

ALASKA LEGISLATURE COMMITTEE FILES 1995-1996 8672

8744 HOUSE RESOURCES

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

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

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

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

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

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

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

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

25 (1) holds an Alaska business license;

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

27 (3) is

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

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

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

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

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

CS FOR HOUSE BILL NO. 548(RES)

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - SECOND SESSION

BY THE HOUSE RESOURCES COMMITTEE

Offered: 4/26/96

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

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

A BILL

FOR AN ACT ENTITLED

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

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

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

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

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

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

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

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

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

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

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

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

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

26 (b) The commissioner of natural resources

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

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

CORRECTION

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



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7 interest and effect because it is an important source of revenue to the state and job
8 opportunities for the people of the state;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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31 governor, after being advised by the commissioners of commerce and economic development

*To hire @ AK
a moral obligation
incentives
Credits*

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

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

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

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

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

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

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

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

LEGAL SERVICES

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

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

MEMORANDUM

April 29, 1996

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

TO: Representative Kay Brown

FROM: Jack Chenoweth
Legislative Counsel 

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

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

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

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

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

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

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

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

Under the state constitution, the equal protection standard is, as you may know, a sliding scale. In cases involving economic endeavor, the Alaska Supreme Court, applying an equal protection analysis, suggests that, where government involvement affects a right to engage in an economic endeavor affecting use of state natural resources, the legislation on which the government involvement is based should exceed rational basis scrutiny. ^{1/} Commercial Fisheries Entry Commission v. Apokedak, 606 P.2d 1255, 1266 (Alaska 1980), app. after remand 630 P.2d 486; Baker v. State, 878 P.2d 642, 644 (Alaska App. 1994). The evaluation standard applicable under the Uniform Application Clause of art. VIII, sec. 17 surely may not be less stringent. It probably requires not the minimum requirement of a fair and substantial relationship but rather at least a close nexus, or fit, between the proposed enactment and the interest sought to be served by it. ^{2/}

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

^{2/} On the nature of the relationship, in its Baker decision, the Court of Appeals has written:

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

(continued...)

Representative Kay Brown

April 29, 1996

Page 3

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

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

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

*

Please contact me should you have additional questions.

JBC:glc
96-261.glc
Enclosures

(...continued)

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

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

Northstar Contract Leases

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

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

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

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

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

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

Benefits

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

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

Dept. of Nat. Resources Economic Evaluation

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

MEMORANDUM

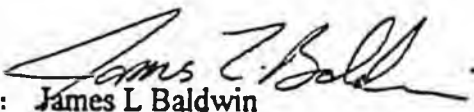
State of Alaska
Department of Law

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

DATE: March 26, 1996

FILE NO.: 663-96-0441

TELEPHONE NO.: 465-3600

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

SUBJECT: Necessity for legislation to
implement net profit share
reduction

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

1. Authority Under Existing Law.

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

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

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

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

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

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

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

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

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

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

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

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

2. Local or Special Legislation

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

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

Alaska Const. Art. II, Sec. 19.

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

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

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

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

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

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

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

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

3. Public Purpose.

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

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

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

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

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

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

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

4. Competitive Bidding Principles

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

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

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

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

- (4) whether the contract contains clauses authorizing modifications; and
- (5) the extent of the change relative to the original contract.

646 P.2d at 221.

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

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

JLB/clh

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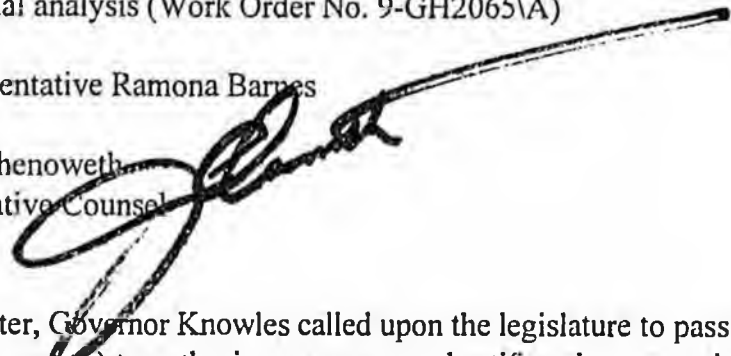
MEMORANDUM

April 2, 1996

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

TO: Representative Ramona Barnes

FROM: Jack Chenoweth
Legislative Counsel



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

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

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

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

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

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

Bill section 3 gives the measure an immediate effective date.

*

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

Representative Ramona Barnes

April 2, 1996

Page 2

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

I have no other information about the measure.

JBC:klb

96-251.klb

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FAX TRANSMITTAL

DATE: 4/26/96

OUR FILE NO:

TO: Bill Allen

OF: VECO

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

FROM: John Miller EIDE & MILLER

SENT BY: Cecelia Ebue of EIDE & MILLER

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April 26, 1996

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

Re: Proposed changes to the Northstar legislation
regarding local hire

Dear Bill:

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

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

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

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

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

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

In sum, the state simply cannot mandate resident hire.

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

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

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

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

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

IV. The Local Hire Provisions are not Severable.

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

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

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

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

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

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

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

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

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

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

Very truly yours,

EIDE & MILLER C


John M. Miller

105/01/allen.ltr

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MEMORANDUM

April 27, 1996

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

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

FROM: Jack Chenoweth
Legislative Counsel



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

*

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

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

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

April 26 memo, at page 3.

Representative Ramona Barnes

April 27, 1996

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

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

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

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

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

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

Representative Ramona Barnes

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

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

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

Your options, it seems to me, are these:

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

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

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

Representative Ramona Barnes

April 27, 1996

Page 4

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

Please contact me if you should have additional questions.

JBC:pl

96-140.plm

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

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

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

MEMORANDUM

DEPARTMENT OF NATURAL RESOURCES

State of Alaska

DIVISION OF OIL AND GAS

TO: Ken Boyd
Director

DATE: April 25, 1996

THRU:

FILE NO:

TELEPHONE: 269-8799

FROM: Kevin Banks
Petroleum Economist

SUBJECT: HB 548 Northstar

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

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

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

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

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

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

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

Attachments.

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

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

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

Northstar Economic Evaluation

Estimated Total Revenues



Table 1:

Most Likely Case:
130 MMBO Reserves
(Questions from House Resources--4/24)

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

Totals may not add due to rounding.

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

Northstar Economic Evaluation

Estimated Total Revenues



Table 2:

160 MMBO Reserves-50,000 BOPD Peak
Rate

(Questions from House Resources--4/24)

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

(Real 1996 Dollars)

State Revenues

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

Federal Revenues

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

BPXA Cash Flow

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

Totals may not add due to rounding.

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

Northstar Economic Evaluation

Estimated Total Revenues



Table 3:

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

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

Totals may not add due to rounding.

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

Northstar Economic Evaluation

Estimated Total Revenues



Table 4:

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

	Supplemental Royalty and 1999 Development	Net Profit Share and 2002 Development	Net Profit Share and 1999 Development
	(Real 1996 Dollars)		
<u>State Revenues</u>			
State Royalty	256	257	256
State Supplemental Royalty	37	0	0
NPSL	0	152	191
State Share of Federal Royalty	16	16	16
Severance Tax	58	58	58
Spill & Conserv. Tax	3	3	3
Ad Valorem Tax	32	34	32
Income Tax	<u>27</u>	<u>23</u>	<u>21</u>
Total	428	543	577
<u>Federal Revenues</u>			
Royalty (Net of State Share)	44	44	44
Income Tax	<u>248</u>	<u>210</u>	<u>196</u>
Total	293	254	240
<u>BPXA Cash Flow</u>			
After Tax Funds Flow	423	351	326
Real Rate of Return	29.5%	29.0%	28.2%

Totals may not add due to rounding.

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

Northstar Economic Evaluation

Estimated Total Revenues



Table 5:

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

	Supplemental Royalty and 1999 Development	Net Profit Share and 2002 Development	Net Profit Share and 1999 Development
	(Real 1996 Dollars)		
<u>State Revenues</u>			
State Royalty	206	207	206
State Supplemental Royalty	26	0	0
NPSL	0	0	0
State Share of Federal Royalty	13	13	13
Severance Tax	40	41	40
Spill & Conserv. Tax	2	2	2
Ad Valorem Tax	42	46	42
Income Tax	<u>17</u>	<u>17</u>	<u>17</u>
Total	346	326	321
<u>Federal Revenues</u>			
Royalty (Net of State Share)	36	36	36
Income Tax	<u>151</u>	<u>160</u>	<u>159</u>
Total	186	194	195
<u>BPXA Cash Flow</u>			
After Tax Funds Flow	279	244	245
Real Rate of Return	15.8%	16.4%	16.3%

Totals may not add due to rounding.

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

Northstar Economic Evaluation

Estimated Total Revenues



Table 6:

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

	Supplemental Royalty and 1999 Development	Net Profit Share and 2002 Development	Net Profit Share and 1999 Development
	(Real 1996 Dollars)		
State Revenues			
State Royalty	169	150	169
State Supplemental Royalty	0	0	0
NPSL	0	0	0
State Share of Federal Royalty	11	10	11
Severance Tax	42	37	42
Spill & Conserv. Tax	3	3	3
Ad Valorem Tax	44	48	44
Income Tax	9	5	9
Total	277	252	277
Federal Revenues			
Royalty (Net of State Share)	29	26	29
Income Tax	80	47	80
Total	109	73	109
BPXA Cash Flow			
After Tax Funds Flow	103	99	103
Real Rate of Return	7.8%	3.4%	7.8%

Totals may not add due to rounding.

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

Northstar Economic Evaluation

Estimated Total Revenues



Table 7:

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

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

Totals may not add due to rounding.

