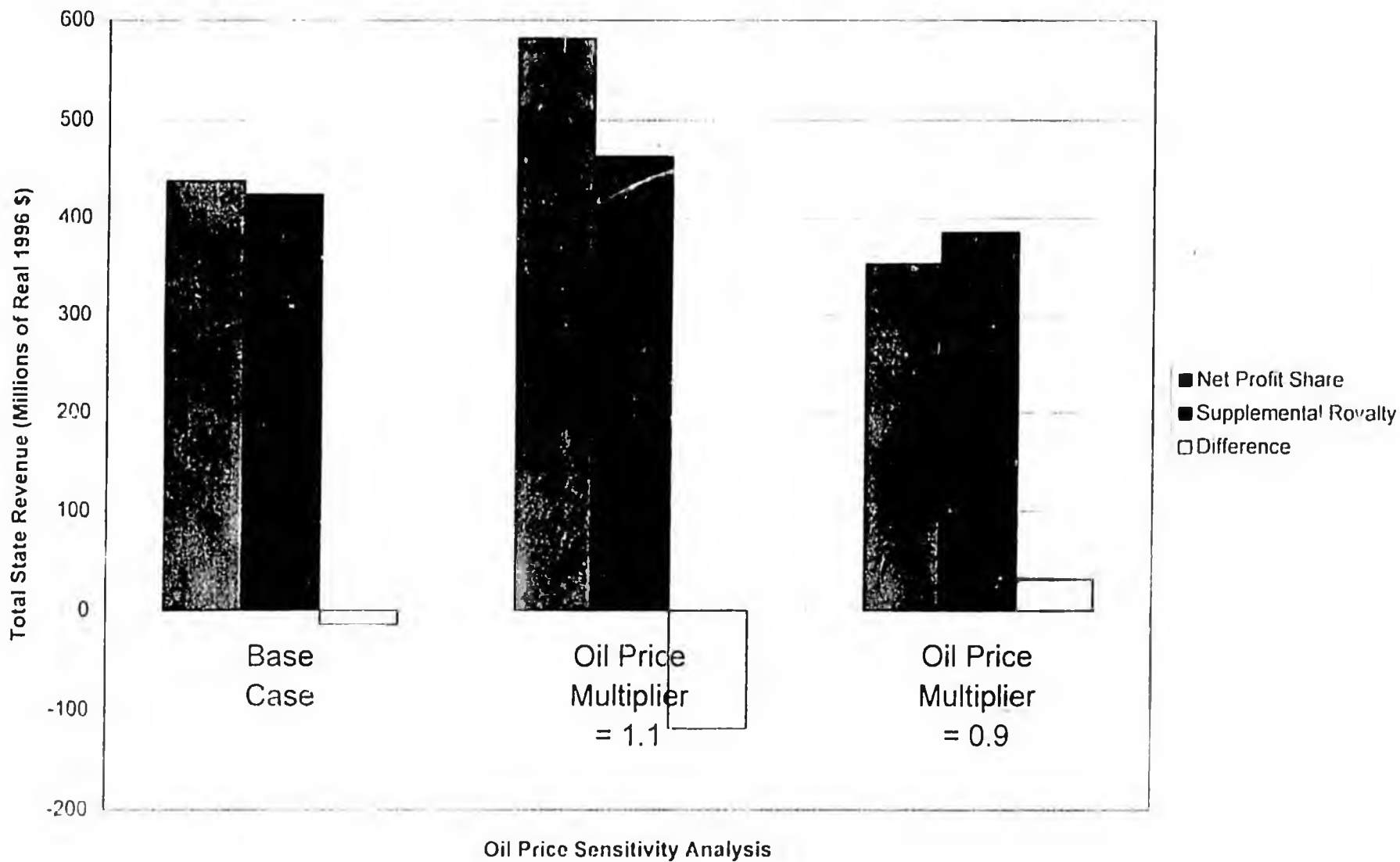


**ALASKA LEGISLATURE**

**1450**

**HOUSE and SENATE FINANCE COMMITTEE FILES, 1995-1996**

### Northstar Economic Evaluation



Rep Brown

## Northstar Economic Evaluation

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

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

## North Star

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

# MEMORANDUM

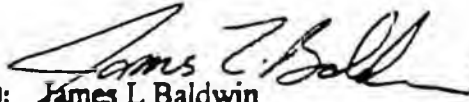
State of Alaska  
Department of Law

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

DATE: March 26, 1996

FILE NO.: 663-96-0441

TELEPHONE NO.: 465-3600

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

SUBJECT: Necessity for legislation to  
implement net profit share  
reduction

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

## 1. Authority Under Existing Law.

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

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

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

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

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

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

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

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

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

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

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

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

## 2. Local or Special Legislation

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

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

Alaska Const. Art. II, Sec. 19.

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

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

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

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

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

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

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

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

### 3. Public Purpose.

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

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

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

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

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

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

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

#### 4. Competitive Bidding Principles

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

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

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

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

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

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

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

JLB/clh



BP EXPLORATION

M. Luttrall  
ice President  
Exploration, Alaska

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(907) 564-4892

April 5, 1996

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

Dear Representative Barnes,

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

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

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

Here are the facts.

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

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

Let me divert for a moment.

