

ALASKA LEGISLATURE

1570

HOUSE and SENATE FINANCE COMMITTEE FILES, 1995-1996

SB

317

SFIN

FILE

FISCAL NOTE

No. 1

STATE OF ALASKA
1996 LEGISLATIVE SESSION

Bill Version: SB 317

(S) Publish Date: 3-22-96

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

Dept. Affected: Administration
 BRU: Office of the Commissioner
 Component: Labor Relations

COMPONENT SERIAL NO. 58

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING EXPENDITURES	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES	0	0	0	0	0	0
-----------------------------	---	---	---	---	---	---

CHANGE IN REVENUES ()	0	0	0	0	0	0
-------------------------------	---	---	---	---	---	---

FUND SOURCE: (Thousands of Dollars)

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

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

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary.)

There is no fiscal impact to the Department of Administration.

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

Phone: 465-4404
 Date: _____

Approved by Commissioner: Mark Bover
 Agency: Department of Administration

Date: 3/19/96

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE.
 For further distribution information, call the Governor's Legislative Office

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

Expenditures/Revenues:

(Thousands of Dollars)

OPERATING EXPENDITURE*	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
------------------------	--	--	--	--	--	--

FUND SOURCE

(Thousands of Dollars)

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

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

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

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

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

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE
 For further distribution information call the Governor's Legislative Office

FISCAL NOTE

No. 3

Bill Version: SB317

(S) Publish Date: 3-22-96

STATE OF ALASKA
1996 LEGISLATIVE SESSION

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

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

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

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

POSITIONS

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

ANALYSIS: (Attach a separate page if necessary)

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

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

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE

For further distribution information, call the Governor's Legislative Office

TONY KNOWLES
GOVERNOR



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

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

March 22, 1996

The Honorable Drue Pearce
President of the Senate
Alaska State Legislature
State Capitol
Juneau, AK 99801-1182

Dear President Pearce:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill that would clarify how the state applies the cost of living pay differential for public employees. This bill sets up a framework of eligibility criteria and defines state residency for the purpose of pay differentials which are required for certain public employees under collective bargaining agreements. By codifying the state's interpretation of the pay differentials, this legislation will help avoid conflicts and legal actions on this issue.

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

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

I urge your prompt action on this bill.

Sincerely,

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

Tony Knowles
Governor

SB

318

SFIN

FILE

FISCAL NOTE

STATE OF ALASKA
1996 LEGISLATIVE SESSION

BILL NO. CSSB318(RES)

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

Expenditures/Revenues	(Thousands of Dollars)					
OPERATING EXPENDITURES	FY97	FY98	FY99	FY00	FY01	FY02
PERSONAL SERVICES	147.3	147.3	125.0			
TRAVEL	25.0	25.0	25.0			
CONTRACTUAL	243.3	243.3	75.0			
SUPPLIES	12.0	12.0	6.0			
EQUIPMENT	3.5	3.5				
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	431.1	431.1	231.0	****	****	****
CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
CHANGE IN REVENUES ()						

FUND SOURCE	(Thousands of Dollars)					
1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
1091 Designated Program Rcpts	431.1	431.1	231.0			
TOTAL	431.1	431.1	231.0	****	****	****

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

POSITIONS	FY97	FY98	FY99	FY00	FY01	FY02
FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)

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

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

Prepared by: Jerry Brossia, State Pipeline Coordinator Phone: 271-3601
 Division: State Pipeline Coordinator's Office Date: 30-Apr-96
 Approved by Commissioner: *[Signature]* Date: 30-Apr-96
 Agency: Natural Resources

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE
 For further distribution information call the Governor's Legislative Office

Fiscal Analysis Continued...

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

FISCAL NOTE

STATE OF ALASKA
1996 LEGISLATIVE SESSION

BILL NO. CSSB318(RES)

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

Expenditures/Revenues	(Thousands of Dollars)					
OPERATING EXPENDITURES	FY97	FY98	FY99	FY00	FY01	FY02
PERSONAL SERVICES	147.3	147.3	125.0			
TRAVEL	25.0	25.0	25.0			
CONTRACTUAL	243.3	243.3	75.0			
SUPPLIES	12.0	12.0	6.0			
EQUIPMENT	3.5	3.5				
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	431.1	431.1	231.0	****	****	****
CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
CHANGE IN REVENUES ()						

FUND SOURCE	(Thousands of Dollars)					
1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
1091 Designated Program Rcpts	431.1	431.1	231.0			
TOTAL	431.1	431.1	231.0	****	****	****

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

POSITIONS	FY97	FY98	FY99	FY00	FY01	FY02
FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)

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

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

Prepared by: Jerry Brossia, State Pipeline Coordinator Phone: 271-3601
 Division: State Pipeline Coordinator's Office Date: 30-Apr-96
 Approved by Commissioner: [Signature] Date: 30-Apr-96
 Agency: Natural Resources

PREPARED TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE
 For further distribution information call the Governor's Legislative Office

Fiscal Analysis Continued...

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

FISCAL NOTE

STATE OF ALASKA
1996 LEGISLATIVE SESSION

BILL NO. CSSB318(RES)

Revision Date: 26-Apr-96 Dept Affected: Natural Resources
 Title: An act authorizing, approving, and ratifying the BRU: Resource Development
amendment of the Northstar Unit oil and gas leases... Component: Oil and Gas Development
 Sponsor: Rules by request of the Governor
 Requestor: Senate Finance Component Serial No. #439

Expenditures/Revenues	(Thousands of Dollars)					
OPERATING EXPENDITURES	FY97	FY98	FY99	FY00	FY01	FY02
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
CHANGE IN REVENUES (1002,1004)	0.0	1,900.0	20,900.0	38,400.0	36,900.0	15,650.0

FUND SOURCE	(Thousands of Dollars)					
1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

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

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

ANALYSIS: (Attach a separate page if necessary)

The state will realize a significant increase in revenues from royalties and taxes from the Northstar Unit development over the next six years if this bill is passed. Without the bill, the Department of Revenue predicts in its Fall 1995 Base Price forecast that the Northstar Unit will not commence full production until 2002. If this is the case, DNR predicts that the state might receive about \$36 million in royalty and tax revenues over the next six years.

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

SEE ATTACHED TABLE FOR A FULL FINANCIAL ANALYSIS.

Prepared by: Ken Boyd, Director Phone: 267-8800
 Division: Oil and Gas Date: 26-Apr-96
 Approved by Commissioner: [Signature] Date: 26-Apr-96
 Agency: Natural Resources

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE
 For further distribution information call the Governor's Legislative Office

Updated #1 for CS(RES) 4/30/96

SB318 FISCAL NOTE ATTACHMENT

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

Year	State Revenues (with Northstar Lease Amendments)									
	State Royalty	State Supplemental Royalty	State Share of Federal Royalty	DNR Revenues	Severance Tax	Spill & Conserv. Tax	Property Tax*	Corporate Income Tax	DOR Revenues	Total State Revenues
(Thousands of 1996 Dollars)										
1997	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$400.0	(\$700.0)	(\$300.0)	(\$300.0)
1998	1,800.0	00.0	100.0	1,900.0	00.0	00.0	1,600.0	(100.0)	1,500.0	3,400.0
1999	19,600.0	00.0	1,300.0	20,900.0	8,100.0	200.0	3,100.0	800.0	4,100.0	25,000.0
2000	35,700.0	400.0	2,300.0	38,400.0	14,800.0	400.0	4,300.0	2,900.0	7,600.0	46,000.0
2001	35,300.0	1,300.0	2,300.0	38,900.0	13,100.0	400.0	4,700.0	3,200.0	8,300.0	47,200.0
2002	<u>32,200.0</u>	<u>2,400.0</u>	<u>2,100.0</u>	<u>36,700.0</u>	<u>10,300.0</u>	<u>400.0</u>	<u>4,400.0</u>	<u>3,300.0</u>	<u>8,100.0</u>	<u>44,800.0</u>
	\$124,600.0	\$4,100.0	\$8,100.0	\$136,800.0	\$46,300.0	\$1,400.0	\$18,500.0	\$9,400.0	\$29,300.0	\$166,100.0

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

FISCAL NOTE

STATE OF ALASKA
1996 LEGISLATIVE SESSION

BILL NO. CSSB318(RES)

Revision Date: 26-Apr-96 Dept Affected: Natural Resources
 Title: An act authorizing, approving, and ratifying the BRU: Resource Development
amendment of the Northstar Unit oil and gas leases... Component: Oil and Gas Development
 Sponsor: Rules by request of the Governor
 Requestor: Senate Finance Component Serial No. #439

Expenditures/Revenues: (Thousands of Dollars)

	FY97	FY98	FY99	FY00	FY01	FY02
OPERATING EXPENDITURES						
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
CHANGE IN REVENUES (1002,1004)	0.0	1,900.0	20,900.0	38,400.0	36,900.0	15,650.0

FUND SOURCE (Thousands of Dollars)

	FY97	FY98	FY99	FY00	FY01	FY02
1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 MHTIA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

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

POSITIONS

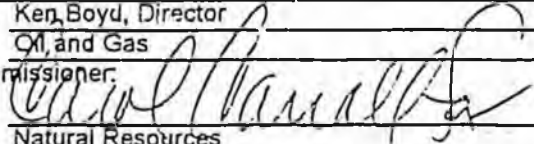
	FY97	FY98	FY99	FY00	FY01	FY02
FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)

The state will realize a significant increase in revenues from royalties and taxes from the Northstar Unit development over the next six years if this bill is passed. Without the bill, the Department of Revenue predicts in its Fall 1995 Base Price forecast that the Northstar Unit will not commence full production until 2002. If this is the case, DNR predicts that the state might receive about \$36 million in royalty and tax revenues over the next six years.