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

Inputs

NPSLs: OFF

Supplemental Royalty: ON

ON

MonteCarlo Simulation: OFF

Monthly Oil Price Std Dev: 0.000000

Ranges	Low %	High %
Drilling Capex	0.659	1.250
Facilities Capex	0.864	1.172
Pipeline Capex	0.652	1.853
Reserves	0.800	1.231
Lifting Costs	0.925	1.325

Working Interest	88%		
Royalty Interest	19%		
Spill/Conservation Tax(\$/bbl)	0.034		
AVI Tax Rate	2%		
Field Life(yr)	2012		
Reserves(mmbbls)	130		
	'08-'02	'03-'07	'08-'12
Lifting Costs(\$/bbl, Real)	1.50	1.50	1.50
State Income Tax Rate	2.00%	(DOR set avg corp rate)	
Federal Tax Rate	24.3%	(after state income tax)	
Inflation Rate*	3.0%	*Used if cum inflation input blank	
Real Discount Rate	7.0%	(AD Utility Report)	
Prime Interest Rate NPEL	8.25%	(ADN 4/6/08)	
Beginning Balance(\$m)	-282		
Oil Production Multiplier	1		
Oil Price Multiplier	1		
Drilling Cost Multiplier	1		
Facility Cost Multiplier	1		
Abandonment Costs % (real)			
Starting Abandon Liability (\$MM)	23.8		
Facilities %	5%	(DNR Petroleum)	
Drilling/Water%	10%	(Engineering)	

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

NPSLs and Supplemental Royalty Control Panel

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

DDAA Information

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

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Totals	
Gross Oil(Mbd) - Produced	0.0	0.0	5.4	49.8	49.8	48.7	41.2	34.7	28.7	23.8	20.0	16.7	13.9	11.5	7.8	4.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	130.0	
Gross Water(Mbd)-Produced	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Gross Gas(MMscfd)-Produced	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Sales NGLs (Mbd) - Produced	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Return Seawater-Purchased	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Return Gas Purchased	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
PS#1 NB Oil Price(\$/bbl, mod)	41.45	42.28	42.72	43.89	44.48	44.92	45.44	45.97	46.48	46.98	47.57	48.10	48.70	49.48	50.08	50.55	51.33	52.13	52.83	53.63	54.44	55.26	56.14	57.07	58.01	59.01	60.01	61.01	62.22	
Pipeline Tariffs (\$/bbl, mod)	42.42	42.77	42.99	43.56	44.09	44.67	45.29	45.93	46.61	47.31	48.04	48.81	49.61	50.45	51.32	52.22	53.14	54.09	55.07	56.07	57.11	58.18	59.28	60.41	61.57	62.76	63.98	65.24	66.61	
Manne Costs (\$/bbl, mod)	41.49	41.38	41.38	41.42	41.47	41.55	41.63	41.71	41.79	41.87	41.93	42.00	42.08	42.12	42.18	42.26	42.33	42.41	42.48	42.56	42.64	42.72	42.80	42.88	42.95	43.04	43.15	43.25	43.44	
NGL Value as % of Oil Price(mod)	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	
Other Income (\$/bbl, mod)	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	
Producing Wells(\$)	0	0	5	10	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	
Oil Sev. Rate	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	
Gas Sev. Rate	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	
Abandonment(\$m real)		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	23.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Capex(\$m, Real)																														
Drilling	14.0	0.0	14.0	28.0	28.0	15.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	89.0
Facility	38.0	85.1	83.0	47.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	251.1
Pipeline	5.0	13.0	10.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	28.0
Cum Inflation Rate*	1.00	1.03	1.06	1.10	1.13	1.17	1.21	1.24	1.28	1.33	1.37	1.41	1.46	1.50	1.55	1.60	1.65	1.69	1.74	1.79	1.83	1.88	1.93	1.98	2.04	2.11	2.17	2.23	2.30	2.44
Supplemental Royalty Rate																														
Trigger Price (\$ANS WC)	17.05	17.81	17.89	18.18	18.47	18.78	19.08	19.37	19.68	19.99	20.31	20.64	20.97	21.31	21.65	21.99	22.34	22.70	23.07	23.43	23.81	24.19	24.58	24.97	25.37	25.78	26.19	26.61	27.02	27.47
Linear Slope (%ANS WC)	1.5%																													
Supplemental Royalty Cap	2.5%																													

Caution - Only change inputs on this page

Summary Output

Development Summary		Montecarlo			
	M.L.	MIN	MAX	MONTE	
Revenues	Gross Oil (\$MMO)	100	105	160	142
	Gross NGLs (\$MMBO)	0	0	0	0
Capex	Oil (\$m real)	98	69	124	105
	Facility (\$m real)	251	217	284	250
	Pipelines (\$m real)	28	25	53	34
	Total (\$m real)	378	311	471	393
Dev Costs	(\$Abbl)	2.9			2.8
Lifting Costs	(\$Abbl)	1.50	1.40	2.00	1.74

State Revenue (\$m, MOD)	
Royalty (incl. supplemental)	388.0
State Share of Federal Royalty	20.3
Severance Tax	66.6
Split & Conservation Tax	3.4
Ad Valorem Tax	52.8
NPSL	0.0
Income Tax	16.5
Total (\$ m MOD)	627.6
Total (\$ m real)	424.3

Federal Revenue (\$m, MOD)	
Royalty (Net of State Share)	54.9
Severance Tax	0.0
Split & Conservation Tax	0.0
Ad Valorem Tax	0.0
NPSL	0.0
Income Tax	283.6
Total (\$ m MOD)	338.5
Total (\$ m real)	266.1

	1.00	1.03	1.06	1.10	1.13	1.17	1.21	1.24	1.28	1.33	1.37	1.41	1.46	1.50	1.55	1.60	1.65	1.70	1.76	1.82	1.87	1.93	1.98	2.04	2.11	2.17	2.23	2.30	2.37	2.44	2.44
Cumulative Inflation	1.00	1.03	1.06	1.10	1.13	1.17	1.21	1.24	1.28	1.33	1.37	1.41	1.46	1.50	1.55	1.60	1.65	1.70	1.76	1.82	1.87	1.93	1.98	2.04	2.11	2.17	2.23	2.30	2.37	2.44	2.44
PS#1 Oil Price (\$/bbl, real)	11.45	11.90	11.97	12.75	12.79	12.77	12.81	12.83	12.84	12.82	12.81	12.82	12.84	12.95	12.94	12.84	12.91	12.86	12.86	12.79	12.79	12.79	12.79	12.79	12.79	12.79	12.79	12.79	12.79	12.79	12.79
AK WC Oil Price (\$/bbl, MOD)	16.36	16.41	16.69	17.97	18.64	19.34	20.06	20.81	21.59	22.39	23.23	24.10	25.00	25.93	26.87	27.74	28.68	29.66	30.70	31.75	32.70	33.69	34.70	35.74	36.81	37.91	39.05	40.22	41.43	42.67	42.67

ANS WC Oil Price (Random generated around mean price forecast)																															
Monthly Forecast Price	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025			
Jan	16.34	16.39	16.58	17.49	18.09	19.08	19.79	20.53	21.30	22.09	22.81	23.77	24.66	25.58	26.48	27.39	28.33	29.31	30.32	31.38	32.35	33.32	34.32	35.26	36.32	37.41	38.53	39.69	40.86	42.10	
Feb	16.34	16.39	16.58	17.49	18.09	19.08	19.79	20.53	21.30	22.09	22.81	23.77	24.66	25.58	26.48	27.39	28.33	29.31	30.32	31.38	32.35	33.32	34.32	35.26	36.32	37.41	38.53	39.69	40.86	42.10	
Mar	16.35	16.40	16.61	17.60	18.45	19.14	19.85	20.59	21.38	22.16	22.98	23.85	24.73	25.66	26.56	27.47	28.41	29.39	30.40	31.45	32.43	33.40	34.40	35.43	36.50	37.59	38.72	39.86	41.05	42.31	
Apr	16.35	16.40	16.63	17.71	18.50	19.19	19.91	20.65	21.43	22.22	23.05	23.92	24.81	25.74	26.63	27.55	28.49	29.47	30.49	31.53	32.51	33.48	34.49	35.52	36.59	37.66	38.81	39.98	41.18	42.41	
May	16.35	16.40	16.66	17.81	18.58	19.25	19.97	20.72	21.49	22.29	23.12	23.99	24.88	25.81	26.71	27.62	28.57	29.55	30.57	31.62	32.59	33.56	34.57	35.61	36.68	37.78	38.91	40.06	41.28	42.52	
Jun	16.36	16.41	16.68	17.92	18.81	19.31	20.03	20.78	21.56	22.38	23.18	24.07	24.96	25.89	26.78	27.70	28.65	29.63	30.64	31.71	32.67	33.65	34.65	35.69	36.77	37.87	39.00	40.17	41.38	42.62	
July	16.36	16.42	16.74	18.00	18.87	19.37	20.05	20.84	21.62	22.42	23.27	24.14	25.03	25.97	26.86	27.78	28.73	29.72	30.75	31.79	32.75	33.73	34.74	35.78	36.86	37.96	39.10	40.27	41.46	42.67	
Aug	16.37	16.45	16.85	18.08	18.73	19.43	20.15	20.91	21.67	22.48	23.34	24.21	25.11	26.04	26.93	27.86	28.81	29.80	30.83	31.87	32.83	33.81	34.83	35.87	36.94	38.06	39.20	40.37	41.56	42.77	
Sep	16.37	16.47	16.98	18.11	18.79	19.49	20.22	20.97	21.76	22.56	23.41	24.29	25.21	26.16	27.09	28.02	28.98	29.98	31.01	32.03	33.08	34.16	35.26	36.39	37.55	38.74	39.97	41.24	42.52	42.67	
Oct	16.37	16.49	17.06	18.17	18.84	19.55	20.28	21.04	21.82	22.63	23.48	24.36	25.27	26.19	27.09	28.02	28.98	29.98	31.01	32.03	33.08	34.16	35.26	36.39	37.55	38.74	39.97	41.24	42.52	42.67	
Nov	16.38	16.52	17.17	18.22	18.90	19.61	20.34	21.10	21.85	22.70	23.56	24.44	25.35	26.26	27.16	28.10	29.06	30.06	31.10	32.11	33.07	34.07	35.09	36.14	37.22	38.34	39.49	40.66	41.86	42.67	
Dec	16.38	16.54	17.28	18.28	18.96	19.67	20.40	21.17	21.96	22.77	23.63	24.51	25.42	26.24	27.24	28.18	29.14	30.15	31.18	32.19	33.15	34.15	35.17	36.23	37.32	38.44	39.59	40.76	42.00	42.67	
Monthly MonteCarlo Price	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025			
Jan	16.35	16.01	16.14	18.00	17.60	18.31	25.65	23.45	19.42	25.85	23.47	25.44	20.49	26.70	27.42	28.22	31.78	30.87	29.04	29.11	36.15	38.39	32.65	35.86	34.04	37.30	36.71	39.91	40.88	42.90	
Feb	18.03	17.46	17.54	18.70	21.48	21.03	17.43	23.13	25.34	17.85	24.04	23.84	24.22	24.26	25.61	26.65	26.13	28.68	30.26	30.85	28.15	30.98	34.17	31.88	38.27	38.83	35.88	39.14	40.69	40.74	
Mar	18.07	15.36	14.01	20.55	22.64	18.28	18.78	21.88	17.33	22.30	25.14	28.24	23.26	23.81	24.85	25.98	28.10	28.94	35.22	33.70	35.42	33.34	35.66	33.24	35.88	35.47	43.28	38.37	42.98	42.98	
Apr	18.30	18.74	14.14	18.41	22.02	16.39	18.65	20.98	20.04	19.48	32.66	35.34	37.66	21.84	28.66	37.29	38.66	34.42	31.81	38.88	31.42	32.56	31.54	30.23	35.36	41.33	38.06	39.98	41.87	42.35	
May	19.85	19.60	10.94	18.57	27.71	20.27	17.47	20.71	18.13	26.51	21.80	23.51	22.63	28.88	23.82	25.05	27.75	29.96	27.84	30.75	32.68	31.69	37.23	33.35	41.20	37.97	40.43	39.09	38.87	38.81	
Jun	22.15	15.09	17.55	17.77	14.13	23.43	19.79	18.69	21.95	22.32	24.88	25.29	21.94	26.75	27.18	28.81	25.05	30.70	38.77	28.50	34.82	35.43	35.54	34.16	35.78	35.95	40.56	39.07	40.03	45.83	
July	17.97	16.70	16.88	17.71	21.38	22.39	18.42	18.49	18.85	19.89	19.85	21.10	24.74	26.22	26.62	28.68	31.82	28.78	31.84	32.80	32.44	30.38	32.65	38.04	36.17	38.86	38.10	40.34	38.04	38.68	
Aug	15.43	20.33	15.62	19.01	19.43	19.09	18.55	22.32	22.22	20.62	20.21	23.07	20.40	25.80	29.18	30.09	29.61	32.15	32.27	34.47	30.33	33.27	38.18	37.14	38.95	35.52	44.88	42.72	44.84	45.76	
Sep	18.86	13.57	18.75	18.95	19.83	21.85	23.13	23.57	19.27	24.26	22.81	20.84	35.39	28.86	32.05	23.95	30.26	31.40	33.01	31.80	38.22	37.87	34.48	33.65	38.27	41.25	38.80	41.86	41.86	45.76	
Oct	18.80	15.82	15.02	18.42	14.75	15.52	19.51	18.00	25.57	25.69	26.57	24.16	28.05	27.89	25.85	30.50	28.45	30.65	30.44	34.65	38.26	31.22	34.38	34.95	38.26	38.23	41.64	41.18	39.45	42.08	
Nov	20.25	18.74	15.09	18.58	14.79	17.24	18.49	21.86	18.63	23.93	20.03	23.61	35.10	26.30	25.95	28.27	31.15	30.07	28.60	32.87	35.02	31.70	32.94	38.05	38.46	39.42	40.05	40.86	43.30	41.32	
Dec	14.83	19.55	12.26	17.80	19.34	19.50	19.85	19.77	20.93	18.52	25.25	28.93	25.20	27.34	30.04	28.02	27.88	28.65	33.07	32.23	37.88	36.14	34.37	35.85	34.03	38.07	35.88	42.53	40.81	39.79	
ANS WC Mean Annual Value	16.36	16.44	16.82	17.80	18.64	18.34	20.00	20.81	21.59	22.39	23.23	24.10	25.00	25.93	26.87	27.74	28.70	29.68	30.71	31.74	32.71	33.69	34.70	35.74	36.81	37.91	39.05	40.23	41.43	42.52	
PS#1 Mean Annual Value	11.45	12.29	12.85	13.91	14.48	14.97	15.44	15.97	16.49	16.99	17.52	18.10	18.71	19.45	20.06	20.55	21.03	21.84	22.63	23.22	23.83	24.65	25.29	26.15	26.83	27.74	28.57	29.43	30.31	31.08	