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

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

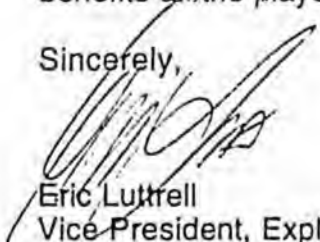
The bottom line is that Northstar will never be developed under its existing net profits terms. Its prior owners could not bring it to production, and the state's own studies show that the present net profits requirement discourages development. In fact, the state revised its net profit leasing policies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

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

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

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

Sincerely,



Eric Luttrell  
Vice President, Exploration

*Northstar*



## Key Messages

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

*Northstar*



## **Benefits to Alaska**

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

*Northstar*



## **Alaska Fabrication**

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

*Northstar*



## Settlement Agreement

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

# LEGAL SERVICES

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

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

## MEMORANDUM

April 29, 1996

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

**TO:** Representative Kay Brown

**FROM:** Jack Chenoweth  
Legislative Counsel 

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

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

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

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

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Representative Kay Brown

April 29, 1996

Page 2

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

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

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

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

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

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

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

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

(continued...)

Representative Kay Brown

April 29, 1996

Page 3

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

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

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

\*

Please contact me should you have additional questions.

JBC:glc  
96-261.glc  
Enclosures

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(...continued)

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

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

# LEGAL SERVICES

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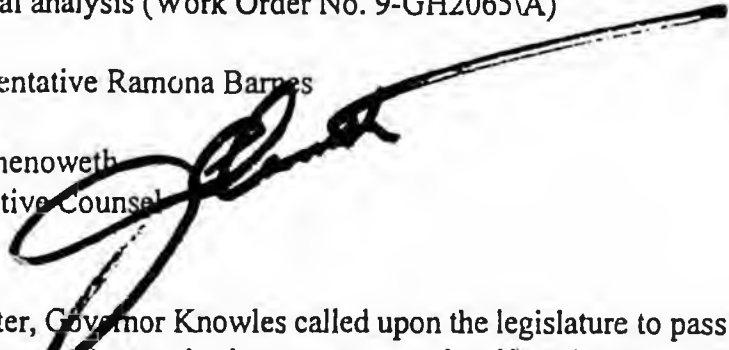
## MEMORANDUM

April 2, 1996

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

**TO:** Representative Ramona Barnes

**FROM:** Jack Chenoweth  
Legislative Counsel



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

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

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

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

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

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

**Bill section 3** gives the measure an immediate effective date.

\*

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

Representative Ramona Barnes

April 2, 1996

Page 2

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

I have no other information about the measure.

JBC:klb

96-251.klb

# LEGAL SERVICES

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

(907) 465-3867 or 465-2450  
FAX (907) 465-2029  
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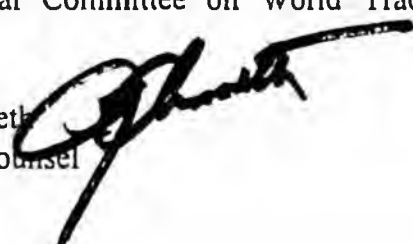
## MEMORANDUM

April 27, 1996

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

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

**FROM:** Jack Chenoweth  
Legislative Counsel



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

\*

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

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

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

April 26 memo, at page 3.

Representative Ramona Barnes

April 27, 1996

Page 2

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

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

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

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

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

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

Representative Ramona Barnes

April 27, 1996

Page 3

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

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

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

Your options, it seems to me, are these:

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

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

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

Representative Ramona Barnes

April 27, 1996

Page 4

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

Please contact me if you should have additional questions.

JBC:pl

96-140.plm

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

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

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

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

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

**MEMORANDUM**  
DEPARTMENT OF NATURAL RESOURCES

**State of Alaska**  
DIVISION OF OIL AND GAS

TO: Ken Boyd  
Director

DATE: April 25, 1996

FILE NO:

THRU:

TELEPHONE: 269-8799

FROM: Kevin Banks  
Petroleum Economist

SUBJECT: HB 548 Northstar

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

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

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

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

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

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

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

#### Attachments.

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

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

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

# Northstar Economic Evaluation

## Estimated Total Revenues



Table 1:

Most Likely Case:  
130 MMBO Reserves

(Questions from House Resources--4/24)

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

Totals may not add due to rounding.

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

# Northstar Economic Evaluation

## Estimated Total Revenues



Table 2:

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

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

**Supplemental Royalty  
and  
1999 Development**

**Net Profit Share  
and  
2002 Development**

**Net Profit Share  
and  
1999 Development**

(Real 1996 Dollars)

### State Revenues

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

### Federal Revenues

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

### BPXA Cash Flow

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

Totals may not add due to rounding.

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

# Northstar Economic Evaluation

## Estimated Total Revenues



**Table 3:**

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

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

Totals may not add due to rounding.

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

# Northstar Economic Evaluation

## Estimated Total Revenues



Table 4:

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

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

(Real 1996 Dollars)

### State Revenues

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

### Federal Revenues

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

### BPXA Cash Flow

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

Totals may not add due to rounding.

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

# Northstar Economic Evaluation

## Estimated Total Revenues



Table 5:

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

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

(Real 1996 Dollars)

**State Revenues**

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

**Federal Revenues**

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

**BPXA Cash Flow**

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

Totals may not add due to rounding.