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

SEE ATTACHED TABLE FOR A FULL FINANCIAL ANALYSIS.

Prepared by: Ken Boyd, Director Phone: 269-8800
 Division: Oil and Gas Date: 26-Apr-96
 Approved by Commissioner:  Date: 26-Apr-96
 Agency: Natural Resources

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE
 For further distribution information call the Governor's Legislative Office

SB318 FISCAL NOTE ATTACHMENT

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

Year	State Revenues (with Northstar Lease Amendments)									
	State Royalty	State Supplemental Royalty	State Share of Federal Royalty	DNR Revenues	Severance Tax	Spill & Conserv. Tax	Property Tax*	Corporate Income Tax	DOR Revenues	Total State Revenues
(Thousands of 1996 Dollars)										
1997	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$400.0	(\$700.0)	(\$300.0)	(\$300.0)
1998	1,800.0	00.0	100.0	1,900.0	00.0	00.0	1,600.0	(100.0)	1,500.0	3,400.0
1999	19,600.0	00.0	1,300.0	20,900.0	8,100.0	200.0	3,100.0	800.0	4,100.0	25,000.0
2000	35,700.0	400.0	2,300.0	38,400.0	14,800.0	400.0	4,300.0	2,900.0	7,600.0	46,000.0
2001	35,300.0	1,300.0	2,300.0	38,900.0	13,100.0	400.0	4,700.0	3,200.0	8,300.0	47,200.0
2002	<u>32,200.0</u>	<u>2,400.0</u>	<u>2,100.0</u>	<u>38,700.0</u>	<u>10,300.0</u>	<u>400.0</u>	<u>4,400.0</u>	<u>3,300.0</u>	<u>8,100.0</u>	<u>44,800.0</u>
	\$124,600.0	\$4,100.0	\$8,100.0	\$136,800.0	\$46,300.0	\$1,400.0	\$18,500.0	\$9,400.0	\$29,300.0	\$166,100.0

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

FISCAL NOTE

STATE OF ALASKA
1996 LEGISLATIVE SESSION

BILL NO. SB318

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

Expenditures/Revenues	(Thousands of Dollars)					
OPERATING EXPENDITURES	FY97	FY98	FY99	FY00	FY01	FY02
PERSONAL SERVICES	147.3	147.3	125.0			
TRAVEL	25.0	25.0	25.0			
CONTRACTUAL	243.3	243.3	75.0			
SUPPLIES	12.0	12.0	6.0			
EQUIPMENT	3.5	3.5				
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	431.1	431.1	231.0	****	****	****
CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
CHANGE IN REVENUES ()						

FUND SOURCE	(Thousands of Dollars)					
1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
1091 Designated Program Rcpts	431.1	431.1	231.0			
TOTAL	431.1	431.1	231.0	****	****	****

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

POSITIONS	FY97	FY98	FY99	FY00	FY01	FY02
FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)

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

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

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

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE
 For further distribution information call the Governor's Legislative Office

Fiscal Analysis Continued...

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

CORRECTION

THE FOLLOWING DOCUMENT(S)
HAVE BEEN REFILMED TO
ASSURE LEGIBILITY OR PAGINATION



Rev. 6/98

Central Microfilm Services
Department of Education
State of Alaska

Fiscal Analysis Continued...

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

FISCAL NOTE

STATE OF ALASKA
1996 LEGISLATIVE SESSION

BILL NO. SB318

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

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

FUND SOURCE	(Thousands of Dollars)					
1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

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

POSITIONS	FY97	FY98	FY99	FY00	FY01	FY02
FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)

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

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

Prepared by: Ken Boyd, Director Phone: 269-8800
 Division: Oil & Gas Date: 28-Mar-96
 Approved by Commissioner: [Signature] Date: 28-Mar-96
 Agency: Natural Resources

State Revenues (without Northstar Lease Amendments)

State	State Royalty	State Supplemental Royalty	State Share of Federal Royalty	Severance Tax	Spill & Conserv. Tax	Property Tax*	Corporate Income Tax	Total State Revenues
(Thousands of 1996 Dollars)								
1996	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
1997	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1998	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1999	0.0	0.0	0.0	0.0	0.0	0.0	(477.1)	(477.1)
2000	0.0	0.0	0.0	0.0	0.0	828.3	(835.9)	(7.6)
2001	3,868.9	0.0	247.4	0.0	45.6	2,547.2	(1,173.8)	5,535.3
2002	35,778.5	0.0	2,287.7	16,171.7	407.2	4,245.3	2,784.3	61,674.6
	<u>\$39,647.4</u>	<u>\$0.0</u>	<u>\$2,535.1</u>	<u>\$16,171.7</u>	<u>\$452.8</u>	<u>\$7,620.8</u>	<u>\$297.5</u>	<u>\$66,725.2</u>

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	61,182.8
2000	35,735.8	680.0	2,284.9	13,487.8	432.1	4,771.2	2,994.3	60,386.1
2001	34,891.8	1,969.0	2,231.0	12,682.7	406.5	4,586.5	3,440.7	60,208.2
2002	29,599.9	2,887.4	1,892.6	7,949.5	330.6	4,293.8	3,234.1	50,187.9
	<u>\$139,484.1</u>	<u>\$5,578.9</u>	<u>\$8,918.5</u>	<u>\$50,221.5</u>	<u>\$1,666.7</u>	<u>\$20,671.1</u>	<u>\$9,912.1</u>	<u>\$236,452.9</u>

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)
	<u>\$99,836.7</u>	<u>\$5,578.9</u>	<u>\$6,383.4</u>	<u>\$34,049.8</u>	<u>\$1,214.1</u>	<u>\$13,050.3</u>	<u>\$9,614.7</u>	<u>\$169,727.8</u>

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

FISCAL NOTE

No. 1
Bill Version: SB 318

(S) Publish Date: 3-28-96

STATE OF ALASKA 1996 LEGISLATIVE SESSION

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

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

FUND SOURCE		(Thousands of Dollars)					
	FY97	FY98	FY99	FY00	FY01	FY02	
1002 Federal Receipts							
1003 GF Match							
1004 GF							
1005 GF/Program Receipts							
1006 GF/MHTIA							
Other							
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0	

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

POSITIONS		FY97	FY98	FY99	FY00	FY01	FY02
FULL-TIME		0	0	0	0	0	0
PART-TIME		0	0	0	0	0	0
TEMPORARY		0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)

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

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

SEE ATTACHED TABLE FOR FULL FINANCIAL ANALYSIS...