Quarterly Supplemental State Royalty %																															
Jan	0.00%	0.00%	0.00%	0.00%	0.00%	0.36%	1.00%	1.84%	2.33%	3.04%	3.80%	4.59%	5.42%	6.30%	7.15%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Feb	0.00%	0.00%	0.00%	0.00%	0.00%	0.47%	1.09%	1.74%	2.43%	3.14%	3.80%	4.70%	5.54%	6.41%	7.28%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Mar	0.00%	0.00%	0.00%	0.00%	0.00%	0.58%	1.18%	1.83%	2.52%	3.24%	4.01%	4.81%	5.65%	6.53%	7.37%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Apr	0.00%	0.00%	0.00%	0.00%	0.05%	0.64%	1.27%	1.93%	2.62%	3.34%	4.11%	4.92%	5.76%	6.65%	7.48%	7.50%	7.50%														

(\$m. MOD)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Totals	
State																																317.4
State Royalty	0.0	0.0	3.9	39.1	40.5	40.0	35.7	31.1	28.8	22.7	19.7	17.0	14.8	12.8	8.8	5.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	60.8	
State Supplemental Royalty	0.0	0.0	0.0	0.0	0.0	2.3	3.5	4.4	5.0	5.2	5.6	5.7	5.7	5.7	4.1	2.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	20.3	
State Share of Federal Royalty	0.0	0.0	0.2	2.3	2.6	2.6	2.3	2.0	1.7	1.5	1.3	1.1	0.9	0.8	0.5	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	68.5	
Severance Tax	0.0	0.0	0.0	17.7	15.3	14.6	9.6	8.3	2.3	0.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.4	
Spill & Conserv. Tax	0.0	0.0	0.1	0.5	0.5	0.5	0.4	0.3	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	62.8	
Ad Valorem Tax	0.0	0.8	2.5	4.3	5.4	5.4	5.2	4.6	4.5	4.1	3.7	3.3	2.8	2.2	1.8	1.2	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
NPSL	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Income Tax	0.26	0.47	0.70	1.65	1.84	2.18	2.11	1.87	1.89	1.58	1.47	1.30	1.11	0.95	0.84	0.37	-0.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	18.5	
Total (\$m. MOD)	-0.3	0.3	5.9	65.7	68.8	68.9	58.7	50.8	42.0	35.9	32.0	28.9	26.3	22.4	15.8	9.3	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	627.5	

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Totals
Federal																															54.8
Royalty (Net of State Share)	0.0	0.0	0.7	8.8	7.0	7.0	6.2	5.4	4.6	3.8	3.4	2.8	2.5	2.2	1.5	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	283.8
Income Tax	-4.43	-7.98	-11.99	-20.22	-31.51	-37.37	-38.25	-32.07	-28.07	-27.05	-25.21	-22.31	-19.10	-16.34	-10.87	-6.27	-13.74	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	338.6
Total (\$m. MOD)	-4.4	-8.0	-11.3	-31.0	-38.8	-44.4	-42.4	-37.4	-33.7	-31.0	-28.8	-25.3	-21.8	-18.6	-12.8	-7.1	-13.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

BP Exploration

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Totals
Funds Flow (\$MOD)	49.2	91.4	84.5	39.7	82.5	100.5	100.8	87.8	74.7	61.8	50.8	47.3	35.7	30.3	20.4	11.8	-25.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	488.2
Funds Flow \$/bbl (MOD)	N/A	N/A	50.98	2.75	6.43	7.18	8.60	8.98	9.31	9.25	9.28	9.34	9.57	9.85	10.18	10.30	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	576.7
Net Income (\$MOD)	4.7	7.7	20.7	28.4	48.7	58.2	48.8	44.8	39.7	33.1	27.3	23.1	20.1	17.7	12.2	7.1	13.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Net Income \$/bbl (MOD)	N/A	N/A	13.21	5.43	4.85	4.17	4.14	4.55	4.54	5.02	4.87	5.08	5.38	5.81	6.11	6.32	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

(\$m. REAL)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Totals
State																															255.6
State Royalty	0.0	0.0	3.8	35.6	35.7	34.9	29.8	25.0	20.7	17.1	14.4	12.0	10.0	8.4	5.5	3.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	37.0
State Supplemental Royalty	0.0	0.0	0.0	0.0	0.7	2.0	2.8	3.5	3.9	4.0	4.1	4.1	3.8	3.8	2.7	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	18.3
State Share of Federal Royalty	0.0	0.0	0.2	2.3	2.3	2.3	1.9	1.6	1.3	1.1	0.8	0.6	0.6	0.5	0.4	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	57.8
Severance Tax	0.0	0.0	0.0	18.1	12.5	12.7	7.8	5.1	1.6	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.8
Spill & Conserv. Tax	0.0	0.0	0.1	0.4	0.4	0.4	0.3	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	42.0
Ad Valorem Tax	0.0	0.8	2.3	3.8	4.8	4.8	4.3	3.8	3.5	3.1	2.7	2.3	1.9	1.5	1.2	0.8	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NPSL	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	12.9
Income Tax	0.3	0.5	0.7	1.5	1.8	1.9	1.6	1.5	1.3	1.2	1.1	0.8	0.6	0.6	0.4	0.2	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	424.3
Total (\$m. REAL)	-0.3	0.3	5.6	58.9	58.0	58.6	48.7	40.8	32.7	27.1	23.4	20.2	17.4	14.8	10.2	5.6	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	188.8

State Royalty-Real Disc.	0.0	0.0	3.2	28.4	27.6	25.3	20.1	16.0	12.4	9.6	7.6	5.8	4.6	3.8	2.3	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	20.1
Supp Royalty - Real Disc.	0.0	0.0	0.0	0.0	0.5	1.4	2.0	2.2	2.3	2.2	2.2	2.0	1.8	1.6	1.1	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	10.8
State Share of Federal Royalty	0.0	0.0	0.2	1.8	1.8	1.8	1.3	1.0	0.8	0.6	0.5	0.4	0.3	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	42.8
Severance Tax-Real Disc.	0.0	0.0	0.0	13.3	10.4	8.2	5.4	3.2	1.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.9
Spill & Conserv. Tax-Real Disc.	0.0	0.0	0.0	0.4	0.3	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	27.3
Ad Valorem Tax-Real Disc.	0.0	0.7	2.1	3.2	3.7	3.3	2.9	2.5	2.1	1.7	1.4	1.2	0.9	0.7	0.5	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NPSL-Real Disc.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7.9
Income Tax-Real Disc.	0.3	0.4	0.6	1.2	1.3	1.4	1.2	1.0	0.8	0.7	0.6	0.5	0.4	0.3	0.2	0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	276.7
Total - Real Disc.	-0.3	0.3	4.8	48.4	45.6	42.5	33.1	26.1	18.6	15.2	12.3	10.0	8.1	6.5	4.1	2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NPSL for Char SR&RRR(2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Federal

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Totals
Royalty (Net of State Share)	0.0	0.0	0.6	6.2	6.2	6.0	5.1	4.3	3.6	3.0	2.5	2.1	1.7	1.4	1.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	44.2
Income Tax	-4.4	-7.8	-11.3	-25.7	-27.8	-32.0	-30.1	-25.8	-22.6	-20.4	-18.4	-15.8	-13.1	-10.8	-7.1	-3.9	-8.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	221.8
Total (\$m. REAL)	-4.4	-7.8	-10.7	-31.8	-34.6	-36.0	-35.2	-30.1	-26.2	-23.4	-20.8	-17.8																			