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

# Northstar Economic Evaluation

## Estimated Total Revenues



Table 6:

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

	Supplemental Royalty and 1999 Development	Net Profit Share and 2002 Development	Net Profit Share and 1999 Development
	(Real 1996 Dollars)		
<b><u>State Revenues</u></b>			
State Royalty	169	150	169
State Supplemental Royalty	0	0	0
NPSL	0	0	0
State Share of Federal Royalty	11	10	11
Severance Tax	42	37	42
Spill & Conserv. Tax	3	3	3
Ad Valorem Tax	44	48	44
Income Tax	9	9	9
<b>Total</b>	<b>277</b>	<b>252</b>	<b>277</b>
<b><u>Federal Revenues</u></b>			
Royalty (Net of State Share)	29	26	29
Income Tax	80	47	80
<b>Total</b>	<b>109</b>	<b>73</b>	<b>109</b>
<b><u>BPXA Cash Flow</u></b>			
After Tax Funds Flow	103	99	103
Real Rate of Return	7.8%	3.4%	7.8%

Totals may not add due to rounding.

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

# Northstar Economic Evaluation

## Estimated Total Revenues



Table 7:

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

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

Totals may not add due to rounding.

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

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

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

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

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

### Assumptions Used in the Illustrative Northstar Model

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

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

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

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

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

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

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

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

Kevin Banks, ADNR  
April 12, 1996

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

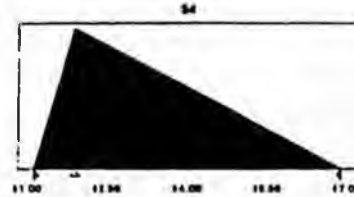
**Assumptions**

**Assumption: S4**

**Cell: S4**

Triangular distribution with parameters:

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



Selected range is from \$1.00 to \$7.00

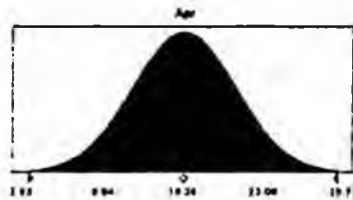
**Assumption: Apr**

**Cell: B93**

Normal distribution with parameters:

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

Selected range is from -21.51 to 402.42



End of Assumptions

Forecast: AKSUPP-REAL

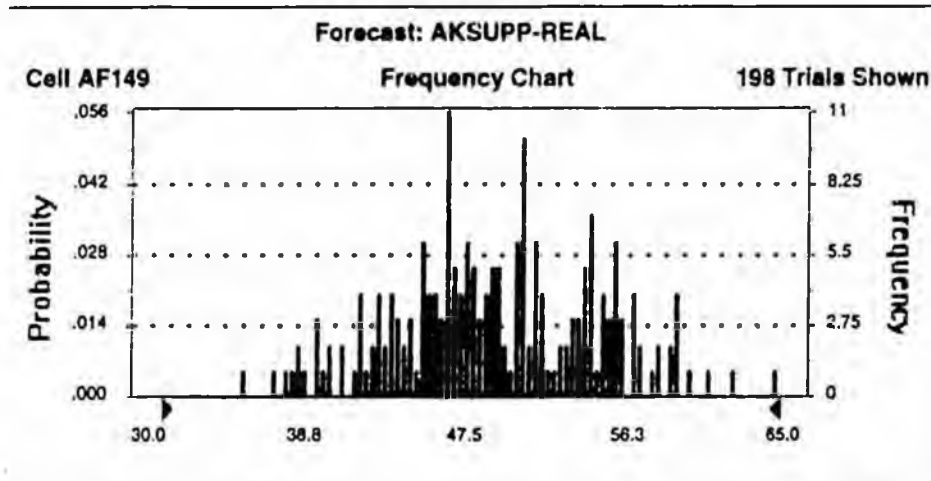
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Summary:

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

Statistics:

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



Forecast: AKSUPP-REAL (cont'd)

Cell: AF149

Percentiles:

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

End of Forecast

# Northstar Economic Evaluation



## Estimated Total Revenues

Effect of Delay	Supplemental Royalty and 1999 Development	Net Profit Share and 1999 Development	Supplemental Royalty and 2002 Development	Net Profit Share and 2002 Development
(Real 1996 Dollars)				
<b><u>State Revenues</u></b>				
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
<b>Total</b>	<b>435</b>	<b>481</b>	<b>469</b>	<b>444</b>
<b><u>Federal Revenues</u></b>				
Royalty (Net of State Share)	44	44	44	44
Income Tax	215	198	205	213
<b>Total</b>	<b>259</b>	<b>243</b>	<b>249</b>	<b>258</b>
<b><u>BPXA Cash Flow</u></b>				
After Tax Funds Flow	349	318	331	346
Real Rate of Return	20.0%	19.9%	19.2%	20.4%

Totals may not add due to rounding.