Prepared by: Ken Boyd, Director Phone: 269-8800
 Division: Oil & Gas Date: 26-Mar-96
 Approved by Commissioner: _____ Date: 26-Mar-96
 Agency: Natural Resources

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE

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
	<u>\$39,647.4</u>	<u>\$0.0</u>	<u>\$2,535.1</u>	<u>\$16,171.7</u>	<u>\$452.8</u>	<u>\$7,620.8</u>	<u>\$297.5</u>	<u>\$66,725.2</u>

State Revenues (with Northstar Lease Amendments)								
State	State Royalty	State Supplemental Royalty	State Share of Federal Royalty	Severance Tax	Spill & Conserv. Tax	Property Tax*	Corporate Income Tax	Total State Revenues
(Thousands of 1996 Dollars)								
1996	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	(\$477.1)	(\$477.1)
1997	0.0	0.0	0.0	0.0	0.0	761.4	(834.1)	(72.7)
1998	3,625.3	0.0	231.8	0.0	50.1	2,343.9	(1,213.4)	5,037.7
1999	35,631.3	42.5	2,278.2	16,101.5	447.4	3,914.3	2,767.6	61,183.0
2000	35,735.8	680.0	2,284.9	13,487.8	432.1	4,771.2	2,994.3	60,386.1
2001	34,891.8	1,969.0	2,231.0	12,682.7	406.5	4,586.5	3,440.7	60,208.1
2002	29,599.9	2,887.4	1,892.6	7,949.5	330.6	4,293.8	3,234.1	50,187.9
	<u>\$139,484.1</u>	<u>\$5,578.9</u>	<u>\$8,918.5</u>	<u>\$50,221.5</u>	<u>\$1,666.7</u>	<u>\$20,671.1</u>	<u>\$9,912.1</u>	<u>\$236,453.0</u>

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)
	<u>\$99,836.7</u>	<u>\$5,578.9</u>	<u>\$6,383.4</u>	<u>\$34,049.8</u>	<u>\$1,214.1</u>	<u>\$13,050.3</u>	<u>\$9,614.7</u>	<u>\$169,727.8</u>

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

Letter of Intent for SB318

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

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

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

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

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

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

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

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

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

(3) is

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

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

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

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

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

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

FINDINGS OF FACT OF THE SENATE RESOURCES COMMITTEE REGARDING SB 318, DATED APRIL 24, 1996. Based upon extensive public testimony, as well as the review of the written documents and presentations made by BP Exploration (Alaska) Inc. (BPXA), the Department of Law, and the Department of Natural Resources related to the proposal of BP Exploration (Alaska) Inc. and the Department of Natural Resources to amend certain of the lease terms of State of Alaska oil and gas leases within the Northstar Unit (NSU), the Senate Resources Committee makes the following findings of fact:

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

(1) The net profit share provision of four of the five state leases now included in the Northstar Unit was the competitively bid variable when the leases were originally offered for lease. The leases were offered with a fixed per acre cash bonus and a fixed royalty of 20 percent, and bidders were asked to submit sealed competitive bids based upon the percentage of net profits that the bidder would share with the state. According to the Department of Natural Resources, the average of the winning net profit share bids for these leases was "about 89 percent." As to the fifth state lease, the net profit share and royalty were fixed by the Department of Natural Resources at 40 percent and 12 1/2 percent, respectively, and the competitively bid variable was the amount of bonus offered by the bidders.

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

(3) The original lessees of the Northstar leases included Amerada Hess Co., Shell Oil Co. (Shell), Enterprise Oil Co. (Enterprise), and Murphy Oil Co. In 1990, Amerada

Hess Co. bought Enterprise's interest in the leases for \$2,000,000.

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

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

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

(1) Instead of attempting to take back the four leases that were due to expire so that they could be competitively leased again, division director James Eason of the Department of Natural Resources along with the Minerals Management Service approved formation of the Northstar Unit and its initial Plan of Development, thereby extending the ten-year primary term of the leases committed to the unit. The Department of Natural Resources' action in approving this exploratory unit which effectively extended all four state leases beyond their primary term (and effectively precluding competitively releasing them) without any certainty of production was consistent with the department's actions on a multitude of units including: Prudhoe Bay/Niakuk deferral, Prudhoe Bay/Pt. McIntyre deferral, Milne Point formation, Milne Point expansion, Duck Island, Point Thomson, Point Thomson expansion, Thetis Island, Hemi Springs, Big River, Astosch, Badami, Kuukpuk, Northstar formation, North Fork, Nicolai Creek, Kavik, Jones Island, Falls Creek, West McArthur River, and Gwydyr Bay. There has been no evidence that the Department of Natural Resources sought the Department of Law's advice about taking back the leases without certified wells and forcing the leases with certified wells into production in connection with its 1990 decision.

(2) The term of the Northstar Unit was five years, from January 24, 1990, until

January 23, 1995.

(3) According to the Department of Natural Resources, as a condition of its approval of the initial five-year Plan of Development for the unit, "[t]he state lessees were permitted to make progressively larger annual payments to the state in lieu of drilling a well in the Plan of Development. The extension fee payments were to be paid by the State lessees to the State under the following schedule: January 31, 1991—\$1 million; January 31, 1992—\$2 million; January 31, 1993—\$2 million; January 31, 1994—\$3 million and January 31, 1995—\$4 million, unless the fee obligation was extinguished by the drilling of a well in the unit area." As further conditions of its approval, the Department of Natural Resources also required Amerada Hess Co. and its partners to conduct certain petrological and petrophysical analyses, to gather an additional 250 line-miles of geophysical (seismic) data over the unit area, and to complete facilities design and reservoir engineering studies (pre-production studies) during the initial Plan of Development. The Plan of Development did not require Amerada Hess and its partners to begin production during the five-year initial term.

(4) Amerada Hess Co. and its partners made the scheduled "in lieu of drilling" payments for the first three years of the five-year Plan of Development period, with payments totaling \$5 million. Amerada Hess Co. then elected to drill the Amerada Hess Co. Northstar No. 3 Well in 1994, extinguishing its remaining financial obligations to the state under the terms of the Plan of Development for the Northstar Unit. Amerada Hess Co. and its partners also timely complied fully with each of the other conditions set out by the Department of Natural Resources in its approval of the initial Plan of Development. The Plan of Development had succeeded in getting one well drilled and in Amerada Hess Co. and its partners' completing certain other work commitments including petrological/petrophysical studies, production facilities design, seismic surveys, seismic analysis and interpretation, and reservoir engineering studies. However, no production from the unit occurred during the five-year period of the initial Plan of Development.

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

Resources has indicated that Amerada Hess Co. believed that the development costs for the Northstar Unit leases would exceed \$1,400,000,000. Assuming that the state could have gotten the leases back, because of their \$1,400,000,000 development cost, the Department of Natural Resources believes that the leases would have had little value and would most likely have been re-leased for a nominal bonus bid.

(6) Under the terms of the Northstar Unit Agreement, Amerada Hess Co. and its partners were required to submit a proposed Plan of Development to the Department of Natural Resources late in October 1994, 90 days before the expiration of the first Plan of Development, or the unit, which had already extended the Northstar Unit leases five years beyond their initial primary term, would terminate.

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

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

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

(10) Amerada Hess Co. and Shell subsequently sold their interests in the Northstar Unit leases to BP Exploration (Alaska) Inc. early in 1995. BP Exploration (Alaska) Inc. has characterized the terms of its purchase of the Northstar Unit lease interests as a "competitive process." However, BP Exploration (Alaska) Inc. has declined to make public

the terms of its purchase or the identity of its competitors for the purchase of Amerada Hess Co.'s and Shell's interest in the Northstar Unit leases, citing a confidentiality agreement between the parties that prohibits its doing so. The state played no role in the offering or selling of Amerada Hess Co.'s and Shell's interest in the Northstar Unit leases to BP Exploration (Alaska) Inc. Lessees commonly sell interests in leases without the state's involvement other than approving assignments resulting from the sale.

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

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

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

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

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

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

(2) Effective January 19, 1995, then-director Eason approved assignment of the state Northstar Unit leases to BP Exploration (Alaska) Inc. as had been requested earlier, and on January 20, 1995, both then-director Eason of the Department of Natural Resources and the Minerals Management Service approved BP Exploration (Alaska) Inc. as the successor operator of the Northstar Unit.

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

(4) The following day, on January 24, 1995, then-director Eason of the Department of Natural Resources approved BP Exploration (Alaska) Inc.'s request for a 90-day extension to submit a new plan of development because, according to director Eason, it was "in everyone's best interest to allow BP additional time to conclude its acquisition and to formulate a new Plan of Development." On January 24, 1995, the Minerals Management Service also approved BP Exploration (Alaska) Inc.'s request for an extension to file a more detailed Plan of Development until April 30, 1995.

(5) On March 30, 1995, BP Exploration (Alaska) Inc. submitted a revised and more comprehensive Plan of Development and a request to extend the Northstar Unit Agreement for a three-year term coincident with its revised Plan of Development. Importantly, the revised plan included sanction within the last year. The plan included the following specific activities: (A) data gathering and project development including environmental data gathering and studies, promulgation of marine mammal incidental take regulations, and a cooperative agreement with the Alaska Eskimo Whaling Commission; (B) 3-D seismic acquisition, including the appropriate government permits and seismic processing,

pipeline and facility engineering and reservoir descriptions; (C) project sanction including project construction permits, integrated 3-D seismic and reservoir descriptions, permit approvals, and finally, sanction by BP Exploration (Alaska) Inc.'s headquarters. The revised Plan of Development added the steps required by BP Exploration (Alaska) Inc. to take the Northstar development to project sanction. The estimated cost of these activities was \$12,000,000. In the two-year plan, the estimated cost was \$10,000,000.