NPFL Calculation																														
	1994	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Tract Alloc. Factor	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	
Tract Ownership	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
NPFL State Rate	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%	89.39%
Prime Interest Rate	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%
Revenue Account																														
Prod. Revenue	0.0	0.0	15.8	158.3	163.3	163.3	141.9	122.6	103.7	87.8	75.3	64.3	54.7	46.5	31.5	18.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating Costs	0.0	0.0	(2.4)	(23.0)	(23.7)	(23.9)	(20.9)	(18.2)	(15.5)	(13.3)	(11.5)	(8.8)	(6.5)	(7.3)	(5.0)	(2.9)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Production Taxes	0.0	0.0	(0.0)	(14.2)	(12.3)	(12.0)	(7.8)	(5.2)	(2.0)	(0.6)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ad Valorem Tax	0.0	(0.8)	(2.0)	(3.4)	(4.2)	(4.2)	(4.1)	(3.8)	(3.5)	(3.2)	(2.9)	(2.8)	(2.2)	(1.8)	(1.4)	(1.0)	(0.5)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
UOP Aben. Costs	0.0	0.0	(0.4)	(1.9)	(3.9)	(5.0)	(5.2)	(4.0)	(3.0)	(2.2)	(1.7)	(1.2)	(0.9)	(0.6)	(0.3)	(0.1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Closing Balance	0.0	(0.6)	10.8	115.6	116.1	117.6	102.8	81.4	78.7	66.5	59.0	50.4	42.9	38.7	24.8	14.3	(0.5)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dev Account																														
Beginning Balance	(787.0)	(327.0)	(425.4)	(531.1)	(541.8)	(487.8)	(419.6)	(348.0)	(279.4)	(219.5)	(168.2)	(118.5)	(75.8)	(37.3)	(7.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital Expend.	(42.2)	(27.8)	(87.3)	(83.2)	(24.3)	(13.5)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Prod Rev Acc Credit	0.0	0.0	10.8	115.8	119.1	117.6	103.8	91.4	79.7	66.5	59.0	50.4	42.9	38.7	24.8	14.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Plum Closing Bal.	(304.2)	(405.2)	(512.0)	(498.5)	(447.0)	(383.7)	(315.7)	(254.6)	(199.7)	(151.0)	(107.2)	(66.1)	(32.8)	(0.8)	(22.8)	14.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Average Annual DA Balance	(783.1)	(388.4)	(473.7)	(524.8)	(494.4)	(425.7)	(387.7)	(300.3)	(239.5)	(185.2)	(136.7)	(93.3)	(54.3)	(19.0)	10.2	7.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accrued Interest	(23.4)	(30.2)	(39.1)	(43.3)	(40.8)	(35.9)	(30.3)	(24.8)	(19.8)	(15.3)	(11.3)	(7.7)	(4.5)	(1.8)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
DA Closing Balance	(327.8)	(435.4)	(551.1)	(541.8)	(487.8)	(419.6)	(348.0)	(279.4)	(219.5)	(168.2)	(118.5)	(75.8)	(37.3)	(2.2)	22.8	14.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NPFL Payment Acc.																														
Profit Sub. NPFL	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	22.8	14.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NPFL Payment*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

* Payment will be NPFL ON OFF switch in control box turned to "OFF"

Northstar Reserves, Royalty and NPSL Tract Allocations											
Leases	NPSL	Ac/Ft	% of Total Reserves	% of NPSL Reserves	BP Ownership	NPSL State Rate	Working Interest	NPSL Tract Rate	Royalty Net by Lease	Weighted Royalty	NR
312788	93.20%	84,000	0.72%	9%	100%	8.18%			20%	1.344%	
312789	91.20%	555,000	44.40%	58%	100%	52.73%			20%	8.800%	
312808	85.28%	102,000	8.16%	11%	100%	8.06%			20%	1.632%	
312809	85.28%	219,000	17.52%	23%	100%	19.45%			20%	3.504%	
355001	40.00%	-	0.00%	0%	100%	0.00%			20.0%	0.000%	
		980,000	78.80%	100%	100%	89.39%	88%	78%		15.38%	
Effective State Royalty with 27% of Federal Take										18.342%	
Y181		226,000	18.08%						18.67%	3.014%	
Y0179		84,000	5.12%						18.67%	0.854%	
		1,960,000	100.00%							2.837%	
Effective Federal Royalty with 27% of Federal Take										2.855%	
Total										19.00%	81.00%

BTFB	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Totals	
BP Revenue	0.0	0.0	18.8	202.0	206.3	206.4	181.0	158.4	132.4	112.0	86.1	62.0	69.7	59.3	40.2	23.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1581
Severance Tax	0.0	0.0	0.0	17.7	15.3	14.6	8.8	8.3	7.3	5.5	4.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	67
Expn & Consvs	0.0	0.0	0.1	0.5	0.5	0.5	0.4	0.3	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3
AVT	0.0	0.0	2.5	4.3	5.4	5.4	5.2	4.8	4.5	4.1	3.7	3.3	2.8	2.3	1.8	1.2	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	53
NPST	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0
opex	0.0	0.0	3.1	28.3	30.3	30.5	28.7	23.2	19.8	18.9	14.7	12.7	10.8	8.3	6.3	3.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	237
Abandonment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	30
Gross Profit	0.0	-0.8	14.3	150.2	158.8	157.2	139.2	121.7	105.5	80.3	77.5	65.9	55.9	47.6	32.0	18.3	-4.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1182
+ other income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0
capex	53.8	98.0	111.5	80.6	31.1	17.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	383
BTFB	53.8	98.0	111.5	80.6	31.1	17.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	788
Intan Dnt Dep	7.3	0.8	8.3	12.2	18.0	12.3	3.8	3.3	2.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	75
Tan. Dnt/Dep	5.8	21.9	40.8	50.7	48.1	38.0	39.6	24.8	18.7	10.7	3.8	0.8	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	290
Total	12.8	22.3	48.2	87.8	85.0	48.3	33.5	28.2	20.8	11.4	3.8	0.8	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	385
Fac. Tax Income	12.8	22.3	48.2	87.8	85.0	48.3	33.5	28.2	20.8	11.4	3.8	0.8	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	827

UOP Abandonment	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Totals	
Rate (\$/bbl)	0.00	0.00	0.78	0.38	0.43	0.45	0.43	0.40	0.37	0.34	0.30	0.27	0.23	0.19	0.14	0.07	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	39
Total(\$m)	0.0	0.0	0.5	2.5	4.9	7.2	6.6	5.1	3.8	2.8	2.1	1.6	1.1	0.8	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
DD&A	0.00	0.00	3.89	2.74	3.40	3.74	3.90	3.90	3.90	3.90	3.90	3.90	3.90	3.90	3.90	3.90	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	385
Total(\$m)	0.0	0.0	3.8	29.5	48.9	52.3	45.7	38.1	31.3	25.7	21.4	17.7	14.5	11.9	7.8	4.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	

Income Tax	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Totals	
State	0.26	0.47	0.70	1.65	1.84	2.18	2.11	1.87	1.85	1.58	1.47	1.30	1.11	0.85	0.64	0.37	0.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	17
Federal	4.43	7.99	11.99	28.22	31.51	37.37	36.25	32.07	28.07	27.05	25.21	22.31	18.10	18.34	10.97	8.27	13.74	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	284
Total	4.69	8.45	12.69	29.87	33.35	39.54	38.36	33.94	30.78	28.63	26.68	23.61	20.22	17.29	11.61	8.64	14.54	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	300

Funds Flow	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Totals	
ATFF - MOD	48.2	81.4	84.5	39.7	82.5	100.5	100.8	87.8	74.7	61.0	50.8	42.3	35.7	30.3	20.4	11.8	25.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	488
ATFF - Real	48.2	88.7	79.5	38.2	81	89.0	83.4	70.5	58.2	46.5	37.1	30.0	24.5	20.2	13.1	7.3	15.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	382
ATFF - Real Disc	49.2	83.0	89.0	29.8	82.2	87.4	98.9	45.0	34.9	28.1	18.8	14.8	11.4	8.6	5.4	2.8	5.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	173
ATFF - Cum NPV	49.2	132.3	202.1	172.3	169.1	48.7	10.2	55.3	90.1	118.3	125.8	150.7	182.1	170.8	128.2	128.0	173.4	173.4	173.4	173.4	173.4	173.4	173.4	173.4	173.4	173.4	173.4	173.4	173.4	173.4	173.4	

Net Income	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Totals	
	8.7	7.7	20.7	78.4	69.3	58.2	48.6	44.6	39.1	31.1	27.3	23.1	20.1	17.7	12.2	7.1	13.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	627

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025			
DDAA (MMOD)																																	
Reserves (MMBOE NRY)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Closing Balance	0.0	0.0	100.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Additions (BPX Net After No. #)	0.0	0.0	1.8	14.4	14.4	14.0	11.7	9.8	8.0	6.6	5.5	4.5	3.7	3.0	2.0	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
BPX Net Production (MMBbl)	0.0	0.0	98.9	84.4	70.0	58.1	44.3	34.5	26.5	19.9	14.4	9.9	6.7	3.1	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Closing Balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Wallow Assets																																	
Beginning Balance (Net \$MM)	0.0	13.7	13.7	27.6	51.5	71.2	72.4	57.3	44.6	34.3	25.7	18.7	12.8	8.0	4.0	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Additions (BPX Net \$MM MOD)	13.7	0.0	14.6	30.1	1.1	17.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
DDAA Rate (\$/BBL)	0.00	0.00	0.42	0.43	1.79	1.14	1.29	1.28	1.29	1.29	1.29	1.29	1.29	1.29	1.29	1.29	1.29	1.29	1.29	1.29	1.29	1.29	1.29	1.29	1.29	1.29	1.29	1.29	1.29	1.29	1.29	1.29	
DDAA (BPX Net \$MM MOD)	0.0	0.0	0.7	6.2	11.4	15.9	15.1	12.6	10.4	8.5	7.1	5.9	4.8	3.9	2.6	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Carry Forward (BPX Net \$MM)	13.7	13.7	27.8	51.5	71.2	72.4	57.3	44.6	34.3	25.7	18.7	12.8	8.0	4.0	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FMOD Assets																																	
Beginning Balance (Net \$MM)	0.0	35.3	121.2	202.5	218.6	182.3	188.0	115.4	89.8	68.0	51.9	31.8	25.8	16.1	6.2	2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Additions (BPX Net \$MM MOD)	35.3	85.9	86.5	50.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
DDAA Rate (\$/BBL)	0.00	0.00	0.27	2.30	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	
DDAA (BPX Net \$MM MOD)	0.0	0.0	5.1	33.3	37.5	38.4	30.5	25.5	20.9	17.2	14.3	11.8	9.7	7.0	5.2	2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Carry Forward (BPX Net \$MM)	35.3	121.2	202.5	218.6	182.3	188.0	115.4	89.8	68.0	51.9	31.8	25.8	16.1	6.2	2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
BPX Purchase Price Allocation																																	
Beginning Balance (Net \$MM)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Additions (BPX Net \$MM MOD)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
DDAA Rate (\$/BBL)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
DDAA (BPX Net \$MM MOD)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Carry Forward (BPX Net \$MM)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total DDAA Rate (\$/BBL)	0.0	0.0	0.7	2.7	3.4	3.7	3.9	3.8	3.8	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	
Total DDAA \$MM MOD	0.0	0.0	5.8	39.5	48.9	52.3	45.7	38.1	31.2	25.7	21.4	17.7	14.5	11.9	7.8	4.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
DDP ABANDONMENT (\$MOD)																																	
Beginning Balance (Net \$MM)	39.4	39.4	39.4	39.9	39.6	31.5	24.4	17.8	12.7	8.8	6.0	3.8	2.2	1.2	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Additions (BPX Net \$MM MOD)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
DDAA Rate (\$/BBL)	0.00	0.00	0.78	0.29	0.43	0.45	0.43	0.40	0.37	0.34	0.30	0.27	0.23	0.19	0.14	0.07	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
DDAA (BPX Net \$MM MOD)	0.0	0.0	0.5	7.5	4.8	7.2	6.6	5.1	3.8	2.9	2.1	1.6	1.1	0.8	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Carry Forward (BPX Net \$MM)	39.4	39.4	39.9	39.6	31.5	24.4	17.8	12.7	8.8	6.0	3.8	2.3	1.2	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	