- Tract Allocation: 76.8% State (No production allocated to ADL 355001)  
23.2% Federal
- State royalty rate: 20%
- Supplemental royalty: As proposed.
- Federal royalty rate: 16.67% (sliding scale not calculated; state receives 27% share of Federal royalty)
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- General: Stand-alone project, no facility sharing. Involves water flood and gas injection; process sales quality crude for delivery to TAPS. Expansion of the existing man-made Seal Island exploration island. Undersea, buried 12" pipeline to shore, 5 miles offshore/11 miles onshore; tie-in to Kuparuk Pipeline just west of TAPS Pump Station #1

Sheet1

"SIMPLE" Discounted Cash Flow Model					
Year	1	2	3	4	5
Gross Oil (MMBO/Y)	0	5	10	6	2
State Royalty Rate	12.5%	12.5%	12.5%	12.5%	12.5%
Royalty Oil	0	0.625	1.25	0.75	0.25
WIO Oil	0	4.375	8.75	5.25	1.75
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After Tax Cash Flow	-65.00	-19.22	59.35	35.78	11.98
NPV @10% =	\$1.50				
ROR =	11%				

Report2

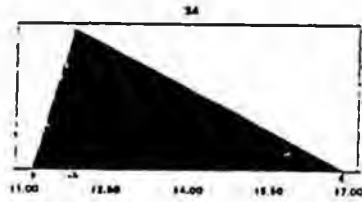
Assumptions

Assumption: S4

Cell: S4

Triangular distribution with parameters:

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



Selected range is from \$1.00 to \$7.00

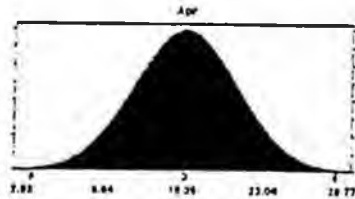
Assumption: Apr

Cell: B93

Normal distribution with parameters:

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

Selected range is from -21.51 to 40.142



End of Assumptions

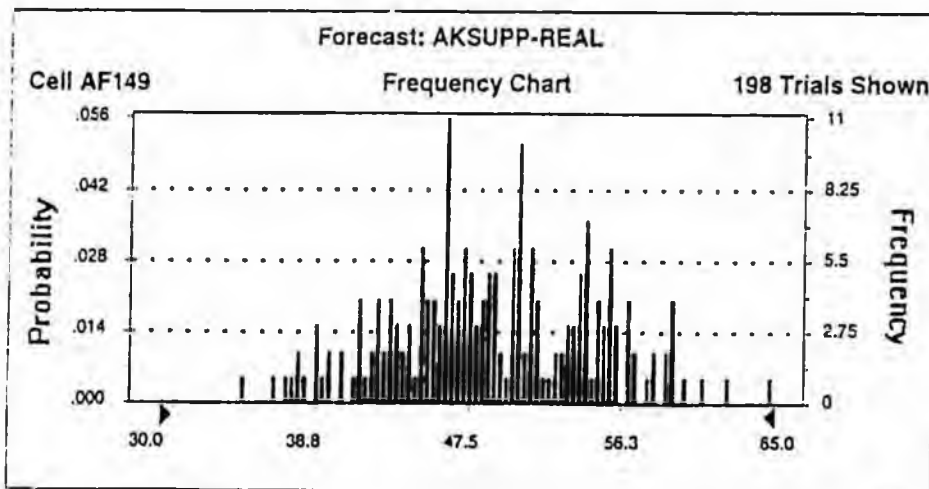
Forecast: AKSUPP-REAL

Cell: AF149

Summary:

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

Statistics:	Value
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Mean	49.2
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Standard Deviation	6.0
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Kurtosis	3.00
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Range Minimum	34.7
Range Maximum	67.8
Range Width	33.2
Mean Std. Error	0.42



Forecast: AKSUPP-REAL (cont'd)

Cell: AF149

Percentiles:

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

End of Forecast

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

April 24, 1996

VIA FAX: (907) 465-4316

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

Dear Representative Green:

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

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

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

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

Representative Green  
April 24, 1996  
Page 2

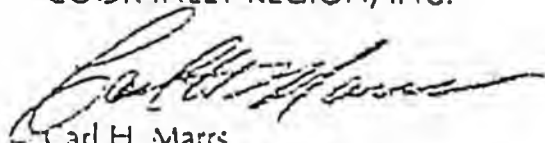
Cook Inlet Region, Inc. fully supports this negotiated agreement. For our part, we are satisfied that BP will do everything in its power to fulfill its commitments on local hire and local business participation in Northstar's development. We do not base this belief on misguided optimism, but on cold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

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

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

Sincerely,

COOK INLET REGION, INC.



Carl H. Marrs  
President & CEO

CHM/DP  
00223

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



## General Teamsters Local 959 State of Alaska

*Affiliated with the International Brotherhood of Teamsters*

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

FAIRBANKS, ALASKA 99707, P.O. Box 70800 (907) 452-2937 FAX (907) 452-5051  
 JUNEAU, ALASKA 99801 308 W. GUGHBY (907) 986-3278 FAX (907) 535-1227

April 11, 1996

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

Dear Co-Chairmen and Committee Members,

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

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

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

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

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

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

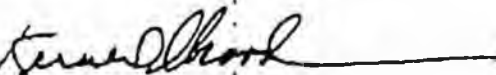
April 11, 1996

Page 2.

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

Respectfully,

TEAMSTERS LOCAL 959



Gerald L. Hood  
Secretary-Treasurer

/kk

JH\North.2

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

April 23, 1996

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

RE: Northstar Lease Terms

Dear Honorable Ramona Barnes,

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

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

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

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

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

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

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

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

Very truly yours,

Donald W. Ince  
via fax

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OPINION SECTION.

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NORTHSTAR DEAL  
LEGISLATORS DEMAND THEIR SAY

By Daily News Editorial Staff

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

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

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

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

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

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

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

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

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

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

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## HOUSE PUSHES BP ON LOCAL HIRE

By STAN JONES

Daily News reporter

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

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

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

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

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

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

Several legislators have wondered whether the deal as written

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"We need a clean bill," Allen said.

