ALASKA LEGISLATURE COMMITTEE FILES 1995-1996 8672

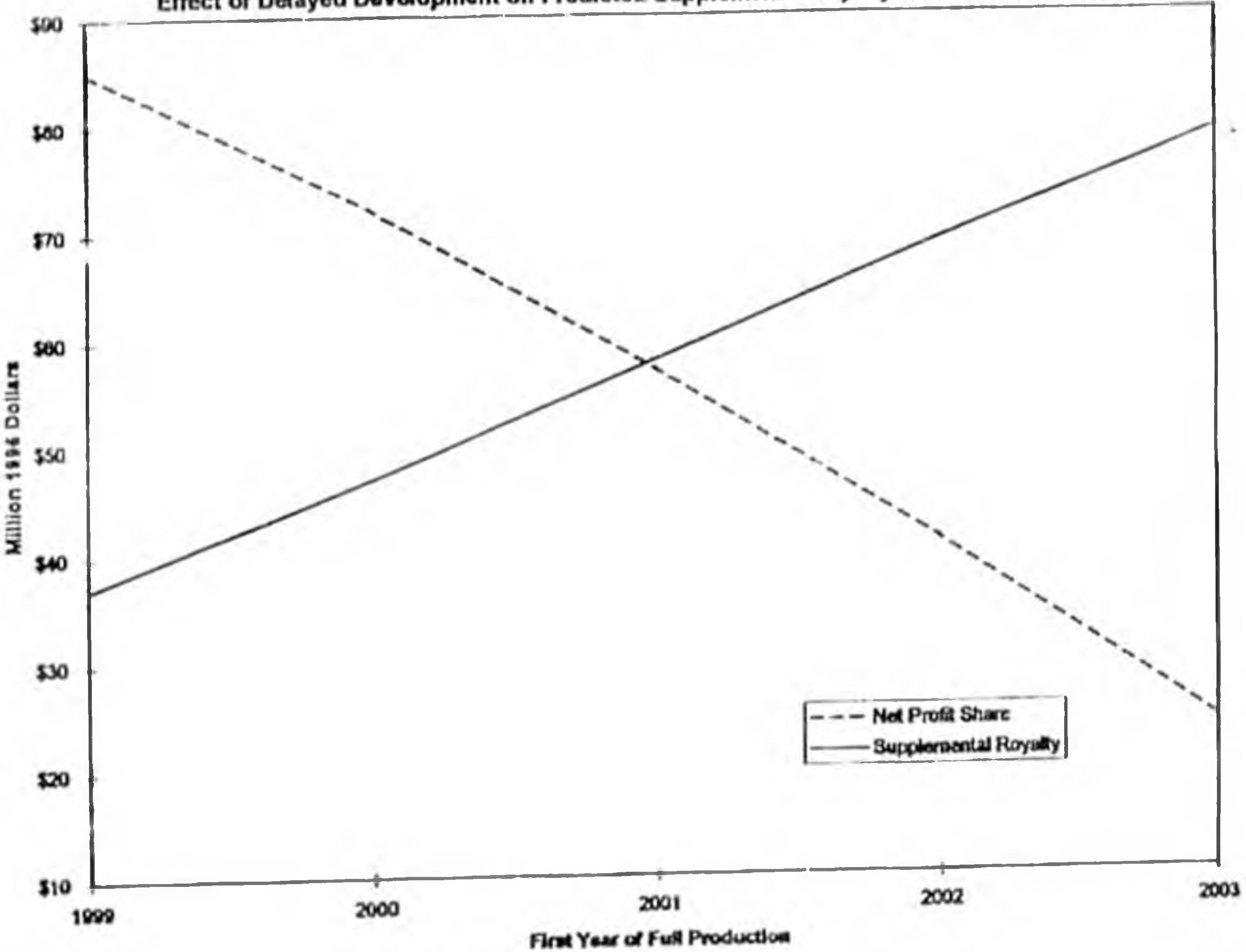
8985 SENATE RESOURCES

achieved by adding capital expenditures of only $28 million to the most likely case for more drilling. BPXA's "upside" case envisions an additional $91 million in capital expenditures to achieve reserves estimated at 160 million barrels. Other assumptions are held constant.

The second two tables show the downside, i.e., if reserves are only 105 million. In this case, I assume that the capital expenditures estimated for the most likely case are spent and the field never attains the most likely case production rates. Other assumptions are held constant.

# Northstar Proposal

## Effect of Delayed Development on Predicted Supplemental Royalty and Net Profit Share




(This chart is based on BPXA's most likely estimate of reserves, capital and operating costs, and DOR's Fall '95 Base Price Forecast.)

BPNSUB8.320, Daley

4/3/96, 11:58 AM

# Northstar Economic Evaluation

Alaska Department of NATURAL RESOURCES

## 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 1998 Dollars) | | | |
| **State Revenues** | | | | |
| State Royalty | 256 | 256 | 257 | 257 |
| State Supplemental Royalty | [redacted] | 0 | [redacted] | 0 |
| ~~NPSL~~ | -0 | [redacted] | 0 | [redacted] |
| 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 | 48 |
| Income Tax | 24 | 22 | 22 | 23 |
| Total | 435 | 481 | 469 | 444 |
| **Federal Revenues** | | | | |
| Royalty (Net of State Share) | 44 | 44 | 44 | 44 |
| Income Tax | 215 | 198 | 205 | 213 |
| Total | 259 | 243 | 249 | 258 |
| **BPXA Cash Flow** | | | | |
| After Tax Funds Flow | 349 | 318 | 331 | 348 |
| Real Rate of Return | 20.0% | 19.9% | 19.2% | 20.4% |

Totals may not add due to rounding.

Alaska Department of NATURAL RESOURCES

# Northstar Economic Evaluation

## Estimated Total Revenues

At Reserves of 180+ Million Barrels.*

| | With Supplemental Royalty | With Net Profit Share |
|---|---|---|
| | (Real 1996 Dollars**) | |
| **State Revenues** | | |
| State Royalty | 383 | 363 |
| State Supplemental Royalty | [redacted] | 0 |
| NPSL | 0 | [redacted] |
| State Share of Federal Royalty | 23 | 23 |
| Severance Tax | 89 | 91 |
| Spill & Conserv. Tax | 4 | 4 |
| Ad Valorem Tax | 52 | 52 |
| Income Tax | 37 | 26 |
| Total | 639 | 934 |
| **Federal Revenues** | | |
| Royalty (Net of State Share) | 63 | 63 |
| Income Tax | 341 | 237 |
| Total | 404 | 300 |
| **BPXA Cash Flow** | | |
| After Tax Funds Flow | 581 | 389 |
| Real Rate of Return | 23.9% | 21.7% |

*DNR assumes [illegible] MMBO total reserves, additional [illegible] production wells, a two year increase in field life, and an additional $[illegible] million in capital costs over BPXA's most likely case.