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

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

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

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

Assumptions Used in the Illustrative Northstar Model

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

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

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

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

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

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

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

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

Kevin Banks, ADNR
April 12, 1996

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

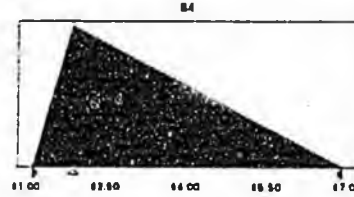
Assumptions

Assumption: S4

Cell: S4

Triangular distribution with parameters:

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



Selected range is from \$1.00 to \$7.00

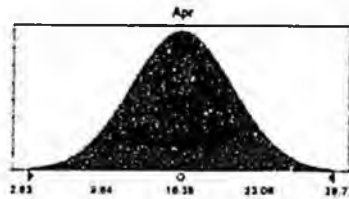
Assumption: Apr

Cell: B93

Normal distribution with parameters:

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

Selected range is from -21.51 to 402.42



End of Assumptions

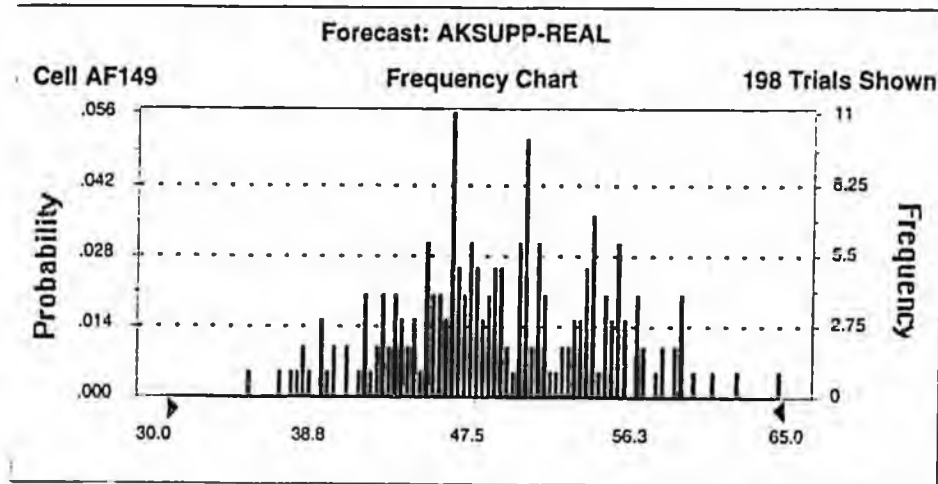
Forecast: AKSUPP-REAL

Cell: AF149

Summary:

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

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



Forecast: AKSUPP-REAL (cont'd)

Cell: AF149

Percentiles:

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

End of Forecast

Northstar Economic Evaluation



Estimated Total Revenues

Effect of Delay	Supplemental Royalty and 1999 Development	Net Profit Share and 1999 Development	Supplemental Royalty and 2002 Development	Net Profit Share and 2002 Development
(Real 1996 Dollars)				
State Revenues				
State Royalty	256	256	257	257
State Supplemental Royalty	37	0	67	0
NPSL	0	85	0	41
State Share of Federal Royalty	16	16	16	16
Severance Tax	58	58	56	59
Spill & Conserv. Tax	3	3	3	3
Ad Valorem Tax	42	42	46	46
Income Tax	<u>24</u>	<u>22</u>	<u>22</u>	<u>23</u>
Total	435	481	469	444
Federal Revenues				
Royalty (Net of State Share)	44	44	44	44
Income Tax	<u>215</u>	<u>198</u>	<u>205</u>	<u>213</u>
Total	259	243	249	258
BPXA Cash Flow				
After Tax Funds Flow	349	318	331	345
Real Rate of Return	20.0%	19.9%	19.2%	20.4%

Totals may not add due to rounding.

Northstar



Key Variables Affecting Economics

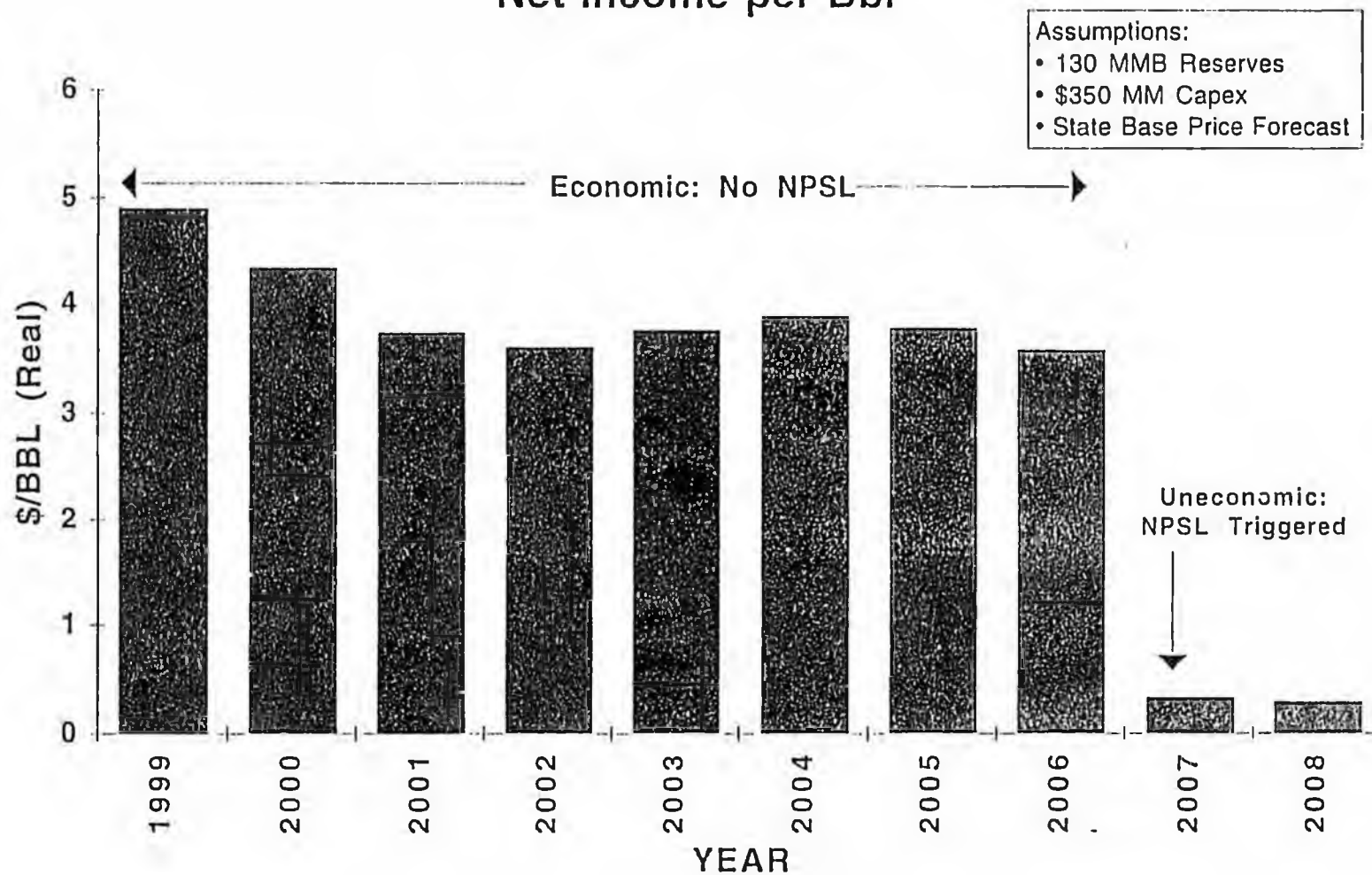
- **Oil Reserves**
- **Capital Investment**
- **Oil Price**
- **Operating Costs**
- **Production Rate**