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

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

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

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

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

By JACK RODERICK

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

BUSINESS SECTION:

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

By LISA SCAGLIOTTI  
Daily News reporter

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Vendors have had some political success in trying to secure

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

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

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

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

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

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

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

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

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

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

- 500 construction jobs, 50 permanent jobs and hundreds of indirect jobs they'll support — coupled with BP's commitment to hire Alaskans whenever possible;
- \$200-\$250 million in development spending in Alaska, highlighted by BP's commitment to build Northstar facilities in-state;
- An opportunity to launch a new industry, manufacturing large, "sea-lift" scale modules in Alaska — afforded by BP's willingness to

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

- BP's commitment to begin development in 1997 and production by 1999 if we secure the necessary permits;
- Access to new development opportunities through technology and infrastructure developed for Northstar.

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

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

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

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

Common sense suggests otherwise.

They also imply BP gave the Alaska Department of Natural Resources a "take-it-or-leave-it" ultimatum and persist in misrepresenting our agreement with DNR to fix problems with Northstar terms as a "concession" by the state.

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

Net-profits leasing began nearly two de-

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

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

velopment.

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

The Daily News seems fundamentally disin-

Continued on Page 17

## Northstar would generate Alaska jobs

Continued on Page 17

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

- Consider these facts:
- The leases were issued 17 years ago, and BP acquired them in 1995 and began working to reduce development costs. They were nearly worthless. Many companies involved in the original bidding have gone out of business or pulled out of Alaska.
- There was competitive bidding in 1994 when Amerasia Hess and Shell decided to sell their interests. BP won.

It's unclear how many companies could have developed the field under the original terms. Without the agreement, the field would have remained undeveloped.

The agreement is a change in legal, not legislative, jurisdiction. It's been done before in 1975. DNR received net-profit lease terms from the state. Leases held by BP expired in 1995. The agreement was a mutual benefit.

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Inputs

NPSL: OFF

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

Supplemental Royalty: ON

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

Monte Carlo Simulation: OFF

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

NPSL and Supplemental Royalty Control Panel

NPSL ON/OFF	OFF
Supplemental Royalty ON/OFF	ON
NYMEX - All Base MOD Price Differential	60.00

DORA Information

Starting Walker's Assets (MMB)	0
Starting Field Assets (MMB)	0
Starting Purchase Price Balance (MMB)	0

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total						
Gross Oil (Mbd) Produced	0.0	0.0	5.4	49.8	48.8	48.7	41.2	34.7	28.7	23.8	20.0	18.7	13.8	11.5	7.8	4.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	130.0						
Gross Water (Mbd) Produced	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0						
Gross Gas (MMscfd) Produced	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0						
Sales NGLs (Mbd) Produced	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0						
Return Seawater Purchased	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0						
Return Gas Purchased	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0						
PSA1 NB Oil Price (f/bbl, (f/ton))	411.45	412.28	412.72	412.89	414.48	414.92	415.44	415.97	416.48	416.99	417.57	418.10	418.70	419.48	420.06	420.55	421.32	421.83	422.62	423.22	423.82	424.64	425.28	426.15	426.82	427.74	428.57	428.43	430.21	431.27	9690			
Pipeline Tariffs (f/bbl, mod)	42.42	42.77	42.58	42.58	42.96	42.96	42.87	42.88	42.82	42.71	42.53	42.78	44.01	44.28	44.55	44.83	45.02	45.24	45.58	45.98	46.14	46.27	46.31	46.71	46.81	47.23	47.55	47.78	48.01	48.28	9180			
Manne Costs (f/bbl, mod)	11.49	11.28	11.28	11.47	11.47	11.55	11.82	11.71	11.79	11.87	11.92	11.98	12.04	12.12	12.18	12.23	12.41	12.48	12.54	12.64	12.77	12.80	12.88	12.97	13.04	13.15	13.25	13.24	13.44	13.44	8180			
NGL Value as % of Oil Price (mo)	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%			
Other Income (f/bbl, mod)	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00			
Producing Well(s)	0	0	5	10	15	15	15	15	15	15	15	15	15	15	15	15	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0			
Oil Serv. Rate	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%			
Gas Serv. Rate	16.62%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%			
Abandonment (f/bbl, real)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Capex (M, Real)																																		
Drilling	16.0	0.0	14.0	29.0	29.0	15.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	89.0			
Facility	26.0	85.1	83.8	47.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	251.1			
Pipeline	5.0	13.0	18.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	29.0			
Cost Inflation Rate*	1.00	1.03	1.04	1.10	1.13	1.17	1.21	1.24	1.28	1.33	1.37	1.41	1.48	1.50	1.55	1.60	1.65	1.60	1.65	1.70	1.78	1.82	1.87	1.93	1.98	2.04	2.11	2.17	2.23	2.30	2.37	2.44		
* Constant																																		
Supplemental Royalty Rate																																		
Trigger Price (BANS WC)	0	17.81	17.80	18.18	18.47	18.78	19.04	19.37	19.68	19.98	20.31	20.64	20.87	21.31	21.88	21.99	22.34	22.70	23.07	23.43	23.81	24.18	24.34	24.87	25.37	25.78	26.18	26.61	27.03	27.47	27.47	27.47		
Linear Slope (%/BANS WC)		1.5%																																
Supplemental Royalty Cap		7.5%																																