**Totals may not add due to rounding.

[illegible]

[illegible]

Alaska Department of NATURAL RESOURCES

# Northstar Economic Evaluation

## Estimated Total Revenues

| At Reserves of 180+ Million Barrels.* | With Supplemental Royalty | With Net Profit Share |
|---|---|---|
| | (Discounted Net Present Value**) | |
| **State Revenues** | | |
| State Royalty | 223 | 223 |
| State Supplemental Royalty | [redacted] | 0 |
| NPSL | 0 | [redacted] |
| State Share of Federal Royalty | 14 | 14 |
| Severance Tax | 61 | 63 |
| Spill & Conserv. Tax | 2 | 3 |
| Ad Valorem Tax | 32 | 32 |
| Income Tax | 21 | 16 |
| Total | 389 | 524 |
| **Federal Revenues** | | |
| Royalty (Net of State Share) | 39 | 39 |
| Income Tax | 195 | 149 |
| Total | 234 | 188 |
| **BPXA Cash Flow** | | |
| After Tax Funds Flow | 281 | 194 |
| Real Rate of Return | 23.9% | 21.7% |

*DNR assumes [illegible] MMBO total reserves, additional [illegible] production wells, a two year increase in field life, and an additional $[illegible] million in capital costs over BPXA's most likely case.

**Assuming 10 percent nominal discount rate. Totals may not add due to rounding.

# Northstar Economic Evaluation

Alaska Department of NATURAL RESOURCES

## Estimated Total Revenues

| At Reserves of 105 Million Dollars* | With Supplemental Royalty | With Net Profit Share |
|---|---|---|
| | (Real 1996 Dollars**) | |
| **State Revenues** | | |
| State Royalty | 206 | 206 |
| State Supplemental Royalty | [redacted] | 0 |
| NPSL | 0 | [redacted] |
| State Share of Federal Royalty | 13 | 13 |
| Severance Tax | 30 | 30 |
| Spill & Conserv. Tax | 2 | 2 |
| Ad Valorem Tax | 42 | 42 |
| Income Tax | 17 | 18 |
| Total | 340 | 312 |
| **Federal Revenues** | | |
| Royalty (Net of State Share) | 36 | 36 |
| Income Tax | 153 | 163 |
| Total | 189 | 198 |
| **BPXA Cash Flow** | | |
| After Tax Funds Flow | 234 | 256 |
| Real Rate of Return | 14.6% | 15.1% |

*DNR assumes 105 MMBO total reserves, the minimum production indicated by BPXA in its "Proposal for Modified Lease Terms"

**Assuming 3.2 percent inflation rate from DOR [illegible] Base Price Forecast. Totals may not add due to rounding.

(This table is based on BPXA's [illegible] estimate of reserves, capital and operating costs, and DOR's Fall [illegible] Base Price Forecast.)

[illegible], Revenue [illegible]

# Northstar Economic Evaluation

Alaska Department of NATURAL RESOURCES

## Estimated Total Revenues

| At Reserves of 105 Million Dollars* | With Supplemental Royalty | With Net Profit Share |
|---|---|---|
| | (Discounted Net Present Value**) | |
| **State Revenues** | | |
| State Royalty | 136 | 136 |
| State Supplemental Royalty | [redacted] | 0 |
| NPSL | 0 | [redacted] |
| State Share of Federal Royalty | 9 | 9 |
| Severance Tax | 23 | 23 |
| Spill & Conserv. Tax | 1 | 1 |
| Ad Valorem Tax | 27 | 27 |
| Income Tax | 10 | 11 |
| Total | 223 | 207 |
| **Federal Revenues** | | |
| Royalty (Net of State Share) | 24 | 24 |
| Income Tax | 92 | 98 |
| Total | 116 | 121 |
| **BPXA Cash Flow** | | |
| After Tax Funds Flow | 92 | 102 |
| Real Rate of Return | 14.5% | 15.1% |

*DNR assumes 105 MMBO total reserves, the minimum production indicated by BPXA in its "Proposal for Modified Lease Terms"

**Assuming 10 [illegible] discount rate. 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.)

[illegible]

# Alaska State Legislature

Official Business

Senate Resources Committee

State Capitol
Juneau AK 99801

April 2, 1996

Mr. Ken Boyd, Director
Division of Oil and Gas
Department of Natural Resources
via fax: 562-3852

Dear Director Boyd:

Last week you provided me with a copy of a notebook entitled "Northstar Unit Briefing Paper—March 1996" which contains several documents pertaining to the history of the leases within the Northstar Unit. Among those documents is a December 27, 1979, letter entitled "Results of the 30th Competitive Oil and Gas Lease Sale" (Tab 3) and an accompanying summary of the companies submitting bids in that sale and the amounts of those bids.

Some of the testimony and committee questions concerning Senate Bill 318 to date have centered on the litigation risk associated with renegotiating the competitively bid terms of Northstar leases as the commissioner has done in this case. For example, questions have arisen about who would have standing to litigate, whether the passage of time lessens the risk of successful litigation, whether other lessees with net profit leases are similarly situated to BPXA and whether the state would be sending the appropriate signals to other lessees by preferentially renegotiating amendments to the terms of these leases and not others.

In light of these questions, I would like to provide an opportunity for representatives of the other companies who competed for net profit leases in Sale 30 to address the committee to share their views on the policy implications and litigation risk involved with the passage of SB 318. In reviewing the list of bidders, I note that several of the companies no longer exist—Gulf Oil, for example—and that others may have new identities having been merged with other companies or simply having been renamed since 1979.

I would appreciate it if you provide committee staff with the current addresses and names for contact personnel within each of the companies that submitted net profit share bids in Sale 30. I recognize that you and your staff are quite busy, but in the interest of expediting hearings on SB 318, I ask that you provide this information by fax this afternoon if at all possible. We would like to notify these companies of their opportunity to participate in future hearings on SB 318.