Northstar

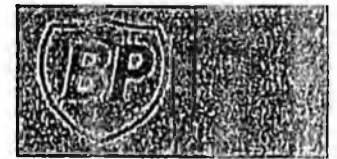
NPSL Problem



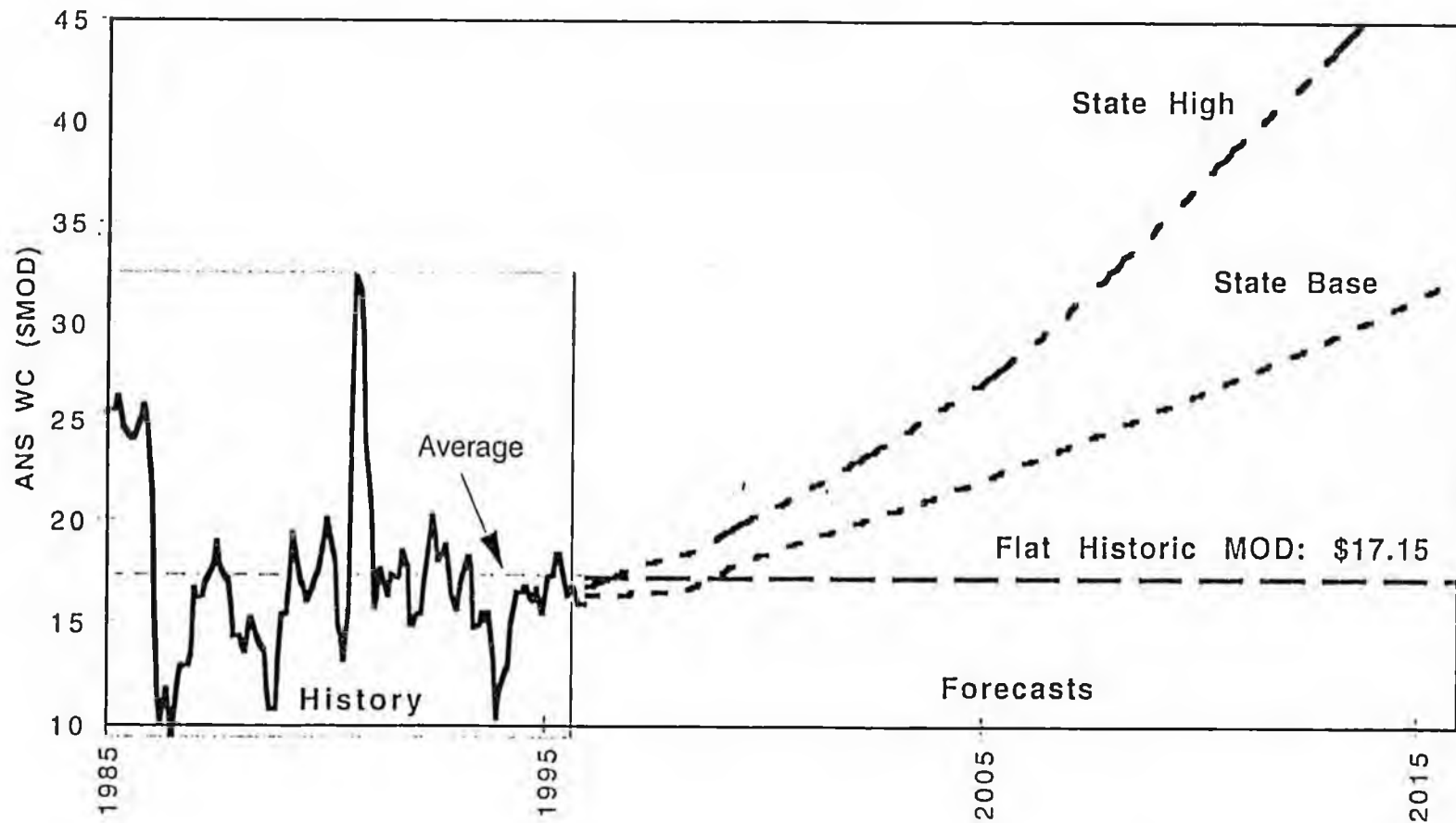
Net Income per Bbl



Northstar

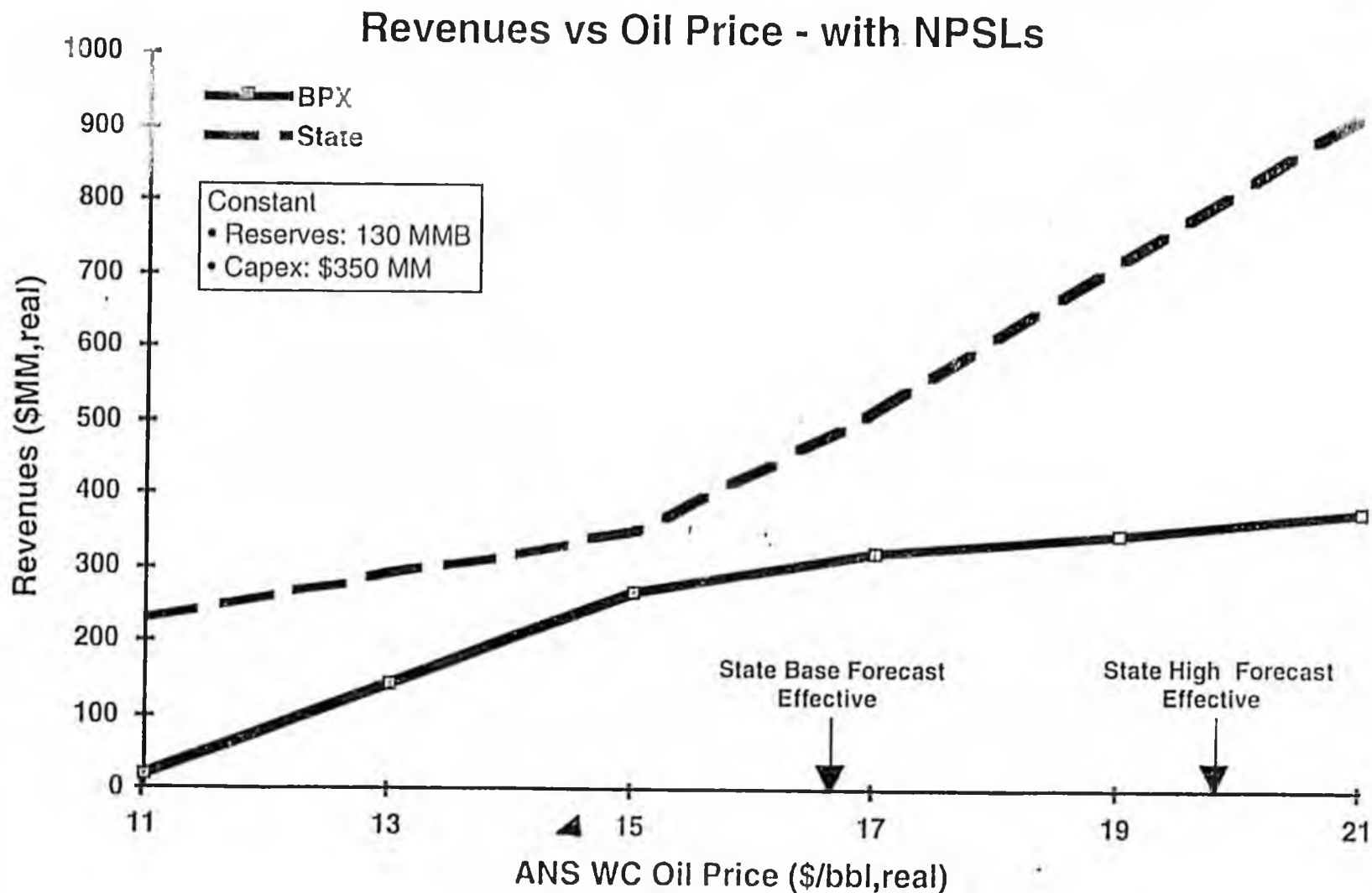


Future Price in Context of History



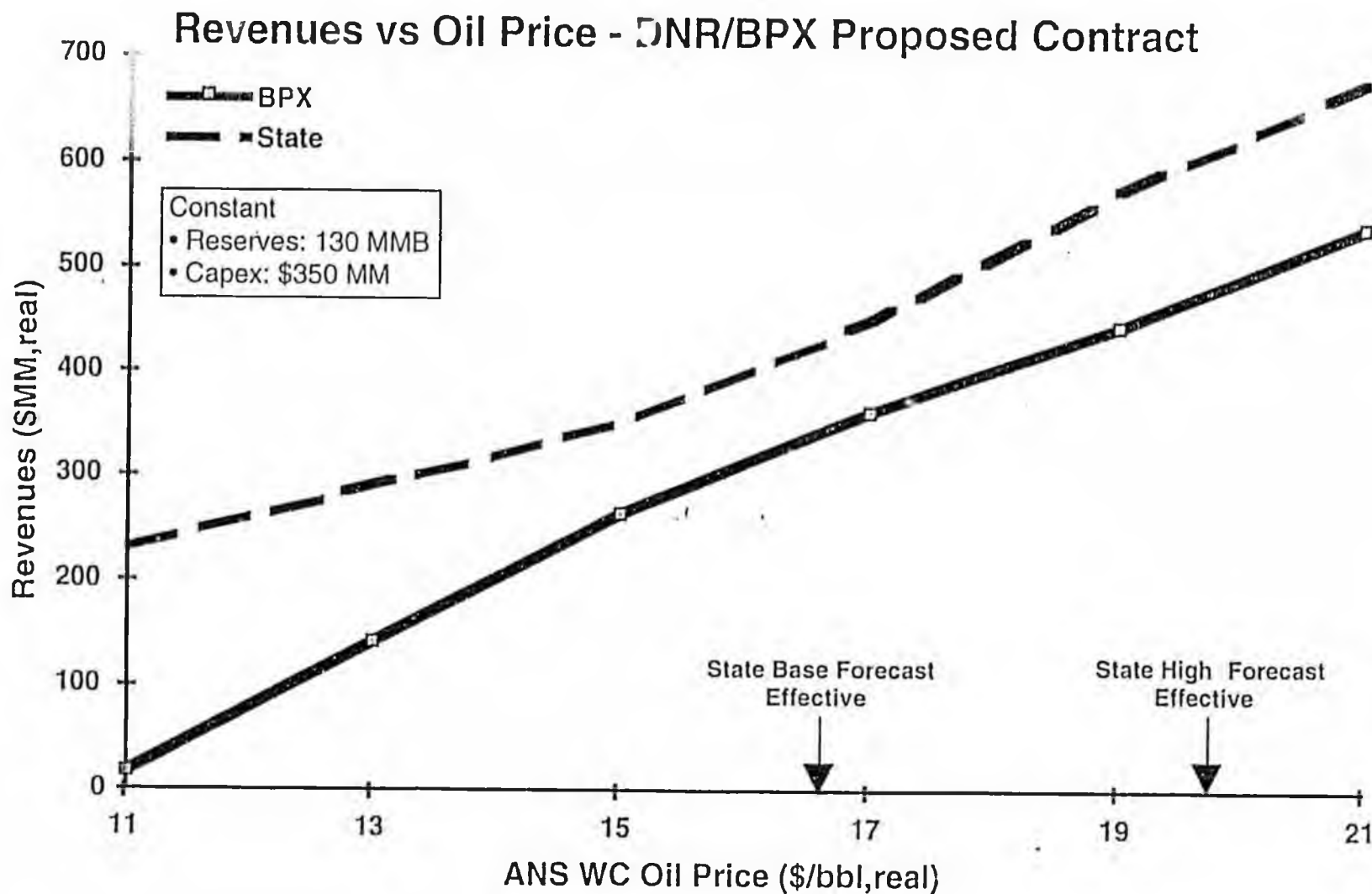


Revenues vs Oil Price with NPSLs



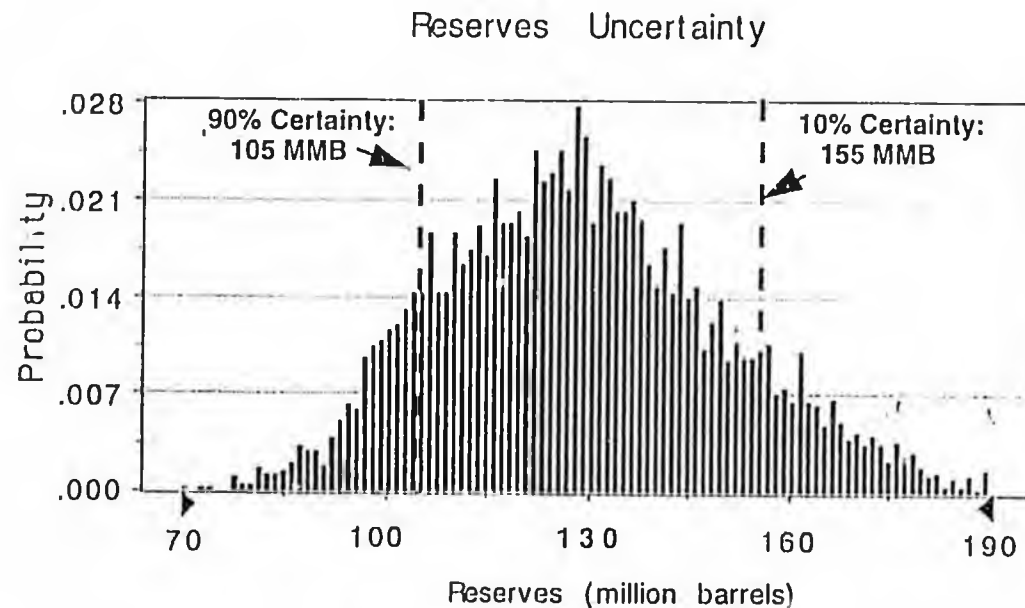
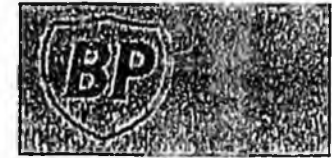


Revenues vs Oil Price with Agreement



Northstar

Reserves: Current Uncertainty



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

Estimated Oil In Place: 260 MMB