Caution - Only change inputs on this page

Summary Output

Development Summary		MONITE	
	MIN	MAX	MONITE
Revenue	120	105	100
Churn (MLO)	0	0	0
DM (low med)	88	88	121
DM (high med)	0	0	0
DM (low low)	25	25	53
DM (high low)	20	20	20
DM (low)	0	0	0
DM (high)	0	0	0
DM (total)	28	28	28
Dev Costs (total)	130	140	200

State Revenue (M, MOO)	
Royalty and Supplemental	200.0
State Share of Federal Royalty	20.3
Severance Tax	66.5
State Share of Conversion Tax	0.0
Ad Valorem Tax	3.6
MPSL	0.0
Income Tax	52.8
Total (M, MOO)	333.2

Federal Revenue (M, MOO)	
Federal Share of State Share	54.8
Severance Tax	0.0
State & Conversion Tax	0.0
Ad Valorem Tax	0.0
MPSL	0.0
Income Tax	283.8
Total (M, MOO)	338.6

Currentative Inflation	1.00	1.02	1.06	1.10	1.12	1.17	1.21	1.24	1.28	1.33	1.37	1.41	1.46	1.50	1.55	1.60	1.64	1.68	1.72	1.76	1.80	1.84	1.88	1.92	1.96	2.00	2.04	2.07	2.11	2.14	2.18	2.21	2.24	2.28	2.31	2.34	2.37	2.41	
AK WC OD Price (BMM, MOO)	10.26	10.41	10.56	10.71	10.86	11.01	11.16	11.31	11.46	11.61	11.76	11.91	12.06	12.21	12.36	12.51	12.66	12.81	12.96	13.11	13.26	13.41	13.56	13.71	13.86	14.01	14.16	14.31	14.46	14.61	14.76	14.91	15.06	15.21	15.36	15.51	15.66	15.81	15.96

Monthly Forecast Price		1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025																																																																																																																																																																																																																																																																																																																																			
Jan	18.26	18.04	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00																																																																																																																																																																																																																																																																																																																																	
Feb	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00																																																																																																																																																																																																																																																																																																																															
Mar	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00																																																																																																																																																																																																																																																																																																																															
Apr	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00																																																																																																																																																																																																																																																																																																																														
May	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00																																																																																																																																																																																																																																																																																																																														
Jun	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00																																																																																																																																																																																																																																																																																																																														
Jul	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00																																																																																																																																																																																																																																																																																																																														
Aug	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00																																																																																																																																																																																																																																																																																																																														
Sep	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00																																																																																																																																																																																																																																																																																																																														
Oct	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00																																																																																																																																																																																																																																																																																																																														
Nov	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00																																																																																																																																																																																																																																																																																																																														
Dec	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00																																																																																																																																																																																																																																																																																																																														
AK WC OD Price (BMM, MOO)	10.26	10.41	10.56	10.71	10.86	11.01	11.16	11.31	11.46	11.61	11.76	11.91	12.06	12.21	12.36	12.51	12.66	12.81	12.96	13.11	13.26	13.41	13.56	13.71	13.86	14.01	14.16	14.31	14.46	14.61	14.76	14.91	15.06	15.21	15.36	15.51	15.66	15.81	15.96	16.11	16.26	16.41	16.56	16.71	16.86	17.01	17.16	17.31	17.46	17.61	17.76	17.91	18.06	18.21	18.36	18.51	18.66	18.81	18.96	19.11	19.26	19.41	19.56	19.71	19.86	20.01	20.16	20.31	20.46	20.61	20.76	20.91	21.06	21.21	21.36	21.51	21.66	21.81	21.96	22.11	22.26	22.41	22.56	22.71	22.86	23.01	23.16	23.31	23.46	23.61	23.76	23.91	24.06	24.21	24.36	24.51	24.66	24.81	24.96	25.11	25.26	25.41	25.56	25.71	25.86	26.01	26.16	26.31	26.46	26.61	26.76	26.91	27.06	27.21	27.36	27.51	27.66	27.81	27.96	28.11	28.26	28.41	28.56	28.71	28.86	29.01	29.16	29.31	29.46	29.61	29.76	29.91	30.06	30.21	30.36	30.51	30.66	30.81	30.96	31.11	31.26	31.41	31.56	31.71	31.86	32.01	32.16	32.31	32.46	32.61	32.76	32.91	33.06	33.21	33.36	33.51	33.66	33.81	33.96	34.11	34.26	34.41	34.56	34.71	34.86	35.01	35.16	35.31	35.46	35.61	35.76	35.91	36.06	36.21	36.36	36.51	36.66	36.81	36.96	37.11	37.26	37.41	37.56	37.71	37.86	38.01	38.16	38.31	38.46	38.61	38.76	38.91	39.06	39.21	39.36	39.51	39.66	39.81	39.96	40.11	40.26	40.41	40.56	40.71	40.86	41.01	41.16	41.31	41.46	41.61	41.76	41.91	42.06	42.21	42.36	42.51	42.66	42.81	42.96	43.11	43.26	43.41	43.56	43.71	43.86	44.01	44.16	44.31	44.46	44.61	44.76	44.91	45.06	45.21	45.36	45.51	45.66	45.81	45.96	46.11	46.26	46.41	46.56	46.71	46.86	47.01	47.16	47.31	47.46	47.61	47.76	47.91	48.06	48.21	48.36	48.51	48.66	48.81	48.96	49.11	49.26	49.41	49.56	49.71	49.86	50.01	50.16	50.31	50.46	50.61	50.76	50.91	51.06	51.21	51.36	51.51	51.66	51.81	51.96	52.11	52.26	52.41	52.56	52.71	52.86	53.01	53.16	53.31	53.46	53.61	53.76	53.91	54.06	54.21	54.36	54.51	54.66	54.81	54.96	55.11	55.26	55.41	55.56	55.71	55.86	56.01	56.16	56.31	56.46	56.61	56.76	56.91	57.06	57.21	57.36	57.51	57.66	57.81	57.96	58.11	58.26	58.41	58.56	58.71	58.86	59.01	59.16	59.31	59.46	59.61	59.76	59.91	60.06	60.21	60.36	60.51	60.66	60.81	60.96	61.11	61.26	61.41	61.56	61.71	61.86	62.01	62.16	62.31	62.46	62.61	62.76	62.91	63.06	63.21	63.36	63.51	63.66	63.81	63.96	64.11	64.26	64.41







