rowan	2%	71.82639%
Conoco	20%	
Texas Gulf	5%	
Getty	0.2	
Placid	13%	
Gulf	20%	
Cities Service	20%	
Murphy	10%	56.77133%
Shell	90%	
Phillips	33%	43.26273%
Mobil	33%	
Chevron	34%	
Unocal	100%	32.00000%

ADL 312809		
Bid Group/Co.	Co. Interest	NPS Bid
Texas Eastern	100%	85.25978%
Amoco	100%	71.25009%
Marathon	50%	63.63000%
Amerada	50%	
Gulf	28%	46.37549%
Placid	16%	
Getty	25%	
Texas Gulf	6%	
Rowan	3%	
Cities Service	25%	
Unocal	100%	38.00000%
Mobil	34%	34.23333%
Phillips	33%	
Chevron	33%	
Atlantic Richfield	45%	31.89117%
Shell	56%	

DRAFT

testimony 4-30-96
Jenny McClutchie

April 26, 1996

MARK HANLEY
Fax #. 465-2418
3 pages total

NORTH STAR UPDATE

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4/30/96

April 23, 1996

APR 23 1996

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

Re: BP lease negotiations at Northstar

Dear Governor, Senators, and Representatives:

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

1. Probable reserve growth at Northstar

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

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

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

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

2. Level Playing Field

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

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

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

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

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

Sincerely yours



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

4/30/96 PM

FOR: Rep. Kay Brown
& ALL LEGISLATORS:

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

4/28/96

To whom it may concern:

Does the Northstar legislation resemble the Teapot Dome oil scandal?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Mike Bruner

Mike Bruner

(Reply requested.)

(11)

HOUSE COMMITTEE REPORT

Date Referred to Committee: April 30, 1996

FURTHER REFERRALS:

Date of Committee Action: 4/30/96

The FINANCE Committee considered:

HB 548

HOUSE BILL NO. 548

NORTH STAR OIL & GAS LEASE PAYMENT

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

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

additional referral to _____ Committee
 attached amendment(s)

ADOPTS: _____ Letter of Intent

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

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

zero fiscal note(s)

zero fiscal note(s)

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

CO- CHAIR'S SIGNATURE *[Signature]*

FISCAL NOT

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

STATE OF ALASKA 1996 LEGISLATIVE SESSION

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

Expenditures/Revenues (Thousands of Dollars)

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

FUND SOURCE (Thousands of Dollars)

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

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

POSITIONS


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

ANALYSIS: (Attach a separate page if necessary)

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

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

SEE ATTACHED TABLE FOR FULL FINANCIAL ANALYSIS...

Prepared by: Ken Boyd, Director Phone: 269-3800
 Division: Oil & Gas Date: 26-Mar-96
 Approved by Commissioner:  Date: 26-Mar-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	228.3	(835.9)	(7.6)
2001	3,868.9	0.0	247.4	0.0	45.6	2,547.2	(1,173.8)	5,535.3
2002	35,778.5	0.0	2,287.7	16,171.7	407.2	4,245.3	2,784.3	61,674.6
	\$39,647.4	\$0.0	\$2,535.1	\$16,171.7	\$452.8	\$7,620.8	\$297.5	\$66,725.2

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

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

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

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

Dept. Affected: Natural Resources
BRU: Resource Development

Sponsor: House Rules
Requestor: _____

Components: Oil & Gas Development
Serial #: _____

PENDITURES/REVENUES: (THOUSANDS OF DOLLARS)

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

PITAL						
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VENUE						
-------	--	--	--	--	--	--

ENDING: (THOUSANDS OF DOLLARS)

General Fund						
Federal Fund						
Other						
TOTAL						

POSITIONS:

Full-Time						
Part-Time						
Temporary						

ANALYSIS: (ATTACH A SEPARATE PAGE IF NECESSARY)

Attached analysis

Prepared by:

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

House Special Committee on
World Trade and State Federal Relations Phone: 465-3438
Rep Ramona Barnes Phone:
Rep. Ramona Barnes,
Chair



BP EXPLORATION

John C. Morgan
President, Alaska

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

April 29, 1996

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

Dear Representative Barnes:

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

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

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

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

We appreciate the opportunity to provide comments to your committee.