Sources of Uncertainty

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

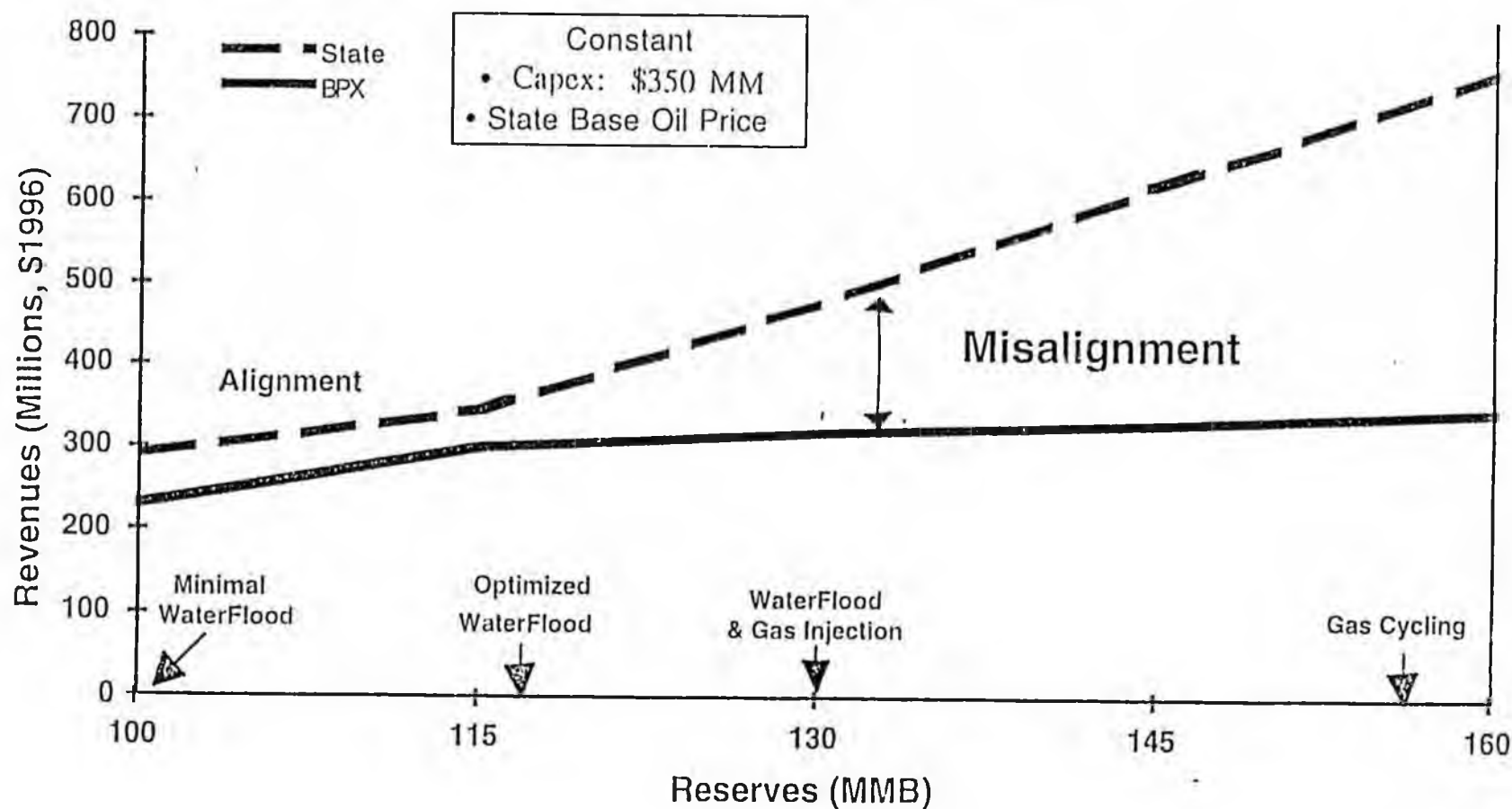
Other Recovery Mechanisms

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



Reserves Impact with NPSLs

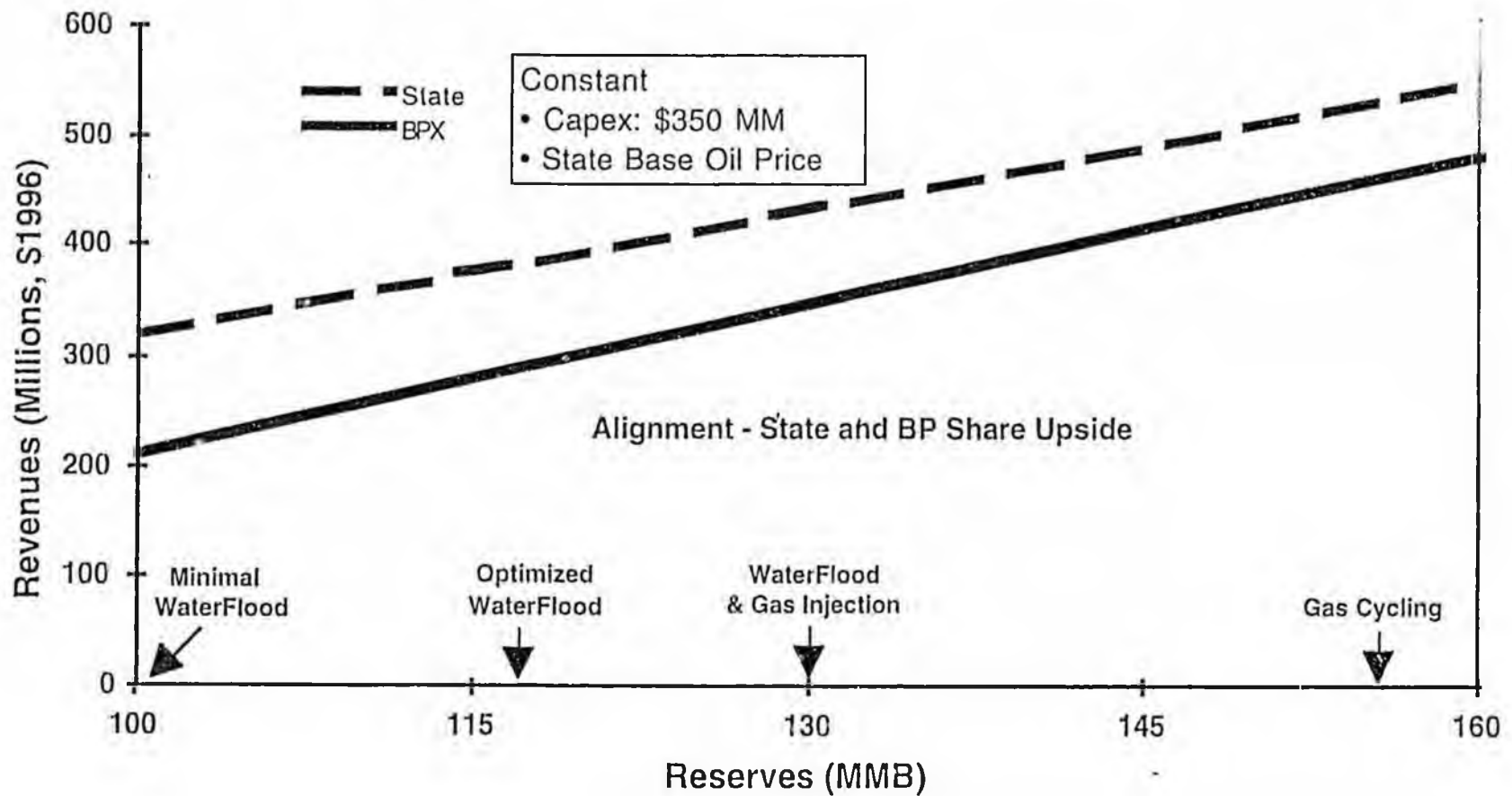
Revenues vs. Reserves with NPSLs





Reserves Impact with Agreement

Revenues vs. Reserves with Agreement

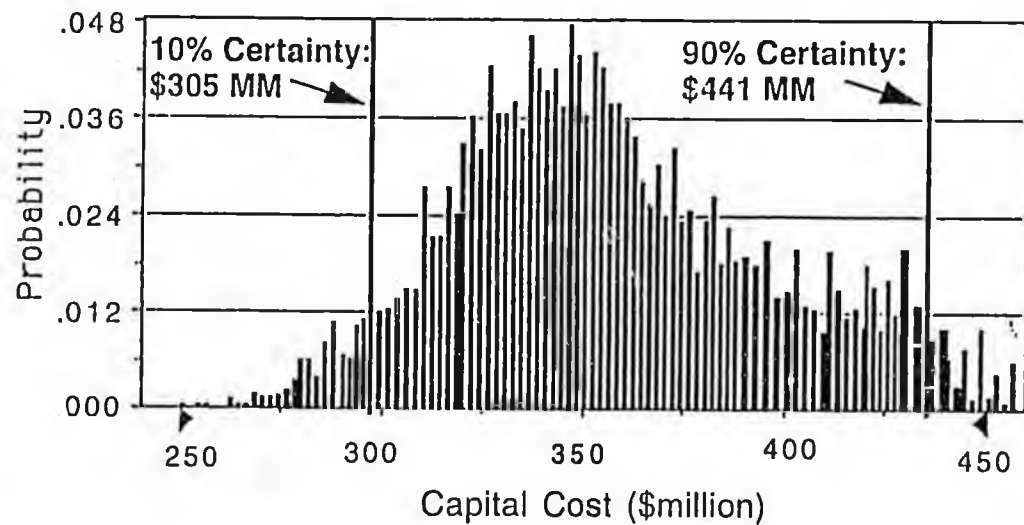


Northstar

Capital Cost: Current Uncertainty



Capital Cost Uncertainty within Class III Framework



Sources of Cost Uncertainty (\$mm):