(6) The term of the second Plan of Development was increased from the originally proposed two-year term to a three-year term because of increased commitments by BP Exploration (Alaska) Inc.

(7) On May 1, 1995, the Minerals Management Service approved the revised plan concluding that the "new schedule of activities are deemed necessary to bring the unit into production." On June 2, 1995, the Department of Natural Resources "conditionally" approved BP Exploration (Alaska) Inc.'s revised three-year Plan of Development. Division director Ken Boyd approved the plan because, "in his judgment, it was a reasonable one that allowed the new operator, BP Exploration (Alaska) Inc., adequate time to interpret the existing geological, geophysical, and engineering data, shoot what he considered important 3-D seismic data, begin work on development options, define the scope of reservoir/conceptual engineering, and submit permits with the ultimate goal of getting internal BP Exploration (Alaska) Inc. sanction in the fourth quarter of 1997." It was director Boyd's belief that "[t]he plan was tailored to the shortest deadlines that an operator could reasonably be expected to meet." The plan explicitly stated that sanction would "depend on economic competitiveness of the project compared to other BP Exploration (Alaska) Inc. projects worldwide, the business climate (oil price, etc.), and the status of the external permitting processes." It also noted that the risks included "[d]evelopment and production economics."

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

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

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

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

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

(4) Based upon testimony by both Commissioner Shively and BP Exploration (Alaska) Inc.'s Mr. Morgan, it is clear that even had HB 207 been amended to include explicit authority for the commissioner to reduce the state's net profit share under the same circumstances as the commissioner was ultimately authorized to reduce the state's royalty share under the terms of HB 207, to encourage production that otherwise would not be economically feasible, the commissioner could not have done so in this instance because

production from the Northstar Unit is forecast to be economic without amendments to the net profit share provisions.

ARTICLE 5. THE ECONOMICS OF DEVELOPING THE
NORTHSTAR LEASES UNDER THEIR
EXISTING TERMS.

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

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

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

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

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

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

(7) In its September 1995 report to the Governor's Oil and Gas Policy Council entitled "Review of International Competitiveness of Alaska's Fiscal System" (Little Report), the Arthur D. Little Co. concluded "[Oil] companies generally look for a rate of return of about 15% . . . Projects with lower returns usually do not generate enough profits to encourage companies to commit time and resources to their development."

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

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

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

ARTICLE 6. REVENUE TRADE-OFFS FROM
THE LEASING OF THE NORTHSTAR LEASES
WITH THE NET PROFIT SHARE AS THE

COMPETITIVE BID VARIABLE.

(1) The decision by the commissioner of natural resources to offer the Northstar Unit leases with the net profit share as the competitive bid variable in 1979 resulted in a trade-off of larger immediate bonus payments for the speculative potential to receive a share of the lessees' net profits from the development of any field subsequently discovered. Since oil and gas exploration is inherently risky, with commercial discoveries occurring far less frequently than dry holes, the commissioner's bid strategy entailed risk sharing with the lessees. Compared to other bidding terms available to the commissioner, the selection of net profit share terms allowed successful bidders to obtain the leases for less cash than would otherwise have been required.

(2) Interpolating revenue received for the federal leases within the Northstar Unit, which were leased with a $16 \frac{2}{3}$ percent sliding scale royalty and the bonus as the bid variable and making many speculative assumptions, the Department of Natural Resources estimates the state's Northstar Unit leases could have brought \$268,406,052, as opposed to the \$15,469,000 actually received, had the leases been offered with a $12 \frac{1}{2}$ percent royalty, no net-profit share and with the bonus as the bid variable.

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

(4) The Department of Natural Resources has provided estimates of the expected mean value to a bidder of the Northstar Unit leases. If the Northstar Unit leases were returned at one time to the state for reoffering in a competitive sale with bonus as the bid variable, with royalty set at $12 \frac{1}{2}$ percent or 20 percent, with no net profit share and with estimated recoverable reserves, capital and operating costs as estimated in its economic modeling of the agreement with BP Exploration (Alaska) Inc., the estimated expected mean value, in the view of the Department of Natural Resources, would represent the most a bidder would bid. The Department of Natural Resources further qualifies its estimates by noting that the bidder would have had to make the same economic assumptions about the Northstar Unit leases as were used by BP Exploration (Alaska) Inc. Further, the division of oil and gas has

testified that "if a sale of the Northstar Unit leases were conducted in the future, the division would expect bonus bids to range from a nominal amount to something less than \$225,000,000, depending upon the royalty rate and the discount rate." For a 12 1/2 percent royalty and at discount rates of 10 percent and 15 percent, the Department of Natural Resources estimates that the expected mean value to a bidder would be \$225,000,000 and \$130,000,000, respectively. For a 20 percent royalty and at discount rates of 10 percent and 15 percent, the Department of Natural Resources estimates the mean value of anticipated bonuses would be \$182,000,000 and \$98,000,000, respectively.

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

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

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

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

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

plan which does not expire until April 30, 1998.

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

(6) The Department of Natural Resources has testified that if the department had not approved a further three-year extension for the Northstar Unit in June 1995, the two leases within the unit that did not have wells upon them certified to be capable of production in paying quantities would have reverted to the state, becoming available for releasing. Under the lease provisions and the regulations, the department could then have given notice to BP Exploration (Alaska) Inc. to begin production from the three leases that did have wells certified as capable of production in paying quantities within a reasonable time to do so, that could not have been less than six months. The department has indicated that it has never previously given such a notice to any lessee and there could be litigation over what constitutes "reasonable time" on the North Slope to put a well into production. Furthermore, the leases provide that the leases with certified wells cannot be terminated without "an appropriate judicial proceeding."

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

(8) The Department of Natural Resources' approval of the second Plan of Development, and the resulting three-year extension, effectively eliminated any short-term leverage the department might have had otherwise to expedite BP Exploration (Alaska) Inc.'s development of the Northstar Unit leases without amendment of the leases. The Department of Natural Resources believes its approval was in keeping with the department's approval of other Plans of Development in the recent past.

(9) Both the Department of Natural Resources and the Department of Law

have testified that the Department of Natural Resources did not consult with the Department of Law regarding whether the state might have any legal basis for moving earlier than 1998 to force production under the lease terms. The Department of Natural Resources has indicated that it saw nothing unique about this case that would have justified consulting the Department of Law.

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

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

(2) As its principal reason for proceeding with the negotiations to amend the leases, the Department of Natural Resources cited its desire to assure that production begins earlier than it otherwise would under the timeline estimated by the Department of Revenue. The Department of Natural Resources maintains that, if the legislature does not pass SB 318, the department could not force BP Exploration (Alaska) Inc. to develop the field until after the expiration of the current Plan of Development.

(3) Department of Natural Resources' Commissioner Shively has testified that, "[t]he negotiations were long--longer than I had hoped. I had hoped to have this agreement to the legislature earlier; they were at times very difficult, but I believe that we have negotiated a deal that is in the best interests of the state."

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

(5) Under the terms of the agreement negotiated by BP Exploration (Alaska) Inc. and the Department of Natural Resources, the state agrees to waive its net profit interest in the leases, and in return is to receive an increased royalty rate on one of the five leases, from 12 1/2 percent to 20 percent, as well as the potential to receive a "supplemental royalty" on all of the leases, depending upon whether oil prices rise sufficiently in the future beyond

a specified threshold (trigger) price. In addition, BP Exploration (Alaska) Inc. has made certain nonbinding commitments to increases in state employment, conditional commitments to construct certain undefined modules, and facilities necessary to develop the Northstar Unit within Alaska and has agreed to relinquish the Northstar Unit leases if BP Exploration (Alaska) Inc.'s management does not sanction the project within one year after the effective date of legislation ratifying amendment of the leases.

ARTICLE 9. LEGAL ANALYSIS BY THE DEPARTMENT OF LAW.

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

(2) As to whether legislative ratification of a negotiated agreement between the commissioner of the Department of Natural Resources and BP Exploration (Alaska) Inc. to modify the terms of the Northstar Unit leases would violate the Constitution of the State of Alaska's prohibition against local or special legislation, the Department of Law representative has testified that "[I]t 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) The Department of Law representative has testified that "[i]f there is valuable consideration received by both the state and the leaseholder, the benefit to the state may be characterized as direct."