Sincerely,

John C. Morgan

FISCAL NOTE

J. ...

STATE OF ALASKA
1996 LEGISLATIVE SESSION

BILL NO. HB548

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

Expenditures/Revenues	(Thousands of Dollars)					
OPERATING EXPENDITURES	FY97	FY98	FY99	FY00	FY01	FY02
PERSONAL SERVICES	147.31	147.31	125.01			
TRAVEL	25.31	25.01	25.01			
CONTRACTUAL	243.31	243.31	75.01			
SUPPLIES	12.01	12.01	5.01			
EQUIPMENT	3.51	3.51				
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	431.71	431.71	231.01	****	****	****

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

FUND SOURCE	(Thousands of Dollars)					
1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF-Program Receipts						
1006 GF-MHTIA						
1001 Designated Program Receipts	431.71	431.71	231.01			
TOTAL	431.71	431.71	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

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Fiscal Analysis Continued...

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

EIDE & MILLER

A PROFESSIONAL CORPORATION

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April 26, 1996

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

Re: Proposed changes to the Northstar legislation
regarding local hire

Dear Bill:

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

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

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

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

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

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

In sum, the state simply cannot mandate resident hire.

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

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

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

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April 26, 1996
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Additionally, a test known as the symbiotic relationship test allows a challenging party to review the overall relationship between the parties. Under this test, conduct will be considered state action if the state and the private party are in a position of interdependence such that the state must be recognized as a joint participant in the challenged activity. Courts will look at the overall relationship and determine whether there is evidence of an interdependent and mutually beneficial relationship and whether the relationship confers on each party "an incidental variety of mutual benefits." Long, supra, at 104, quoting Burton v. Wilmington Parking Authority, 365 U.S. 715 (1961).

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

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

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

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

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

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

Bill Allen
April 26, 1996
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resident hire opportunities and additional work by in-state businesses are in the best interests of the people of the state and are considerations of paramount importance to the legislature in its decision to conditionally approve the proposed amendments of the Northstar Unit leases.

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

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

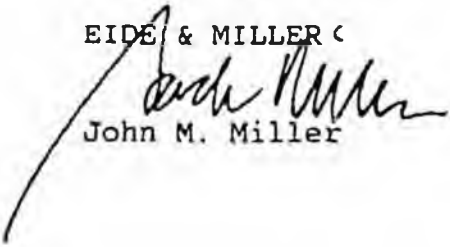
Given these facts, a court would likely find that the entire bill must fail if the local hire provision fails.

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

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

Very truly yours,

EIDE & MILLER C


John M. Miller

105/01/allen.ltr

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

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

1980 Leases

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1983 Lease

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

LESSEE:

BP EXPLORATION (ALASKA), INC.



E. M. Luttrell, Vice President

LESSOR:

STATE OF ALASKA



John T. Shively, Commissioner
Department of Natural Resources

STATE OF ALASKA)
) ss.
Third Judicial District)

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

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



STATE OF ALASKA)
) ss.
Third Judicial District)

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

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



Exhibit B
Calculation of the Supplemental Royalty Payment for Oil

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

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

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

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

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

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

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

Trigger price for the current year = \$17.35 per barrel x (1 + inflation factor)
= \$17.35 per barrel x (1 + 3.17 percent)
= \$17.35 x 1.0317
= \$17.90 per barrel

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

Supplemental royalty percentage rate = (ANSWC spot price - trigger price for the current year)
x (1.5 percent per dollar per barrel)
= (\$21.40 per barrel - \$17.90 per barrel) x 1.5 percent per dollar per barrel
= (21.40 - 17.90) x 0.015
= 0.05250 = 5.25 percent