Sincerely,

Loren D. Leman

Senator Loren Leman, Chairman
Senate Resources Committee

# Alaska State Legislature

SENATE RESOURCES COMMITTEE

Official Business

State Capitol
Juneau AK 99801

MEMO

TO: Senator Pearce, ViceChairman
Senator Halford
Senator Frank
Senator Taylor
Senator Hoffman
Senator Lincoln

FROM: Senate Resources Committee Staff
(X4907)

DATE: April 3, 1996

RE: Requested material on SB 318: Northstar Lease Agreement

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Attached are materials requested or relevant to SB 318:

1) Letter to Ken Boyd (4/2/96) requesting names of representatives of other companies who competed for net profit leases in Sale 30. (and reply)
2) Memo to BP, DNR, Law requesting responses to questions asked by Committee members at March 29 hearing and reply from BP. Some responses still pending from Law and DNR.
3) Response from DNR to question of who owns the other existing 39 net profit share leases. In two formats:
   Format one is Ownership Within Leases
   Format two is a listing by lease number
4) Two articles relating to oil projects in Venezuela

DEPARTMENT OF NATURAL RESOURCES
OFFICE OF THE COMMISSIONER
400 WILLOUGHBY AVENUE
JUNEAU, ALASKA 99801-1796
PHONE: (907) 465-2400
FAX: (907) 465-3886

Please deliver to: Annette

Location: FAX: 3810

Date: Time:

From: KEN BOYD

Number of pages 6
Including cover sheet

Comments: THIS IS WHAT WE COULD PUT TOGETHER TODAY

If you experience any problems receiving this FAX, please call Sharon or Eileen at the above phone number.

Names and Addresses of Sale 30 Bidders

| Original Bidder Name | Current Name | Phone Number | | Address | | City | State |
|---|---|---|---|---|---|---|---|
| AMERADA HESS CORPORATION | | 713 | 609-5657 | ATTN: J. Y. CHRISTOPHER | 500 DALLAS ST | HOUSTON | TX |
| AMOCO PRODUCTION COMPANY | | 713 | [illegible] | ATTN: LAND MANAGER/USA | PO BOX 3092 | HOUSTON | TX |
| ATLANTIC RICHFIELD COMPANY | | 907 | 263-4824 | ATTN: LAND MANAGER | P.O. BOX 100360 | ANCHORAGE | AK |
| CHEVRON U.S.A. INC | | 713 | 754-[illegible] | PO BOX 1635 | ATTN: P.G. WALKER | HOUSTON | TX |
| CITIES SERVICE COMPANY | OXY USA INC. | 918 | 561-2000 | PO BOX 300 | | TULSA | OK |
| CONOCO INC | | 713 | 293-2756 | 600 NORTH DAIRY ASHFORD | ATTN WILLIAM R DAUGHERTY | HOUSTON | TX |
| COOK INLET REGION INC | | 907 | [illegible]-6340 | PO BOX 93330 | | ANCHORAGE | AK |
| EXXON CORPORATION | | 713 | 656-7000 | LAND/REGULATORY AFFAIRS | PO BOX 2305 | HOUSTON | TX |
| GETTY OIL COMPANY | TEXACO INC | 303 | 793-4144 | PO BOX 2100 | ATTN: LAND DEPARTMENT | DENVER | CO |
| GULF OIL CORPORATION | CHEVRON U.S.A. INC | 713 | 754-7666 | PO BOX 1635 | ATTN: P.G. WALKER | HOUSTON | TX |
| HOMAG INC | | 907 | 561-0446 | C/O JOHN MERRICK | 4300 B ST #407 | ANCHORAGE | AK |
| MARATHON OIL COMPANY | | 713 | 629-6600 | ATTN CONTRACT & DIVISION ORDER | P.O. BOX 2069 | HOUSTON | TX |
| MOBIL OIL CORP | | 214 | 951-[illegible] | ATTN: PROPERTY MANAGEMENT | PO BOX 650232 | DALLAS | TX |
| MURPHY OIL CORPORATION | MURPHY EXPLOR. & PROD. CO | 504 | 561-2811 | ATTN: LAND DEPARTMENT | P.O. BOX 61780 | NEW ORLEANS | LA |
| NANA REGIONAL CORPORATION INC | | 907 | 265-4100 | 1001 E. BENSON BLVD. | ATTN: VICE PRESIDENT MINERALS | ANCHORAGE | AK |
| PHILLIPS PETROLEUM COMPANY | | 713 | 669-3741 | PO BOX 1967 | ATTN: AK REGION LAND MANAGER | HOUSTON | TX |
| PLACID OIL CO | | 918 | 561-2006 | C/O OXY USA INC. | P.O. BOX 300 | TULSA | OK |
| ROWAN PETROLEUM INC | ROWAN DRILLING INC | 907 | 279-[illegible] | 1900 POST OAK TOWER | 5051 WESTHEIMER | HOUSTON | TX |
| SEALASKA CORP | | 907 | 586-1512 | ONE SEALASKA PLAZA, SUITE 400 | MR WILLIAM N HOWE, PRESIDENT | JUNEAU | AK |
| SHELL OIL COMPANY | | 713 | 870-4014 | TWO SHELL PLAZA | PO BOX 2099 | HOUSTON | TX |
| SOHIO NATURAL RESOURCES | BP EXPLORATION (ALASKA) INC | 907 | 561-5111 | E. P. ZSELECZKY, JR. | PO BOX 196612/900 E. BENSON BL | ANCHORAGE | AK |
| TEXACO INC | | 303 | 793-4144 | PO BOX 2100 | ATTN: LAND DEPARTMENT | DENVER | CO |
| TEXAS EASTERN EXPLORATION COMPANY | ENTERPRISE OIL EX CO INC | 713 | 880-8471 | C/O ALAN R. BILLINGTON | 4001 FM 1960 WEST, STE. 310 | HOUSTON | TX |
| TEXAS GULF INC. | | 907 | 274-5100 | 1994 MONROE STREET | | GOLDEN | CO |
| UNION OIL COMPANY OF CALIFORNIA | | 907 | 276-7600 | PO BOX 190247 | ATTN: LAND MANAGER | ANCHORAGE | AK |