(4) The Department of Law representative has also testified that "[b]ecause 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."

(5) The Department of Law has also testified "[w]e 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."

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

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

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

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

(10) As to the consideration which the state must receive under the Northstar Agreement, the Department of Law representative has testified "[t]here has to be, in order to

satisfy the public purpose doctrine, a direct public benefit and not an indirect public benefit-- when you're giving up public revenues or foregoing some debt that's owed you by some third party. There has to be a direct public benefit and not an indirect benefit. The direct benefit cannot only flow to the other interest and there appears to be direct public benefit here in connection with the way this agreement is structured."

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

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

(13) The Department of Law representative has testified that "[o]ther 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 on any litigation on this issue gives an additional basis for our advice that the department seek independent statutory authority for the Northstar transaction."

(14) As to whether the legislature's passage of SB 318 will effectively shield the Department of Natural Resources' negotiated amendments to the Northstar Unit leases from legal challenge, the attorney general has testified "I guess my own judgment on this . . . we can't give you the certainty that absent this kind legislation, we would prevail on the

argument. That's precisely, again, I think one of the reasons we brought this to the legislature, and Jim's (Assistant Attorney General Jim Baldwin) comments earlier about seeing legislative action as being an effective vaccination, as it were, against that kind of challenge."

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

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

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

(2) BP Exploration (Alaska) Inc.'s President, Mr. Morgan, testified "I have to say that from our perspective, we have in good faith reached a negotiated agreement with the administration, and I believe that any variation of those terms would cast that whole negotiating process into doubt. So it's both my belief that that was the intent of the administration in introducing the bill, and it would certainly be my very strong preference that this should be handled essentially on an approval or disapproval basis, without the introduction of any significant or material changes."

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

(1) The Department of Natural Resources cannot precisely define the state's future revenue losses. Commissioner Shively noted that "the only thing we know about all these numbers (the DNR's economic modeling of the effects of amending the NSU leases), is since they are projections, is that they are wrong, we just don't know how wrong."

(2) The Department of Natural Resources' Mr. Coughlin has testified regarding potential state revenue loss that "[i]f you look at it as if they (BP Exploration (Alaska) Inc.) would go ahead and develop it because it's, they say, an economic field, the state loses, in essence, \$48 million by trading a net profit share for the supplemental royalty." Mr. Coughlin has noted on the other hand, if full production does not begin until after 2002, the state could lose money if the amendments are not accepted.

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

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

(5) As to whether the Department of Natural Resources, in the course of its negotiations with BP Exploration (Alaska) Inc. had considered whether to add some sort of corrective factor to the agreement to compensate if the reserves ultimately prove to be considerably larger than estimated, Commissioner Shively has testified "[w]e did have a proposal at one time on the table that would have taken that into account. That's not where we ended up. It was part of a more complicated formula that was developed by our division of oil and gas that was part of one of our counter-offers."

(6) The Department of Natural Resources' petroleum economist, Mr. Kevin Banks, who was responsible for evaluating the economic effects of the Northstar Unit lease amendments, has testified that the negotiated agreement is an "okay" deal rather than a "good" deal for the state. In response to the question of why he characterized the deal as "okay" rather than "good", Mr. Banks, testified "I think it has to do with the fact that the net profit share has considerable up-side for the state. If there's any change in the economics of the field that improves, if prices are considerably higher, for example, or if production is any higher. As some of the materials we sent over to you earlier would indicate, the net profit

share really pours in. By the same token, it's exactly the problem that BP has with it: that for any increase in the "benefits" that might be associated with the higher production rates or higher prices, or some other economic feature, the state gets all of it, virtually all of it. And it has a fairly serious impact on the economics and the incentives for incremental kinds of projects for the company. And that's why I say it's "okay." There is a high side to this that I think we can't ignore." Additionally, Mr. Banks has provided the committee with information that under low side cases, the state's revenues from the net profit share are substantially reduced while the supplemental royalty may still pay something, and the longer the project is delayed, the more likely the payout from the net profit share will be reduced.

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

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

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

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

(4) In response to the question of how would the administration, or a court if the need should arise, measure compliance given the number of disclaimers and qualifiers, and

the lack of any specific performance measures in the agreement, Commissioner Shively has testified "I think we have stated this before. What we are asking BP to do, and what they have committed to do, I do not believe is enforceable by law."

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

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

(2) In response to the question of how the commissioner can test whether, and to what extent the state must give up public resources to promote the development of the state's resources, if, as here, there are no standards and no rules, Commissioner Shively has testified "When you make these decisions, it's like anything else, you have to use your best judgment. I happen to believe that one of the problems with government is that we try to set all of these sorts of rules and guidelines, and it's what makes government unworkable. What you need is people that can make judgments, that can look at difficult situations, assess the information, and say this is a good idea or a bad idea. I see nothing wrong with that. I think that's better government, but this idea that we have now that if you just have enough rules and enough regulations, everything is going to be perfect is nuts. I mean, even the bidding process doesn't necessarily guarantee the state that you get your full value for your resources. You get the most somebody wants to pay for it. That may or may not be full value."

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

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

1980 Leases

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1983 Lease

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

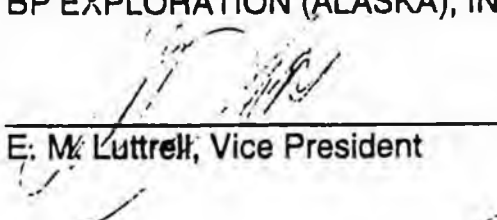
(b) The spot price is the price per barrel calculated in Article 3.3 of and Exhibit 4 to the ANS Royalty Litigation Settlement Agreement ("ANS Agreement"), dated December 31, 1991, between the State and BPXA, for the crude oil referred to

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

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

LESSEE:

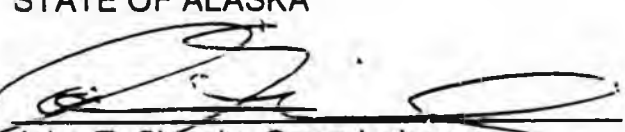
BP EXPLORATION (ALASKA), INC.



E. M. Luttrell, Vice President

LESSOR:

STATE OF ALASKA



John T. Shively, Commissioner
Department of Natural Resources

STATE OF ALASKA)
) ss.
Third Judicial District)

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

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



STATE OF ALASKA)
) ss.
Third Judicial District)

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

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



Exhibit B
Calculation of the Supplemental Royalty Payment for Oil

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

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

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

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

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

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

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

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

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

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

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

$$= \$17.35 \times 1.0317$$

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

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

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

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

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

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

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

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

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

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

EXHIBIT C
PROJECT SCHEDULE

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

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

TONY KNOWLES
GOVERNOR



F. O. Box 110001
Juneau, Alaska 99811-0001
(907) 465-3500
Fax (907) 465-3532

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

March 25, 1996

The Honorable Drue Pearce
President of the Senate
Alaska State Legislature
State Capitol
Juneau, AK 99801-1182

Dear President Pearce:

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

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

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

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

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

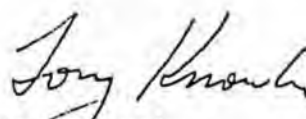
And third, the amendment replaces the current Alaska hire provisions in the leases with more forceful provisions that require BP Exploration (Alaska) Inc. to hire Alaskans, within the constraints of the law, and to contract with local construction and fabrication companies to build the project facilities.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

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

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

I urge your prompt and favorable action on the bill.

Sincerely,


Tony Knowles
Governor

SENATE COMMITTEE REPORT

First Committee of Referral

DATE: 3/28/96

FURTHER: Finance

Date of 5-Day Notice: 3-28-96
(in accordance with Uniform Rule 23)

DATE TURNED INTO OFFICE: 4-25-96

The Resources Committee considered SB 318

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

and recommends:

- be replaced with ~~SB 318~~ CS SR 318 (RET)
- adopt previous _____ CS _____ (_____)
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to the _____ Committee

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

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
		<i>Kirk Halford</i>	✓		
		<i>Demetrius</i>		✓	
		<i>Adrian Frank</i>	✓		
		<i>Robert Taylor</i>		✓	
		<i>Irue</i>	✓		
CHAIR: <i>Tom J. Luman</i>	✓	CHAIR:			

NEW FISCAL NOTE(S):

Department	Date	Zero	Fiscal

PREVIOUS FISCAL NOTE(S):*

Department	Date	Zero	Fiscal

APPROPRIATION -- no fiscal note

*include fiscal notes accompanying Governor's bill

LEGAL SERVICES

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

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


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

MEMORANDUM

April 23, 1996

SUBJECT: Ripeness for litigation of Senate Bill 318, approving modification of Northstar Unit leases between the State and B.P. Exploration (Alaska)

TO: Senator Loren Leman, Chair
Senate Resources Committee

FROM: Jack Chenoweth
Legislative Council 

The second paragraph of Jim Eason's April 22 letter relates:

I believe that litigation ratifying the agreement to amend the leases with a delayed effective date would be ripe for litigation when signed by the governor. . . .