Leases	MPSL		Ac-FI		Reserves		% of MPFL		MPFL Comparison	State Fiba	Working Interest	MPFL Tract Fiba	Royalty Fee by Lease	Weighted Royalty	MP
	12.20%	81.20%	84,000	555,000	8.27%	8.72%	8%	58%							
312788	81.20%	84,000	555,000	8.27%	8.72%	8%	58%	100%	8.18%	20%	1,344%	8,880%			
312808	85.28%	102,000	8.18%	11%	100%	3.08%	20%	1,837%							
312808	85.28%	219,000	17.52%	27%	100%	18.45%	20%	3,504%							
355001	40.00%	880,000	78.80%	100%	100%	89.29%	88%	15,338%							
Effective State Royalty with 27% of Federal Tax															
V181		228,000	18.08%										16.87%	3,014%	
Y0179		84,000	5.12%										16.87%	2,894%	
Effective Federal Royalty w/ 27% of Federal Tax															
		1,245,000	100.00%											2,855%	
													Total	18.00%	81.00%







DDA (MMOD)	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	
Reserves (MMBCE NRY)	0.0	0.0	0.0	98.8	84.4	70.0	58.1	44.3	34.5	26.5	18.8	14.4	8.8	4.2	3.1	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Opening Balance	0.0	0.0	0.0	98.8	84.4	70.0	58.1	44.3	34.5	26.5	18.8	14.4	8.8	4.2	3.1	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Additions (BPX Net Allot Royal)	0.0	0.0	100.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
DDA A Rate (1/8BL)	0.0	0.0	1.8	14.4	14.4	14.0	11.7	8.8	6.0	4.6	3.5	2.7	2.0	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
DDA A (BPX Net Production BMMB)	0.0	0.0	98.8	84.4	70.0	58.1	44.3	34.5	26.5	18.8	14.4	8.8	4.2	3.1	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Closing Balance	0.0	0.0	98.8	84.4	70.0	58.1	44.3	34.5	26.5	18.8	14.4	8.8	4.2	3.1	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Wellbore Assets	0.0	12.7	13.7	27.8	51.5	71.2	72.4	57.3	44.8	34.3	25.7	18.7	12.8	8.0	4.0	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Beginning Balance (Net IMM)	0.0	12.7	13.7	27.8	51.5	71.2	72.4	57.3	44.8	34.3	25.7	18.7	12.8	8.0	4.0	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Additions (BPX Net IMM MOD)	13.7	0.0	14.8	30.1	31.1	17.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
DDA A Rate (1/8BL)	0.00	0.00	0.42	0.43	0.78	1.14	1.29	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.28	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
DDA A (BPX Net IMM MOD)	0.0	0.0	0.7	6.2	11.4	15.9	15.1	12.8	10.4	8.5	7.1	5.8	4.8	3.9	2.8	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Carry Forward (BPX Net IMM)	13.7	12.7	27.8	51.5	71.2	72.4	57.3	44.8	34.3	25.7	18.7	12.8	8.0	4.0	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fieldwide Assets	0.0	25.3	121.2	202.3	218.8	182.3	148.0	115.4	88.8	66.0	51.8	37.8	25.8	18.1	8.2	2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Beginning Balance (Net IMM)	0.0	25.3	121.2	202.3	218.8	182.3	148.0	115.4	88.8	66.0	51.8	37.8	25.8	18.1	8.2	2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Additions (BPX Net IMM MOD)	25.3	85.8	86.5	50.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
DDA A Rate (1/8BL)	0.00	0.00	3.27	2.30	2.60	2.80	2.80	2.80	2.80	2.80	2.80	2.80	2.80	2.80	2.80	2.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
DDA A (BPX Net IMM MOD)	0.0	0.0	5.1	32.3	37.5	36.4	30.8	25.5	20.8	17.2	14.3	11.8	8.7	7.8	5.7	2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Carry Forward (BPX Net IMM)	25.3	121.2	202.3	218.8	182.3	148.0	115.4	88.8	66.0	51.8	37.8	25.8	18.1	8.2	2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BPX Purchase Price Abstraction	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Beginning Balance (Net IMM)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Additions (BPX Net IMM MOD)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
DDA A Rate (1/8BL)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
DDA A (BPX Net IMM MOD)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Carry Forward (BPX Net IMM)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total DDA A Rate (1/8BL)	0.0	0.0	3.7	2.7	2.4	2.7	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total DDA A (Net IMM MOD)	0.0	0.0	5.8	38.5	48.9	52.3	45.7	38.1	31.3	25.7	21.4	17.7	14.5	11.8	7.8	4.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