# NET PROFIT SHARE LEASE OWNERS

*02-Apr-96*

| UNIT | HIGH BIDDER | BIDDING GROUP | BIDDER NAME | CURRENT NAME | PHONE # | |
|---|---|---|---|---|---|---|
| **DUCK ISLAND UNIT** | | | | | | |
| **SALE 30** | | | | | | |
| ADL 312828 | | | | | | |
| | * | [illegible] | COOK INLET REGION INC | | 907 | 2685100 |
| | * | 18 | SOHIO NATURAL RESOURCES | BP EXPLORATION (ALASKA) INC | 907 | 5615111 |
| | * | 18 | SEALASKA CORP | | 907 | 5861512 |
| | * | 18 | NANA REGIONAL CORPORATION INC | | 907 | 2654100 |
| | * | 18 | KONIAG INC | | 907 | 5612668 |
| | | 3 | AMOCO PRODUCTION COMPANY | | 713 | 5566575 |
| | | 7 | CITIES SERVICE COMPANY | OXY USA INC. | 918 | 5613365 |
| | | 7 | ROWAN PETROLEUM INC | ROWAN DRILLING | 907 | 2762446 |
| | | 7 | GULF OIL CORPORATION | CHEVRON U.S.A. INC | 713 | 7547855 |
| | | 7 | PLACID OIL CO | | 918 | 5813586 |
| | | 7 | GETTY OIL COMPANY | TEXACO INC | 303 | 7934164 |
| | | 7 | TEXAS GULF INC. | | 907 | 2786100 |
| | | 7 | CONOCO INC | | 713 | 2932756 |
| | | 14 | MARATHON OIL COMPANY | | 713 | 6296600 |
| | | 14 | AMERADA HESS CORPORATION | | 713 | 6095637 |
| | | 19 | MURPHY OIL CORPORATION | MURPHY EXPLOR. & PROD.CO | 504 | 5612811 |
| | | 19 | SHELL OIL COMPANY | | 713 | 870431 |
| | | 20 | CHEVRON U.S.A. INC | | 713 | 7547856 |
| | | 22 | EXXON CORPORATION | | 713 | 6567008 |
| | | 22 | UNION OIL COMPANY OF CALIFORNIA | | 907 | 2767600 |
| | | 22 | ATLANTIC RICHFIELD COMPANY | | 907 | 2634024 |
| ADL 312834 | | | | | | |
| | * | 21 | EXXON CORPORATION | | 713 | 6567000 |
| | * | 21 | UNION OIL COMPANY OF CALIFORNIA | | 907 | 2767600 |
| | * | 21 | ATLANTIC RICHFIELD COMPANY | | 907 | 2634024 |
| | | 20 | CHEVRON U.S.A. INC | | 713 | 7547855 |

| UNIT | HIGH BIDDER | BIDDING GROUP | BIDDER NAME | CURRENT NAME | PHONE # | |
|---|---|---|---|---|---|---|
| NON UNITIZED PRODUCING | | | | | | |
| SALE 30 | | | | | | |
| ADL 312827 | | | | | | |
| | * | 14 | MARATHON OIL COMPANY | | 713 | 6296600 |
| | * | 14 | AMERADA HESS CORPORATION | | 713 | 6096837 |
| | | 3 | AMOCO PRODUCTION COMPANY | | 713 | [illegible] |
| | | 7 | GETTY OIL COMPANY | TEXACO INC | 203 | 7934164 |
| | | 7 | TEXAS GULF INC. | | 907 | 2765100 |
| | | 7 | PLACID OIL CO | | 918 | 5613380 |
| | | 7 | ROWAN PETROLEUM INC | ROWAN DRILLING | 907 | 2762446 |
| | | 7 | GULF OIL CORPORATION | CHEVRON U.S.A. INC | 713 | 7547806 |
| | | 7 | CONOCO INC | | 713 | 2932736 |
| | | 7 | CITIES SERVICE COMPANY | OXY USA INC. | 918 | 5613305 |
| | | 17 | EXXON CORPORATION | | 713 | 6567600 |
| | | 18 | COOK INLET REGION INC | | 907 | 2636180 |
| | | 18 | KONIAG INC | | 907 | 5612888 |
| | | 18 | SEALASKA CORP | | 907 | 5861512 |
| | | 18 | NANA REGIONAL CORPORATION INC | | 907 | 3954160 |
| | | 18 | SOHIO NATURAL RESOURCES | BP EXPLORATION (ALASKA) INC | 907 | 5616111 |
| NORTHSTAR UNIT | | | | | | |
| SALE 30 | | | | | | |
| ADL 312798 | | | | | | |
| | * | 1 | AMERADA HESS CORPORATION | | 713 | 6096537 |
| | | 2 | TEXACO INC | | 303 | 7934164 |
| | | 2 | TEXAS EASTERN EXPLORATION COMPANY | ENTERPRISE OIL EX CO INC | 713 | 6606471 |
| | | 3 | AMOCO PRODUCTION COMPANY | | 713 | [illegible] |
| | | 4 | PLACID OIL CO | | 918 | 5613085 |
| | | 4 | CONOCO INC. | | | |
| | | 4 | TEXAS GULF INC. | | 907 | 2765100 |
| | | 4 | CITIES SERVICE COMPANY | OXY USA INC. | 918 | 5613385 |
| | | 5 | SHELL OIL COMPANY | | 713 | 8704314 |
| | | 6 | CHEVRON U.S.A. INC | | 713 | 7547865 |
| | | 6 | PHILLIPS PETROLEUM COMPANY | | 713 | 6692741 |

| UNIT | HIGH BIDDER | BIDDING GROUP | BIDDER NAME | CURRENT NAME | PHONE # |
|---|---|---|---|---|---|
| ADL 312799 | | | | | |
| | * | 1 | AMERADA HESS CORPORATION | | 713 [illegible] |
| | | 2 | TEXACO INC | | 303 7934164 |
| | | 2 | TEXAS EASTERN EXPLORATION COMPANY | ENTERPRIDE OIL EX CO INC | 713 [illegible]471 |
| | | 3 | AMOCO PRODUCTION COMPANY | | 713 [illegible] |
| | | 7 | ROWAN PETROLEUM INC | ROWAN DRILLING | 907 2792448 |
| | | 7 | TEXAS GULF INC. | | 907 2786100 |
| | | 7 | GULF OIL CORPORATION | CHEVRON U.S.A. INC | 713 7547866 |
| | | 7 | CITIES SERVICE COMPANY | OXY USA INC. | 918 [illegible] |
| | | 7 | CONOCO INC | | 713 [illegible] |
| | | 7 | GETTY OIL COMPANY | TEXACO INC | 303 7934164 |
| | | 7 | PLACID OIL CO | | 918 [illegible] |
| | | 8 | MURPHY OIL CORPORATION | MURPHY EXPLOR. & PROD.CO | 504 5612811 |
| | | 8 | SHELL OIL COMPANY | | 713 8704314 |
| | | 9 | PHILLIPS PETROLEUM COMPANY | | 713 [illegible]741 |
| | | 9 | MOBIL OIL CORP | | 214 [illegible] |
| | | 9 | CHEVRON U.S.A. INC | | 713 7547866 |
| | | 10 | UNION OIL COMPANY OF CALIFORNIA | | 907 2767600 |
| ADL 312808 | | | | | |
| | * | 11 | TEXAS EASTERN EXPLORATION COMPANY | ENTERPRISE OIL EX CO INC | 713 [illegible]471 |
| | | 6 | CHEVRON U.S.A. INC | | 713 7547866 |
| | | 6 | PHILLIPS PETROLEUM COMPANY | | 713 [illegible]741 |
| | | 10 | UNION OIL COMPANY OF CALIFORNIA | | 907 2767600 |
| | | 12 | GULF OIL CORPORATION | CHEVRON U.S.A. INC | 713 7547866 |
| | | 12 | CITIES SERVICE COMPANY | OXY USA INC. | 918 5612666 |
| | | 12 | ROWAN PETROLEUM INC | ROWAN DRILLING | 907 2792448 |
| | | 12 | TEXAS GULF INC. | | 907 2786100 |
| | | 12 | CONOCO INC | | 713 2932756 |
| | | 12 | PLACID OIL CO | | 918 5612666 |
| | | 13 | SHELL OIL COMPANY | | 713 8704314 |
| | | 13 | MURPHY OIL CORPORATION | MURPHY EXPLOR. & PROD.CO | 504 5612811 |
| | | 13 | ATLANTIC RICHFIELD COMPANY | | 907 [illegible] |