His conclusion that a challenge to a law may properly be brought and maintained once the bill is enacted--that is, once the final act has been taken by which a measure becomes law--is supported by the weight of case law in other jurisdictions,^{1/} and the Alaska Supreme Court has not concluded otherwise.^{2/}

In this jurisdiction, under AS 01.10.070(f)(4):

^{1/} State ex rel. Richards v. Whisman, 154 N.W. 707 (S.Dak. 1915), error dismissed, 241 U.S. 643, 36 S.Ct. 449, 60 L.Ed. 1218 (1916), Anderson v. Byrne, 242 N.W. 687, 692 - 693 (N.Dak. 1932), Drockton v. Board of Elections, 240 N.E.2d 896, 901 (Ohio Common Pleas, 1968), citing City of Cincinnati v. Hillenbrand, 132 N.E. 556, 558 - 560 (Ohio 1921), City of North Las Vegas v. Cluff, 452 P.2d 461, 462 (Nev. 1969).

^{2/} In ARCO Alaska, Inc. v. State of Alaska, 824 P.2d 708 (Alaska 1992), a challenge to retroactive amendment of the ELF (economic limit factor) used in the calculation of oil production taxes was filed July 28, 1989, challenging legislation that had been enacted May 8, 1989, but which was not due to become effective until August 6, 1989. The litigation, filed by plaintiff oil companies after the bill's enactment but before its actual effective date, proceeded through to final resolution.

Senator Loren Lemman

April 23, 1996

Page 2

"becomes law" means is enacted; "enactment" occurs when any one of the following takes place:

(A) a bill which is passed by the legislature is signed by the governor;

(B) the period specified in article II, section 17 of the Alaska Constitution expires without gubernatorial action;

(C) the legislature overrides the governor's veto of a bill.

JBC:pl:klb

96-134.plm



Alaska State Legislature


Senate Resources Committee

Official Business

Memo

State Capitol
Juneau AK 9

TO: Tam Cook, Director
Legal Services

FROM: Annette Kreitzer, Aide to 
Senate Resources Committee

DATE: April 22, 1996

RE: Written Opinion re: SB 318

Please provide written confirmation of the time when you believe an aggrieved party would be able to file litigation challenging the legislature's ratification of an agreement to amend the Northstar Unit leases under the terms of CSSB 318. Would a party have to wait until the delayed effective date, or would the Act be ripe for challenge after signing by the governor?

To assist in answering this question I've attached a memo from Jim Eason to Senator Leman and a letter from E.M. Luttrell of BP addressing the subject.

James E. Eason

Oil and Gas Operations, Management and Policy

3611 Leeper Circle • Anchorage, AK 99504-4209
Phone: (907) 337-3515 • Fax: (907) 333-9087

April 22, 1996

The Honorable Loren Leman, Chairman
Senate Resources Committee
Alaska State Legislature
State Capitol
Juneau, Alaska 99801

Dear Senator Leman:

By letter dated April 20, 1996, Mr. Eric Luttrell reconfirmed that BP Exploration (Alaska) Inc. (BPXA) is unwilling to reopen the negotiations of the Northstar Unit lease amendments as contemplated in CSSB 318. In your decision of whether or not to require amendments of the agreement, particularly any amendments of the effective date, you should be aware that Mr. Luttrell's concern, that delaying the effective date will delay the opportunity to defend the agreement against any lawsuits that may result, may be unfounded.

I believe that legislation ratifying the agreement to amend the leases with a delayed effective date would be ripe for litigation when signed by the governor. If that is the case, an aggrieved party would not have to delay filing of a lawsuit until "the first day following delivery of a letter from the commissioner of natural resources to the revisor of statutes, with copies to the president of the senate and the speaker of the house of representatives confirming that BP Exploration (Alaska) Inc. or its parent entity has made an irrevocable commitment of full funding (project sanction) to develop the Northstar Oil Field."

What does change, under the original effective date and the language allowing force majeure events, including litigation, to delay sanction, is the sharing of risk if litigation is filed. With the combination of an immediate effective date and the ability to claim force majeure, BPXA will have the right to the amended lease terms—no net profit share obligation—and a contractual defense against the one year "take it or leave it" provision of the agreement. If there is delay from litigation, the principal benefit which the state has supposedly bargained for—expedited development—is lost. More to the point, it would be lost because of litigation challenging the very action supposedly necessary to secure the benefit—legislative ratification.

Sincerely,



James E. Eason

**BP EXPLORATION**

Luttrell
Vice President
Exploration, Alaska

BP Exploration (Alaska) Inc.
900 East Benson Boulevard
P.O. Box 196612
Anchorage, Alaska 99519-5812
(907) 564-4892

April 20, 1996

The Honorable Loren Lemman, Chair
Senate Resources Committee
Alaska State Legislature
State Capitol
Juneau, AK 99801

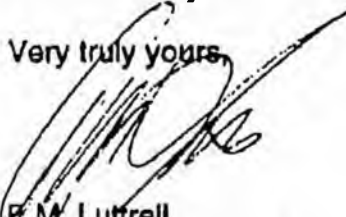
Dear Senator Lemman:

I appreciate the opportunity to comment further on the Senate Resources Committee Substitute for Senate Bill 318. For the reasons explained in my letter and testimony of April 18, 1996, BP will not reopen the negotiations of the agreement and cannot agree to the changes.

With respect to the 21-page findings of fact, BP believes the inclusion of such findings in the act itself is unprecedented. Although many portions of the findings are apparently quotations from testimony and evidence before the committee, we do not believe the findings are a complete or balanced reflection of this testimony and evidence. In addition, the findings describing the history of the leases and unitization are incomplete and seem largely irrelevant to the committee's decision. If the committee desires to make findings of fact such as those in CS 318, it seems more appropriate to include them in the committee record or in a separate committee report rather than in the act itself.

BP also requests that the effective date of the act not be delayed. There has been public testimony from at least one witness regarding a possible legal challenge to the legislation, and we would not want a challenge to be delayed due to a delayed effective date of the act.

Very truly yours,



E.M. Luttrell
Vice President, Exploration and Development
BP Exploration (Alaska), Inc.

APR 16 1996

**BP EXPLORATION**

BP Exploration (Alaska) Inc.
900 East Benson Boulevard
P.O. Box 186612
Anchorage, Alaska 99519-0612
(907) 561-5111

April 16, 1996

The Honorable Loren Leman, Chair
Senate Resources Committee
Alaska State Legislature
State Capitol
Juneau, AK 99801

Dear Senator Leman:

In response to your letter of April 12, the Department of Natural Resources has requested BP to provide capital costs and economic analysis for off site facility sharing of Northstar production.

The analysis is based on the following assumptions:

- Total project costs are still \$378 million (same as stand alone costs);
Conceptual engineering work has indicated that capital costs for facility sharing are substantially the same or higher than a stand alone production facility. The island expansion, drilling, subsea pipeline, environmental studies, and engineering costs are the same with facility sharing. The facility on the island would still require partial processing and water/gas re-injection capability. Therefore, the slightly reduced island facility cost is offset by higher pipeline and facility modifications costs.
- Reserves are 130 million barrels with a plateau rate of 50,000 barrels per day;
- A processing fee of \$2.50 per barrel of oil is required to access the facilities.
The assumed processing fee is consistent with fees currently charged on the North Slope.

The impact on State, Federal, and BP revenues is attached for the following three scenarios (1) supplemental royalty and early development, (2) net profit share and delayed development, and (3) net profit share and early development.

If you require additional information, please do not hesitate to call me (907-564-4892) or Daryl Kleppin (907-564-5418) on my staff.

Very truly yours,

A handwritten signature in cursive script that reads 'Daryl Kleppin'.

for E.M. Luttrell
Vice President, Exploration and Development
BP Exploration (Alaska), Inc.