LOP ABANDONMENT (MMOD)	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	
Beginning Balance (Net IMM)	28.4	28.4	28.4	28.8	28.4	21.5	24.4	17.8	12.7	8.8	4.0	3.8	2.3	1.2	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Additions (BPX Net IMM MOD)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
DDA A Rate (1/8BL)	0.00	0.00	0.78	0.38	0.43	0.43	0.40	0.37	0.34	0.30	0.27	0.23	0.18	0.14	0.07	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
DDA A (BPX Net IMM MOD)	0.0	0.0	0.5	7.5	4.8	7.2	8.8	5.1	3.8	2.9	2.1	1.8	1.1	0.8	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Carry Forward (BPX Net IMM)	28.4	28.4	28.8	28.4	21.5	24.4	17.8	12.7	8.8	4.0	3.8	2.3	1.2	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0



BP EXPLORATION

John C. Morgan  
President, Alaska

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

April 29, 1996

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

Dear Representative Barnes:

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

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

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

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

We appreciate the opportunity to provide comments to your committee.

Sincerely,

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

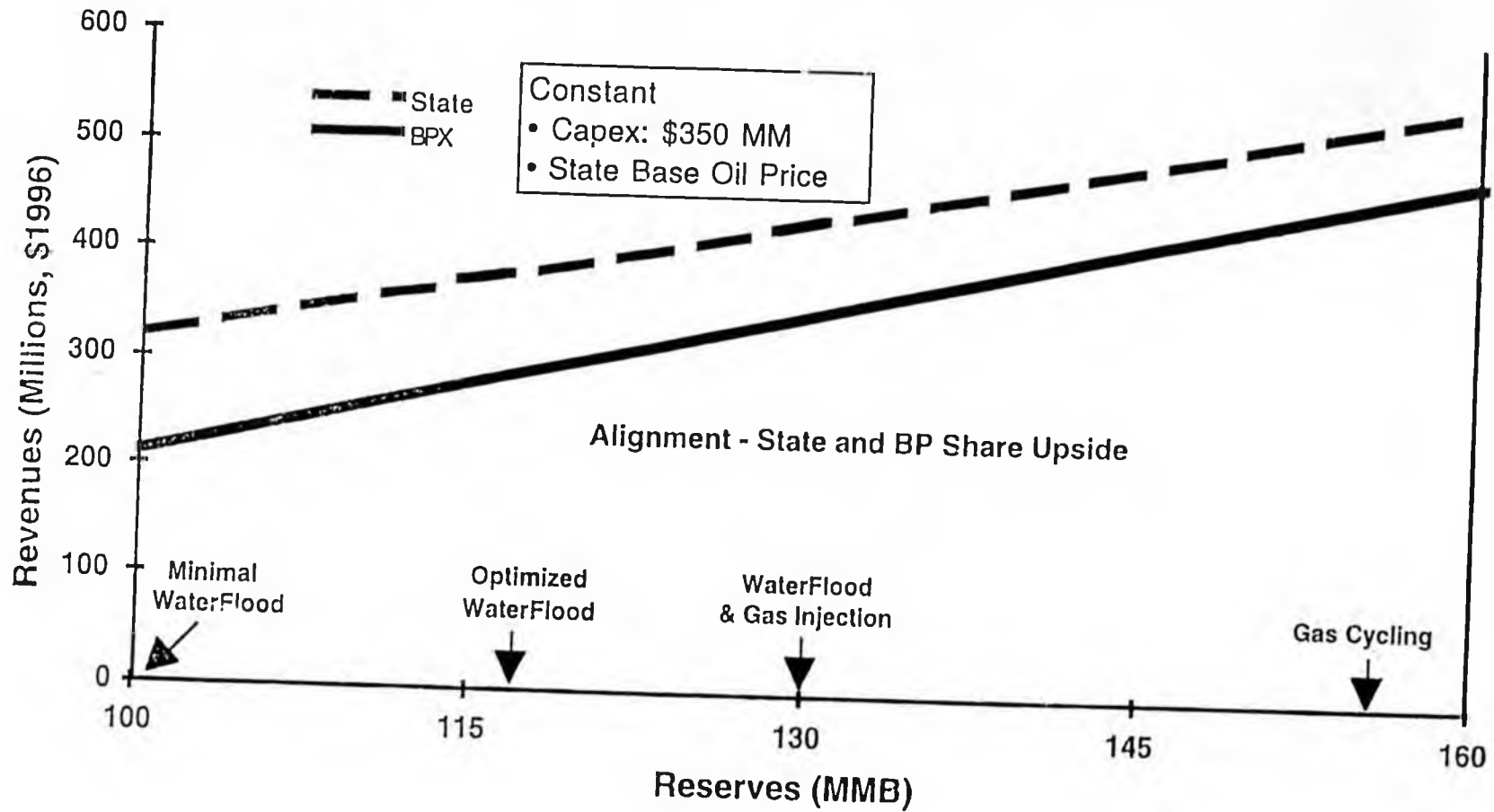
John C. Morgan

Northstar

# Reserves Impact with Agreement



### Revenues vs. Reserves with Agreement



OFC-96  
5/5/96  
BP