| UNIT | HIGH BIDDER | BIDDING GROUP | BIDDER NAME | CURRENT NAME | PHONE # | |
|---|---|---|---|---|---|---|
| ADL 312809 | | | | | | |
| | * | 11 | TEXAS EASTERN EXPLORATION COMPANY | ENTERPRISE OIL EX CO INC | 713 | 6938471 |
| | | 3 | AMOCO PRODUCTION COMPANY | | 713 | 5865505 |
| | | 9 | CHEVRON U.S.A. INC | | 713 | 7547086 |
| | | 8 | MOBIL OIL CORP | | 214 | 9518936 |
| | | 9 | PHILLIPS PETROLEUM COMPANY | | 713 | 6663741 |
| | | 10 | UNION OIL COMPANY OF CALIFORNIA | | 907 | 2767800 |
| | | 14 | AMERADA HESS CORPORATION | | 713 | 6090837 |
| | | 14 | MARATHON OIL COMPANY | | 713 | 6296000 |
| | | 15 | TEXAS GULF INC. | | 907 | 2765100 |
| | | 15 | GETTY OIL COMPANY | TEXACO INC | 203 | 7934164 |
| | | 15 | CITIES SERVICE COMPANY | OXY USA INC. | 918 | 5613065 |
| | | 15 | PLACID OIL CO | | 918 | 5613065 |
| | | 15 | GULF OIL CORPORATION | CHEVRON U.S.A. INC | 713 | 7547653 |
| | | 15 | ROWAN PETROLEUM INC | ROWAN DRILLING | 907 | 2792441 |
| | | 14 | ATLANTIC RICHFIELD COMPANY | | 907 | 2634624 |
| | | 15 | SHELL OIL COMPANY | | 713 | 8704314 |
| POINT THOMSON UNIT | | | | | | |
| SALE 30 | | | | | | |
| ADL 312808 | | | | | | |
| | * | 17 | EXXON CORPORATION | | 713 | 6567000 |
| | | 6 | CHEVRON U.S.A. INC | | 713 | 7547655 |
| | | 6 | PHILLIPS PETROLEUM CO. PANY | | 713 | 6693741 |

# CAMBRIDGE ENERGY RESEARCH ASSOCIATES

## FAX MESSAGE

TO : ALASKA STATE LEGISLATURE
ATTN: SEN. DRUE PEARCE
FAX : 0019074653072

Cambridge Energy Research Associates

C E R A

LATIN AMERICA ENERGY

WORLD OIL

**INSIDE**

Benefits to the Economy
A Boost in Confidence and in Capital Investment

The Bottom Line
Maximum Returns to the State

The Fiscal Terms
Dividing the Profits

# *CERA ALERT*

FEBRUARY 1, 1996

## VENEZUELA LEAPS FORWARD: THE SECOND COMING OF OIL?

January 22, 1996 marked the day that Venezuela re-opened the door to direct private investment in its oil and natural gas sectors.* Sixty of the seventy-five companies that pre-qualified for the bidding round participated in the process that ended last week. Winners were chosen twice a day for the ten blocks containing an estimated 7 billion barrels of oil. An issue for many of the private investors was the amount of the take—the government participation in royalties and taxes—but the issue was not enough to derail investor interest.

Assuming that the PDVSA affiliate takes the maximum 35 percent share of the joint venture, the final division of profits in the profit sharing agreements will be between 88 and 92 percent for the government/PDVSA, leaving only 8 to 12 percent for the private investor consortium (see Figure 1, Venezuela: Bidding Round Results). This high level of take guarantees the government will receive large oil revenues in addition to what it already receives from PDVSA (between $5 and $6 billion per year).

More importantly, the low percentage of profits for the private investors may be an indication of a change in the emphasis of investor strategy—from the overall return on investment to securing long-term crude supplies. One reason this change is occurring for the Venezuelan bidding round is the sheer size of their natural resource base and the expectations of large prospects. Higher risk areas in Latin America are unlikely to be able to adopt similarly difficult terms, as seen in the lack of bids for the higher risk Catatumbo and El Sombrero blocks.

### Benefits to the Economy

The success of the bidding rounds will provide a much needed boost to Venezuela's economy over the long term through the expected capital investments by the private companies. More importantly, the high rate of government participation and cash bonuses pledged provides a tremendous boost to the country's confidence.

*See the upcoming CERA Private Report, *Venezuela Opens the Upstream: The Impact on Exports*, February 1996.