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

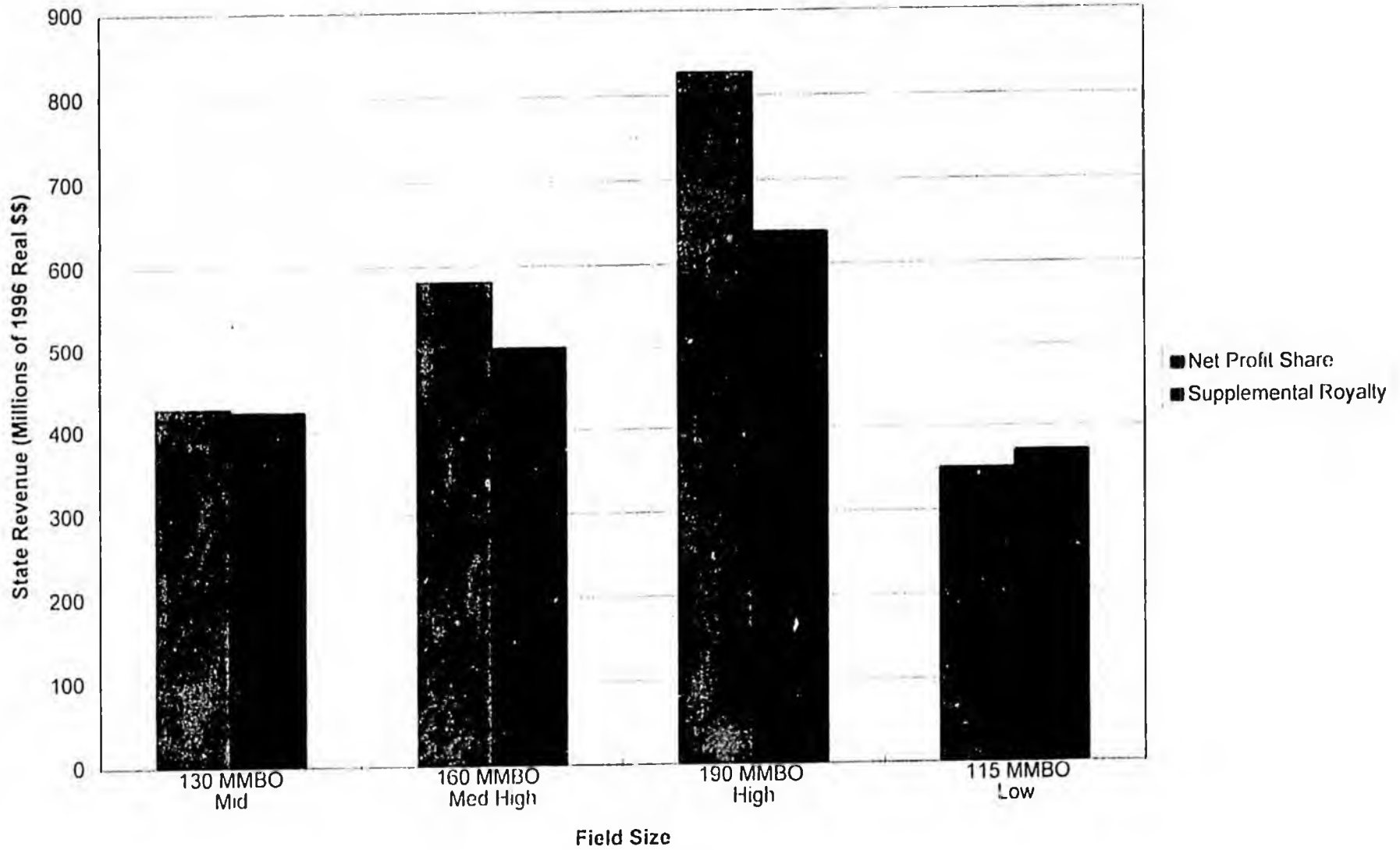
Supplemental royalty payment = production volume x royalty value x supplemental royalty percentage rate
= 1,550,000 barrels x \$17.71 per barrel x 5.25 percent
= \$1,441,151.25

EXHIBIT C
PROJECT SCHEDULE

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

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

Northstar Economic Evaluation



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Northstar Economic Evaluation

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

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

Per Memorandum from DNR to Senator Leman

Rep. Brown