Northstar Economic Evaluation

4/16/96

Estimated Total Revenues: Facility Sharing Case, Evaluated by BPXA

	<u>With Supplemental Royalty and Early Development</u>	<u>With Net Profit Share and Delayed Development (Real 1996 Dollars)</u>	<u>With Net Profit Share and Early Development</u>
State Revenues			
State Royalty	256	257	256
State Supplemental Royalty	37	-	-
NPSL	-	-	-
State Share of Federal Royalty	16	16	16
Severance Tax	58	58	58
Spill & Conservation Tax	3	3	3
Ad Valorem Tax	42	46	42
Income Tax	8	9	9
Total	419	389	384
Federal Revenues			
Royalty (Net of State Share)	44	44	44
Income Tax	133	150	145
Total	177	194	189
BPXA Cash Flow			
After Tax Funds Flow	197	229	220
Real Rate of Return	12%	14%	13%

State of Alaska
Department of Natural Resources
Division of Oil and Gas
3601 C Street, Suite 1380, Anchorage, Alaska 99503

Fax Confirmation Phone (907)762-2549 Fax (907)562-3852

FACSIMILE TRANSMITTAL

DATE & TIME: April 15, 1996 3:41 PM

PLEASE DELIVER TO: Senator Loren Leman

FAX NUMBER: 465-3810

NUMBER OF PAGES (including cover): 2

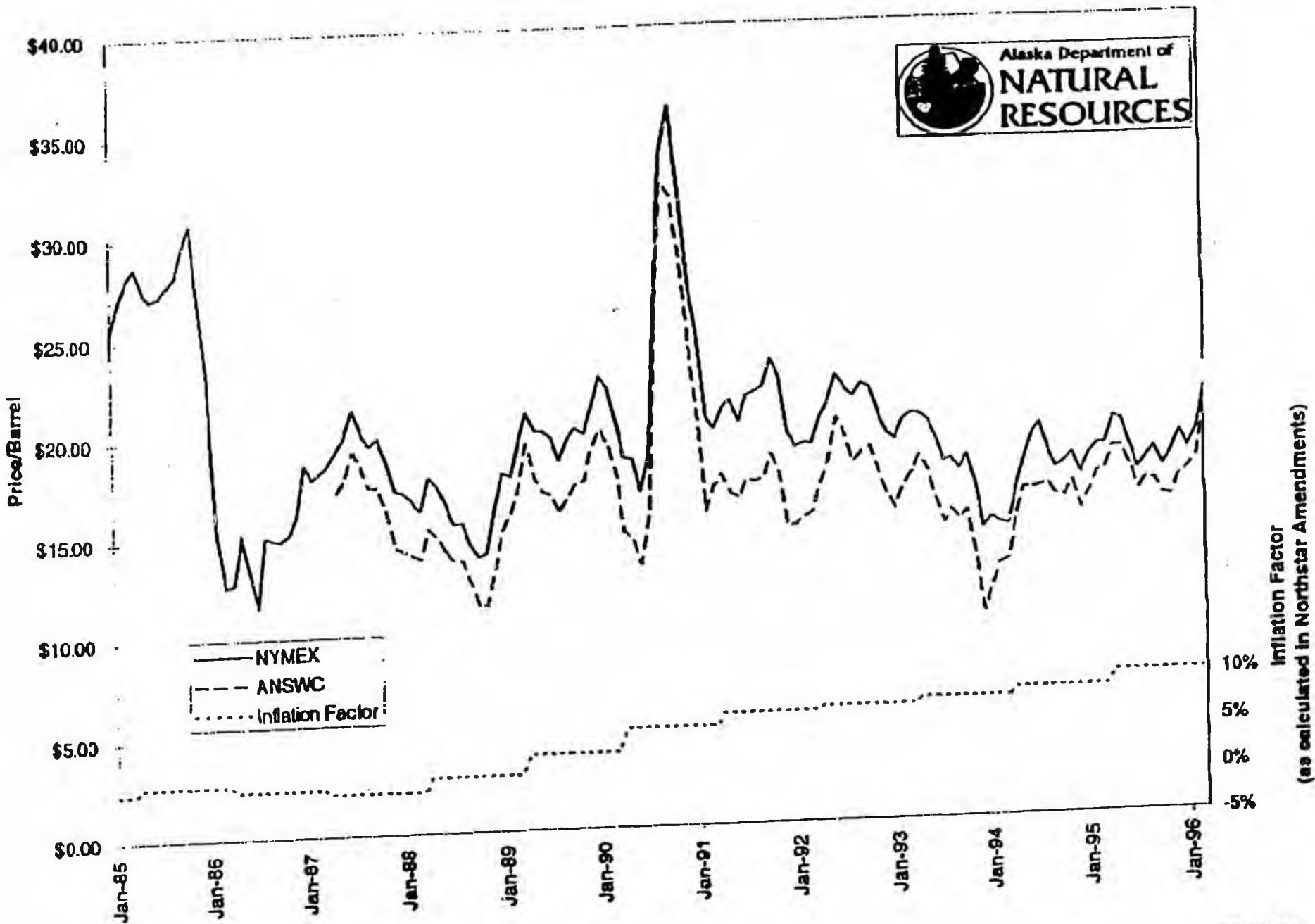
FROM: Kevin Banks
269-8799

COMMENTS:

Attached is the chart that illustrates historical oil prices and inflation. Prices are nominal (money-of-the-day), i.e., no adjustment for inflation. The inflation factor is calculated from the PPI (for industrial commodities) as indicated in the Northstar Lease Amendments, replacing December 1995 with December 1984 to show how the factor would have been calculated over the 1985-1996 period.

Attachment.

Historical Monthly NYMEX Oil Price and "Inflation Factor"



PRICE X .5 NYMEX

4/15/96, 2:34 PM



Alaska State Legislature

SENATE RESOURCES COMMITTEE

Official Business

State Capitol
Juneau AK 99801

Mr. Ken Boyd, Director
Division of Oil and Gas
Department of Natural Resources
via facsimile: X3886 3 pages including this one

Dear Mr. Boyd:

Will you please provide the Committee the results of the department's modeling of the anticipated revenue distribution between the State, BPXA and the federal government if the assumptions used in the "Illustrative Northstar Model" are changed to relate to peak production, reserves and capital costs in the following manner:

Peak production rate: 80,000 bbls/day

Reserves:

P(90) = 190 MMBO

Mean = 160 MMBO

P(10) = 115 MMBO

Capital Expenditures (real 1996 dollars):

Adjust facilities capital cost to reflect assumption that off-site processing facilities are used instead of constructing new production facilities.

A short narrative summary of your estimate of the state revenue losses resulting from amendment of the Northstar leases under these circumstances would be appreciated.

Also, in this transmittal is a copy of BPXA's response to specific Committee questions regarding rate of return on late field life that may be useful to you in responding to the question last night regarding the rate of return during recoupment of the capital account costs.

Sincerely,

A handwritten signature in cursive script, appearing to read "Loren Leman".

Senator Loren Leman
Chairman

STATE OF ALASKA

TONY KNOWLES, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

400 WILLOUGHBY AVENUE
JUNEAU, ALASKA 99801-1796
PHONE: (907) 465-2400
FAX: (907) 465-3886

April 11, 1996

Senator Loren Leman
Chairman, Senate Resources Committee
Alaska State Legislature
State Capitol
Juneau, AK 99801

Dear Senator Leman:

The Division of Oil and Gas responds to your list of questions dated April 5, 1996, as follows:

1. BPXA currently estimates that 76.8% of the recoverable reserves underlie the state's leases in the Northstar Unit (NSU). The Division's Resource Evaluation Group has reviewed this estimate and other confidential estimates, and believes that 75 to 80% is a reasonable range. This range could be slightly higher if BPXA develops the known reserves to the Northwest.
2. The Division does not possess the necessary information to estimate the bonus that the state would have received in 1979 if the NSU leases had been offered with a 12.5% royalty and no net profit share. In order to make such an estimate, the Division would need to know, among other things, the 1979 estimates (or ranges of estimates) of capital expenditures, operating costs, oil prices, dry hole risk, oil in place, recoverable reserves, TAPS tariffs, tanker costs, and federal tax rates. The Division employee responsible for such a pre-sale analysis is no longer employed by the state and the Division has been unsuccessful in locating a file containing a pre-sale analysis of the NSU leases.