**Cambridge Energy Research Associates**



The CERA Alert is part of CERA's Latin American Energy [illegible] Advisory Service.
For more information, please contact [illegible]

Figure 1

**Venezuela: Bidding Round Results**


| Block | PDVSA Affiliate | Winning Consortium/ Company | Oil Reserves (million barrels) | Expected Production (tbd) | PEG (%) | Bonus (million dollars) | Gov't/PDVSA Share** (%) |
|---|---|---|---|---|---|---|---|
| 1 Catatumbo | Maraven | Withdrawn/No bidders | 814 | — | NA | NA | NA |
| 2 La Ceiba | Maraven | Mobil/Veba/Nippon Oil | 790 | 160 | 50 | 103.9 | 92.2 |
| 3 Guanare | Corpoven | Elf Aquitaine/Conoco | 825 | 180 | 50 | No second round | 92.2 |
| 4 San Carlos | Corpoven | Perez Companc | 405 | 95 | 40 | No second round | 90.6 |
| 5 Sombrero-Ortiz | Corpoven | Withdrawn/No bidders | 400 | — | NA | NA | NA |
| 6 Guarapiche | Lagoven | BP/Amoco/Maxus | 990 | 200 | 50 | 109.0 | 92.2 |
| 7 Golfo de Paria Oeste | Lagoven | Conoco | 600 | 160 | 50 | 21.2 | 92.2 |
| 8 Golfo de Paria Este | Lagoven | Enron/Inelectra | 830 | 130 | 29 | Uncontested | 88.9 |
| 9 Punta Pescador Oeste | Lagoven | Amoco | 700 | 134 | 50 | 10.7 | 92.2 |
| 10 Delta Centro | Lagoven | Louisiana Land & Exploration Company/ [illegible] Oil | 820 | 135 | 41 | Uncontested | 90.8 |
| TOTALS | | | [illegible] | [illegible] | | [illegible] | |

Source: Cambridge Energy Research Associates, PDVSA

* C/L/M = Condensates/Light/Medium
** Includes royalty, income tax, and PEG

After enduring a multi-year recession, a rapidly devaluing currency, weak foreign investment, and a near-collapse of its banking industry, Venezuela needed some good news. And now it is in a position to lock up a long-term tax revenue stream if estimated production levels are realized.

In addition to the state, PDVSA is also reaping a very large benefit, for it now has secured the investment capital needed to expand liquid productive capacity over the next ten years. If the ambitious estimates are realized, these private companies will help increase capacity from today's level of approximately 3.2 million barrels per day (mbd) to over 6.07 mbd by 2005. In terms of impact on the world oil market, PDVSA's export capacity would increase from nearly 2.0 mbd to over 4.7 mbd.

## The Bottom Line

Surprisingly, five bids in the first round—which determined the state's share of profits—were for an additional royalty of 50 percent (allowable bids were between 0 and 50 percent). Four of the five bids resulted in a tie among the bidders, requiring that the cash bonus envelope be opened in order to break the tie. These bonuses ranged from $10 million to $109 million per block, or $244.8 million in total. Eight of the 10 blocks were successfully auctioned off, with two blocks—Catatumbo and El Sombrero—being pulled from the process due to a lack of bidders. Importantly, the winning bids for five of the blocks included the maximum level of discretionary royalty to the government (50 percent).

Initial exploratory drilling could begin as soon as late 1996 if everything goes according to plan, but production is not expected for several more years. The government hopes this program will attract over $500 million in investments over the first two years and reach an aggregate $11 billion in new investments over the life of the 20 year program.

## The Fiscal Terms: A Review

### PDVSA's Role

If a block is found to be commercially viable, the developing consortium is required to enter into a joint venture profit-sharing agreement with a PDVSA subsidiary. The subsidiary has the right to take up to a 35 percent position in the joint venture—a value of which will be determined by taking a pro-rata percentage of the exploration costs. For example, if the exploration cost were $1 billion and the subsidiary opted for a 35 percent share, then they would be required to pay the consortium $350 million. However, this amount is to be paid from the profits of the joint venture. In effect, the consortium will be lending the subsidiary the capital until a profit stream is realized but will be allowed to charge a market-based interest rate for the "loan." Once the consortium has been paid back, the joint venture will split the profits according to their respective share. If the block is not commercially viable, the consortium bears the entire financial risk.

### The Government's Role

There are two components to the government's fiscal take in the profit sharing agreements—income taxes and royalties. The combined take for the government under the current structure is considered high in both absolute terms and also relative to other South American oil and gas investment opportunities.

- **Income taxes.** Income taxes are established by law, and changes would require Congressional approval. Currently, income taxes are set at 67.7 percent with a potential investment credit reduction of 2 percent.
- **Royalties.** The royalty component can be modified without a legislative change. In the case of the proposed profit sharing agreements, the royalty payment could be in two parts. The first part is established for the industry and is generally calculated at one sixth of the market value of the hydrocarbon produced. The government has the option to take all or part of the payment in kind.
- **The "PEG."** An additional royalty was invoked in the profit sharing agreements and was by design the determining factor in the winning bids. Called the Participacion del Estado en las Ganancias (PEG), it is an additional percentage of pre-tax profit offered by the private company or consortium during the bidding round. This percentage was bid up significantly in the most sought after fields, and determined which company was chosen. ■

TONY KNOWLES, GOVERNOR

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February 22, 1996

The Honorable Drue Pearce
Capitol Building
Juneau, Alaska 99801-1182

Dear Senator Pearce,

Following our conversation yesterday, we have located a couple of articles reporting the Venezuela state petroleum company's (Pdvsa) recent signing of exploration and production profit sharing contracts. As noted in the January 15, 1996 Oil and Gas Journal article (page 24), this effort represented the first offering of exploration acreage in Venezuela since 1958, and encompasses a profit sharing plan designed to boost productive capacity by pursuing solo projects, joint ventures, and private oil company ventures in marginal field reactivation, exploration and production profit sharing deals, heavy oil projects and other ventures.

In the February 12, 1996 Oil and Gas Journal article (pages 31-34), details of the bidding are reported. Briefly, the contract/licenses garnered outlays of millions of dollars on each block, high profit sharing bonuses in the 40% to 50% range, high "tiebreaker" bonus bids in the millions of dollars, and provisions to purchase a working interest by paying a pro rata share of costs in the event of a commercial discovery.

Legal concerns apparently were raised by many oil companies regarding the structure of the tender offer and aspects of the proposed joint venture tax issues (OGJ, Feb. 12, 1996, pg. 34). Also, according to the January 29, 1996 Petroleum Intelligence Weekly (PIW), the major companies complained over the fiscal terms of the tender. Neither the tax issues nor the complaints over the fiscal terms appeared to dampen the impressive bidding.

I hope this information helps. Feel free to contact me if you have further questions.