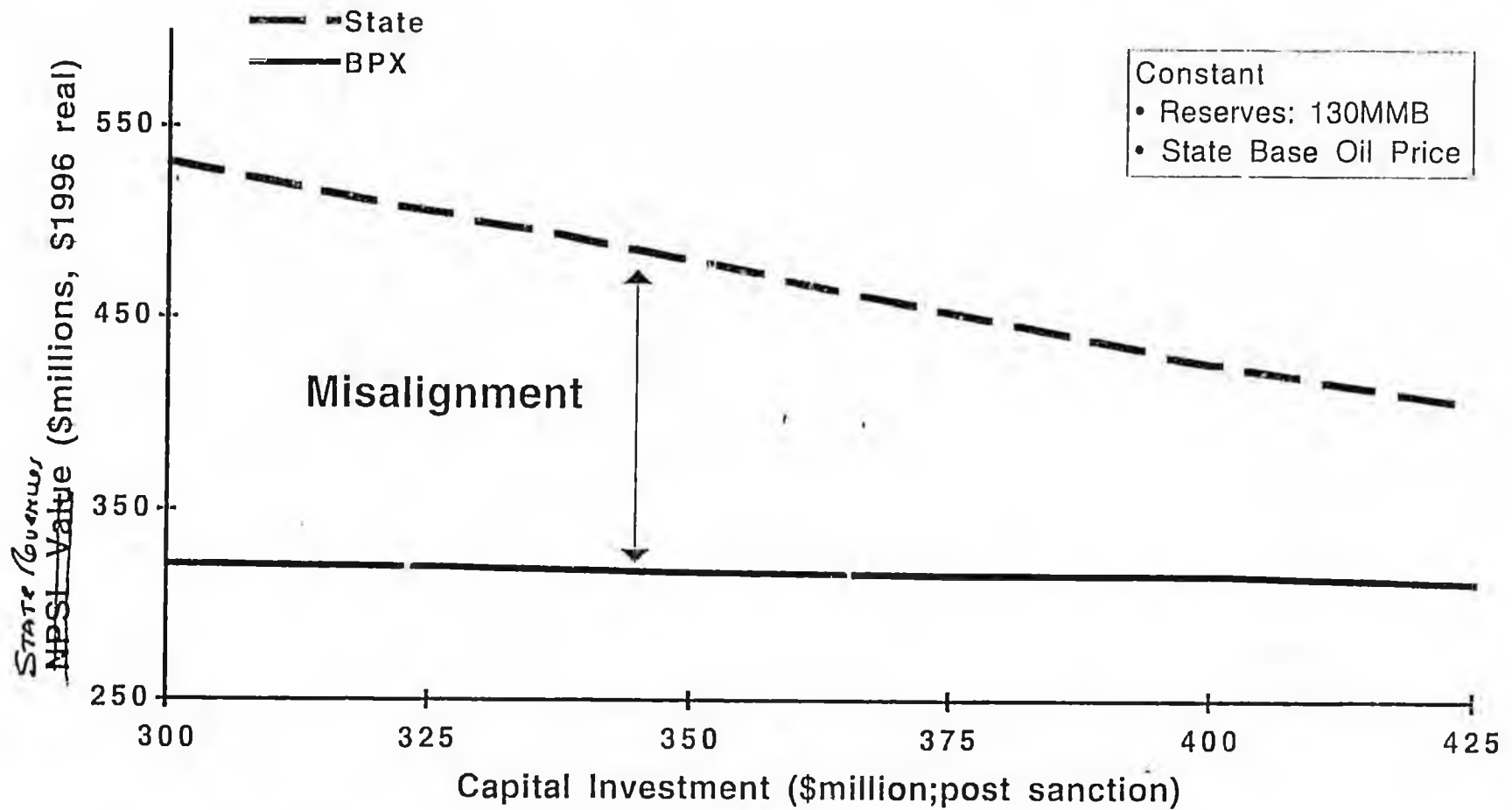
	Base	Low	High
• Facilities	122	107	130
• Drilling	85	75	110
• Pipeline	30	27	55
• Logistics/O'head	46	43	55
• Engrg/Infrast.	39	30	49
• Island	28	23	42
Overall	350	305	441

Northstar

Capex Impact with NPSLs



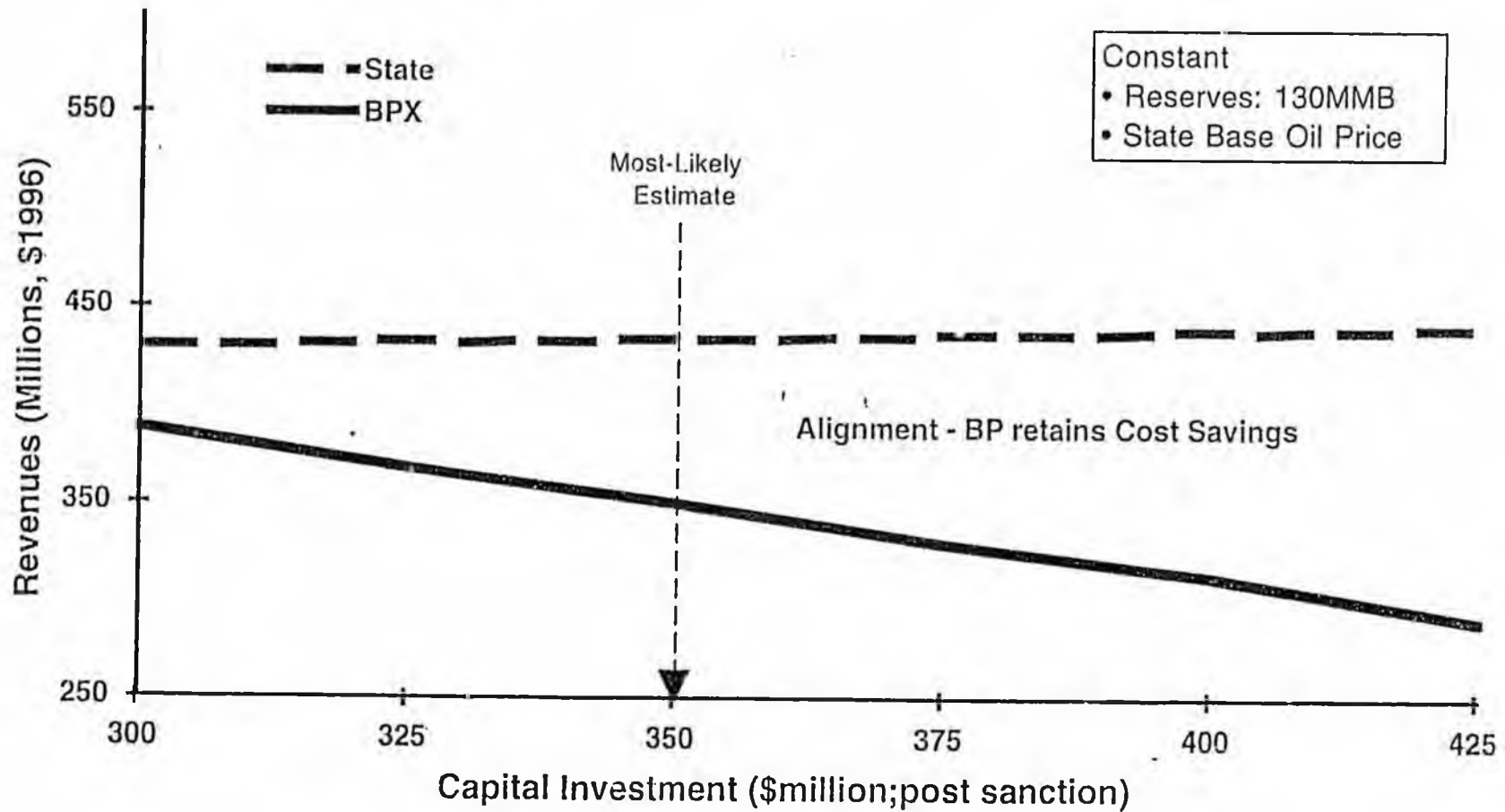
Revenues vs Capital Investment with NPSLs



Capex Impact with Agreement

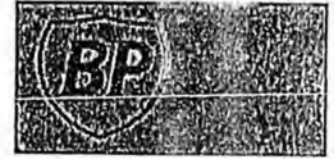


Revenues vs Capital Investment with Agreement



Northstar

Misalignments



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

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



Revenue Shares

with State Base Prices

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

* Discounted net present value @ 10%

Northstar Economic Evaluation



Estimated Total Revenues

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

Totals may not add due to rounding.

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

Kevin Banks, ADNR
April 12, 1996

Sheet 1

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

Report2

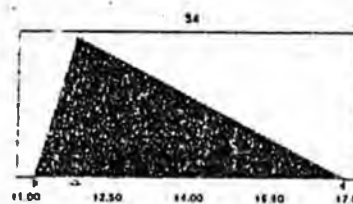
Assumptions

Assumption: S4

Cell: S4

Triangular distribution with parameters:

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



Selected range is from \$1.00 to \$7.00

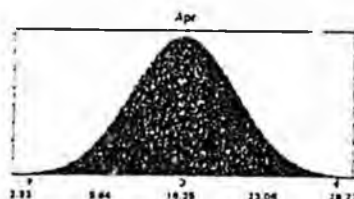
Assumption: Apr

Cell: B93

Normal distribution with parameters:

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

Selected range is from -21.51 to 402.42



End of Assumptions

Forecast: AKSUPP-REAL

Cell. AF149

Summary:

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

Statistics:

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