If one is willing to make many assumptions, the most important of which are that the bidders would bid on all tracts in proportion to the reserves they believe underlie a tract and in 1979 and 1983 bidders believed that recoverable reserves were split between the state and federal leases as they have been estimated in 1996, then one can estimate the bid based upon the actual bids on the federal leases. The two federal leases received a combined winning bid of \$81,080,995. If that is assumed to be 23.2% of the total bid amount, then the state total bid for the state NSU unit would be \$268,406,052. One could also assume that the bid might be higher because the federal leases were leased at 16.67% sliding scale royalty and your hypothetical stipulates a 12.5% fixed royalty. Conversely, the state leases would pay severance tax while the federal leases would not and this might result in lower bids on the state leases.

3. If one assumes that 50% of the \$268,406,052 would have been deposited into the Permanent Fund, then based upon the annual realized rate of returns reported by the Permanent Fund in its 1995 annual report, then the balance for the year ending 1995 would be \$704,588,494.

4. The Division does not ordinarily calculate the bonuses that the state could expect to receive from a lease sale. Nor does it possess a model to estimate bonuses. In the usual pre-sale analysis, the Division does prepare an estimate of the net present value of the projected discounted cash flow (NPV or EMV) for a prospect to assist in setting the lease terms to offer in the sale. Terms which the Division considers include the royalty rate, net profit share rate, and whether to offer an exploration incentive credit. In attempting to maximize the revenue to the state, the NPV represents how much bidders may have available to bid. As part of that evaluation, the Division considers many factors including: prospectivity, company interest, development costs, operating costs, and oil prices. These factors are very important in deciding the balance to strike between the bonus bid and the size of the state's future royalty or net profit share ("state take").

In a world of certainty and competition, the amount of a bid should equal the "economic rent." Economic rent is the difference between the value of production and the total necessary cost of exploration, development, and production including a reasonable rate of return to the lessee. In this idealized world, the most efficient firm with the lowest hurdle rate would win the bid. Oil and gas competitive bidding, however, is often conducted under conditions of uncertainty and limited competition. It is widely believed that the winner tends to be the bidder who most overestimates reserve potential, although other factors such as underestimating costs can lead to the same result, particularly in frontier areas. It should be noted, however, that if the NSU leases were rebid, much of the uncertainty about reserves would have been resolved.

Bidders employ various strategies, ranging from intuition to formal models, for bidding in such high risk situations. Although profit maximization remains the object, bidders will examine the tradeoff between reducing the bid and reducing the probability of winning. In general, bidders will bid some fraction of the project's "expected mean value (EMV)."

To do an EMV calculation, an appropriate discount rate must be selected. Various hurdle rates for oil and gas companies have been reported in the literature, ranging from 5% to 15% (real). In addition, the Division has access to confidential information regarding hurdle rates for several companies. For purposes of this analysis, the Division has used discount rates of 10 and 15% (real).

Next, certain assumptions must be made regarding oil prices, production rates, capital expenditures, operating costs, taxes, and the like. For purposes of this analysis, the Division has used the same assumptions used in the Northstar model, as requested by you, except outcomes were varied over certain ranges: (1) the recoverable reserves from

105 MMBO to 160 MMBO; (2) capital expenditures from \$330 to \$471 MM; (3) operating costs from \$1.40/bbl to \$2.00/bbl; and (4) oil prices varied over an average of a normal distribution whose standard deviation is between \$1.00 to \$7.00 around the DOR mid-price forecast. The Division did 200 Monte Carlo trials to calculate an EMV at the 10 and 15% discount rates. The results under the various discount rates and royalty rates are presented in Table 1.

The results presented in attached Table represent the most a bidder, who believed that the Northstar project could be developed for about \$380 MM, including appraisal costs, would bid assuming the bidder's discount rate was 10% or 15% respectively. Because the results are the discounted value of real cash flows to the bidder, delaying the sale by one year, two years, or three years would only slightly increase the EMV if you assume DOR's projection of slight real growth in oil prices to be true. A bidder who believed that Northstar could be developed for \$380 MM, however, would attempt to develop a bidding strategy to obtain the NSU leases for less than the EMV.

An examination of the competition would suggest that the leases could be obtained for less than the EMV. If a prospective competing bidder determined that the project could not be developed for less than \$1.4 Billion (such as Amerada Hess did), then the project would have a negative EMV at either discount rate and the prospective competing bidder would not likely bid at the sale. Indeed, if Amerada Hess had turned the NSU leases back to the state for releasing, the Division would have expected the bonus bids to be very small at any royalty rate. Only because BPXA had the opportunity to work the project after acquiring information from Amerada Hess was BPXA able to reduce the development costs to the \$380 MM range. In sum, if a sale of the NSU leases were conducted in the future, the Division would expect bonus bids to range from a nominal amount to something less than \$225 MM depending on the royalty rate and discount rate. See attached Table.

I hope that this information is helpful to you. Please call me if you have any questions.

Sincerely,



Kenneth A. Boyd

Director

Division of Oil and Gas

Northstar Economic Evaluation



Expected Mean Value

	12.5% Royalty			20.0% Royalty		
	P(90)	Mean	P(10)	P(90)	Mean	P(10)
Discounted at 10%	\$173	\$225	\$281	\$137	\$182	\$231
Discounted at 15%	\$92	\$130	\$166	\$63	\$98	\$136



Alaska State Legislature

SENATE RESOURCES COMMITTEE

Official Business

State Capitol
Juneau AK 99801

April 5, 1996

Mr. Ken Boyd, Director
Division of Oil and Gas
Department of Natural Resources

via facsimile: (907) 562-3852

Dear Mr. Boyd:

So we may better understand the relationships between the selection of lease sale bidding terms available to the Commissioner under the statutes and the size and timing of anticipated state revenues that may result, I would appreciate your written reply to the following questions before the presentation Mr. Banks is scheduled to make before the Resources Committee next Thursday.

1) What proportion of the Northstar oil reserves is estimated to underlie the State's leases in the unit?

2) According to Table 1 (Northstar Leases Information) of BP's document entitled "Northstar Project BP Exploration (Alaska) Proposal for Modified Lease Terms" (Proposal), the total bonuses received for the state's leases in the Northstar unit was \$15,469,000.

Based upon the division's ability to model bidding strategy as a function of the bidding variable selected for each sale, what would be its best estimate of the bonuses it would have received in 1979 had the leases been offered with the bonus as the bid variable, and with a 12.5 percent royalty and no net profit share instead of under the terms which the department selected?

3) Based upon the historical performance of the Permanent Fund, and your best estimate of total bonuses which would have been received under the circumstances outlined in question #2, please contrast for the committee the Permanent Fund revenues that would have resulted versus those which have occurred from the initial deposit of 50 percent of the bonuses actually received for the state leases.

4) Finally, as BP has noted on page 8 of its Proposal, in evaluating the alternative revenue stream which the state might expect were it to re-lease the Northstar leases, "[t]otal state revenues in this scenario would have to include the revenue from bonus bids on the leases." Using the model you have developed for evaluating the economics of the Northstar Agreement - or another model if you believe it would be more appropriate - please provide the committee your estimate of the bonuses you would anticipate under the following sets of circumstances:

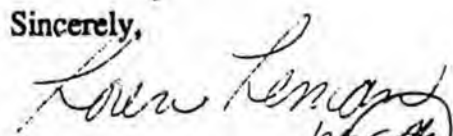
- Bonus as the bid variable
- 12.5 percent royalty; not net profit share; 20 percent, no net profit share

- Recoverable oil reserves of 130 mmbbls; recoverable oil reserves of 160 mmbbls
- Capital and operating expenses as estimated for Northstar development and used in your existing model
- Timing of production delayed by one year, two years and three years, respectively, from the earliest date of production anticipated under the Northstar Agreement.

In addition to being prepared to discuss the state's modeling of revenues under the Northstar Agreement, I would appreciate it if Mr. Banks would be prepared to answer any follow-up questions the committee may have based on your responses to these questions.

Thank you once again for your cooperation, and that of your staff in providing this information.

Sincerely,


Senator Loren Leman *for the phone approval*
Chairman

**State of Alaska
Department of Natural Resources
Division of Oil and Gas
3601 C Street, Suite 1380, Anchorage, Alaska 99503**

Fax Confirmation Phone (907)762-2549 Fax (907)562-3852

FACSIMILE TRANSMITTAL

DATE & TIME: April 17, 1996 10:25 AM

PLEASE DELIVER TO: Senator Loren Leman

FAX NUMBER: 465-3810

NUMBER OF PAGES (including cover): 10

FROM: Ken Boyd
269-8800

COMMENTS:

Attached is our response to your request for Northstar model forecasts assuming various production rates and reserve estimates. Please call if you have any questions

Attachment.