Sincerely,

K

Kenneth A. Boyd
Director

# Oil, gas potential seen on 10 Venezuelan blocks

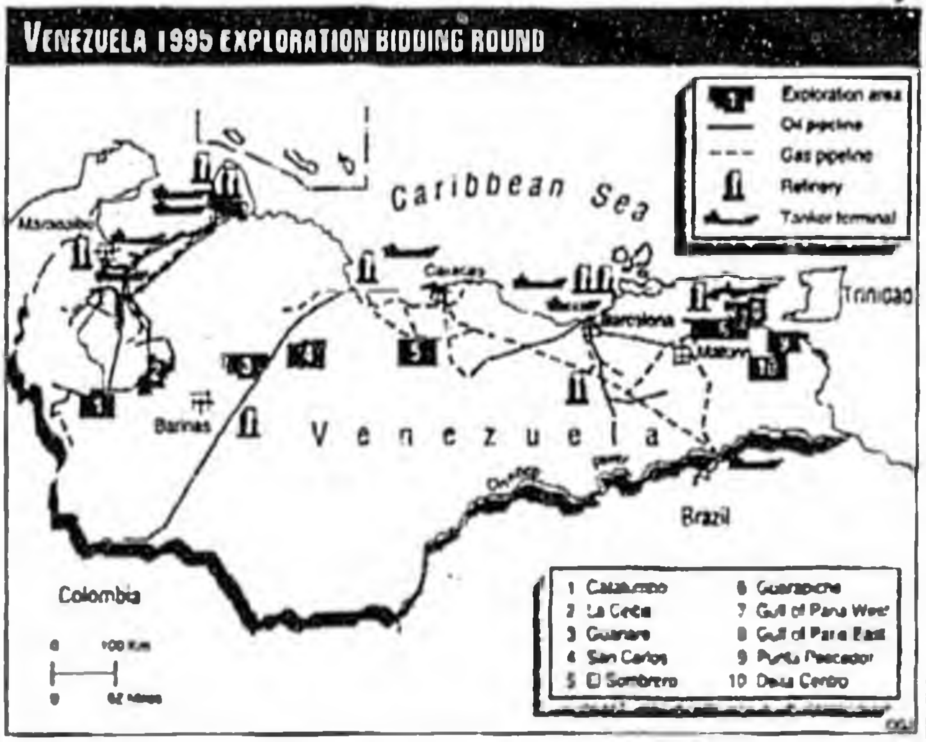
Gregory D. Croft Karl W. Stauffer *Pantera Petroleum Inc. San Leandro, Calif.*

Venezuela's congress approved on July 4, 1995, the offering of 10 exploration blocks after several months of discussion. This is the first new offering of exploration acreage in Venezuela since 1958 (OGJ, July 24, p. 21).

Terms for the offering include a sliding-scale royalty, various taxes, a fixed work commitment, and a government participation share. This last parameter is offered by the bidder, with the largest participation share being the winning bid.

The blocks are located in different parts of the country, but all 10 are located in basins that are prolific oil and gas producers. The following is a brief summary of the petroleum geology of each block.

Fig. 1




## Block 1, Catatumbo

Located on the southwestern shore of Lake Maracaibo, this area is essentially unexplored but lies between the major Lake Maracaibo oil production and the oil producing areas along both sides of the border with Colombia.

It is certain that almost all of the oil produced from the Venezuela-Colombia border area was sourced by the prolific Cretaceous La Luna formation in the Maracaibo basin and migrated to the southwest, in part through this block. A second, lesser source rock is the shale and coal of the Paleocene Orocue formation, but that unit tends to be gas prone.

Reservoirs in this block would mostly be Tertiary sandstones, especially those of the Mirador and Carbonera formations. Cretaceous carbonates with sand interbeds are also likely reservoir rocks. Possible traps include stratigraphic wedgeouts as well as anticlines related to the thrust faults formed during the Miocene to recent uplift of the Merida Andes.

## Block 2, La Ceiba

This block is east of the southern part of Lake Maracaibo and immediately south of prolific Motatan field, which produces from Eocene Misoa sandstones. Well productivities from the Eocene sandstones at Motatan are quite variable but can exceed 5,000 b/d.

Oil seeps along the foothills of the Merida Andes just south of this block indicate that oil migrated through the block from north to south. The source of the oil is the La Luna formation.

The most likely reservoir rocks are the Misoa formation and other Tertiary sandstones, as well as fractured carbonates and sands of the Cretaceous Cogollo group. Traps are likely to be structures associated with the Andean uplift or with earlier, left lateral strike slip faulting.

## Block 3, Guanare

The block is located in the northeastern part of the Barinas basin, which is the northern extension of Colombia's prolific Llanos basin. Sediments in this block reach thicknesses of about 15,000 ft. The source of the hydrocarbons on this block is again the La Luna equivalent, principally the Cretaceous Escandalosa formation.

The most likely reservoirs are sandstones of Tertiary age, particularly the Eocene Gobernador formation that produces in the older fields to the southwest. Other possible reservoirs are the sands and limestones of the Upper Cretaceous.

This relatively unexplored block (only one well has been drilled in the area) has the glamor of traps associated with large horizontal thrusts. In the foothills along this same mountain front are the giant fields of the Furrial trend in eastern Venezuela and the Cusiana trend in the Llanos basin of Colombia.

## Block 4, San Carlos

This block is located along the southern margin of the Merida Andes near the El Baul arch, which separates the Eastern Venezuela basin from the Barinas basin.

This is a relatively unexplored block that has interesting potential. Source rock is not considered a problem as the Escandalosa formation is either on the block or nearby.

Structurally, this block is very complicated: it is at the intersection of two structural trends, has sedimentary section that wedges out against the El Baul arch, and has south verging thrust faults.

Likely reservoirs in this block are the sandstones of the Tertiary, particularly the Eocene, and possibly sandstones and carbonates of the Cretaceous. Likely traps are anticlines associated with thrust faults, possibly older Tertiary fault blocks, and updip pinchouts. Late structural movement associated with the Merida Andes may have destroyed earlier traps.

## Block 5, El Sombrero

El Sombrero is located about 50 miles south of Caracas. The major natural gas accumulation at Yucal-Placer is located immediately east of and on trend with this block. To the southeast is the Las Mercedes area, which has produced about 200 million bbl of oil from sands that range in age from Miocene to Cretaceous.

Sediments in this block are up to 10,000 ft thick and hydrocarbons may be either oil or gas. The bounding thrust fault of the Coastal Range is close to the northern boundary of the block.

Possible traps in this block include anticlines and thrust structures related to the uplift of the Coastal Range and sand pinchouts to the south in younger units. The major source rocks here are probably the shales of the La

### The Authors

Craft

Stauffer

*Gregory D. Craft worked 11 years for Chevron Overseas Petroleum on [illegible] interpretation [illegible] in West Africa and [illegible] and also in business planning. He left Chevron in 1994 to join Dr. Stauffer in founding Pantera Petroleum, a San Leandro, Calif., consulting firm [illegible] in Venezuela. He [illegible] in geophysics from Stanford University.*

*Karl W. Stauffer's early employment was with Royal Dutch/Shell and later Chevron. He was loaned from Chevron to Petroleos de Venezuela from 1977 through 1979, during which time he prepared a series of studies including a regional evaluation of the petroleum potential of the Maracaibo basin. He left Chevron in 1994 to form Pantera Petroleum. He received a PhD in geology from Stanford University.*

Luna equivalent formations, although some sourcing from Tertiary shales, especially of gas, may have occurred.

## Block 6, Guarapiche

This area is east of the city of Maturin along the famous Furrial trend, where many giant oil and gas fields have been discovered in the last 10 years. The recent discoveries have all been to the west of this block, but the geologic structure in the area trends east-west and continues through the block.

Source rock is not a concern in this area given the prolific nearby discoveries. The major source is again the La Luna equivalent, here called Querecual and San Antonio, although there is probably a secondary contribution from the Miocene Carapita formation.

Potential reservoirs include Miocene, Oligocene, and Cretaceous sandstones, as in the Furrial trend, as well as Plio-Pleistocene sands such as produce in Quiriquire and Pedernales fields. Traps are probably related to thrust-faulted structures, although there may be stratigraphic traps in the younger Tertiary and flank traps against shale diapirs.

Reservoir quality and continuity are the principal risks associated with this block.

## Blocks 7-9, Gulf of Paria

These blocks cover the southern part of the Gulf of Paria from the Venezuelan coast to the marine boundary with Trinidad. These are the only wholly offshore blocks. The blocks are located near the axis of the gravity low that marks the center of Tertiary sediment accumulation in the Eastern Venezuela basin.

Sediments here may be more than 30,000 ft thick. That there are hydrocarbons in the area is clear: Pedernales field is just onshore to the south, the Furrial trend is to the west, and the oil fields of southern Trinidad are on trend to the east.

Geological and structural trends do appear to continue all the way from the Furrial area into Trinidad, although facies changes of individual units also occur. Source rocks are largely the Querecual of Upper Cretaceous age, called the La Luna further west and the Naparima Hill in Trinidad.

The most likely reservoirs are Neogene sands and perhaps Paleogene and Cretaceous sands. Traps in these blocks may include thrust related structures as well as unconformities, stratigraphic traps, and traps against the flanks of shale diapirs.

Reservoir continuity may be a problem in these blocks.

## Block 9, Punta Pescador

This block is located onshore and offshore the northernmost Amacuro delta. It is bounded to the north by the marine boundary with Trinidad and to the south shares in part a common border with Block 10.

Pedernales field to the west produces oil from stacked Pliocene and Miocene sandstone reservoirs on the flank of a shale diapir. The sedimentary section in this block is very thick, probably about 30,000 ft. The source rocks here are the Upper Cretaceous Querecual, called Naparaima Hill in Trinidad. Potential reservoirs include Neogene and perhaps Paleogene sands.

In addition to having deltaic-type structures that could serve as traps, this block may have structures related to earlier compression. Neogene submarine fan deposits could contain stratigraphic traps, and shale diapirism is also a likely trapping mechanism. A potential problem in this block is reservoir quality both due to the original facies and to compaction effects.

## Block 10, Delta Centro

As its name suggests, this block is located in the middle of the Amacuro delta. In this block the sediment thickness is greater than in the productive Temblador-Tucupita trend to the southwest but less than in Block 9 to the north.

The source rock for the block would be the stratigraphic equivalent of the La Luna formation, either within the block or just beyond it. Possible reservoirs include sandstones ranging in age from Pliocene to Cretaceous. Traps may include deltaic-type extensional structures, pre-deltaic compressional structures and stratigraphic wedgeouts combined with faults.

This block has fewer data than any of the other blocks; no wells have been drilled within the block, and little seismic has been acquired. The unknown quality and continuity of sandstone reservoirs may be the greatest risk in this block.

A recent oil discovery at Las Piedritas, just west of the block, flowed 2,700 b/d.

### Conclusions

The blocks to be offered in Venezuela's upcoming exploration round include some very exciting exploration potential.

The blocks are located mostly in the deeper parts of Venezuela's two most important oil producing basins, and several of them are in structurally complex areas.

Many of the blocks are highly prospective for natural gas as well as oil, but operators will face a challenge marketing large quantities of gas in Venezuela's well-supplied gas market.

The offering also represents a watershed in Venezuelan politics in that foreign companies have not been able to obtain exploration acreage in Venezuela for many years. •

## NEVADA

Tide Petroleum of Nevada, Reno, staked the state's first wildcat to subthrust Paleozoic.

Permitted to 10,000 ft, it is the 2 Baseline Canyon Unit-Federal, in 21-1n-59e, Lincoln County. The spot is in Coal valley 25 miles south of Grant Canyon oil field.

## N. DAKOTA

Armstrong Operating Inc., Dickinson, completed a Mississippian Lodgepole discovery in Stark County.

The 29-1 Haller, in 29-139n-96w, 3 miles south-southwest of Dickinson, flowed 157 b/d of oil, 78 Mcfd of gas, and 35 b/d of water from 9,622-34 ft.

The discovery opens Versippi field.

Baker Hughes Inc. reported 20 rotary rigs making hole in North Dakota in the week ended Sept. 1, compared with five in the same week in 1994.

## OKLAHOMA

OXY USA Inc. staked an Ardmore basin wildcat in Johnston County.

The 1A Airport, in 21-4s-6e, 2 miles south of Tishomingo, is projected to 9,500 ft. The spot is 5 miles northeast of an abandoned one well oil field, PI reported.

PetroCorp Inc., Houston, is connecting two gas wells in the Misener Trend of Alfalfa County.

PetroCorp expects sales to start this month at 1.5 MMcfd of gas from the 19C-4 Janet. Sales started Aug. 25 from the 10C-1 Sherri, averaging 200 Mcfd.

## TEXAS

### South

Tesoro Petroleum Corp., San Antonio, might shoot a 3D seismic survey next year over a potentially significant discovery in Webb County.

The 1 Longoria, 40 miles east of Laredo on Tesoro's 2,200 acre South Guerra prospect, flowed 3.5 MMcfd of gas through a ⁸⁄₆₄ in. choke with 4,090 psi wellhead pressure. The well encountered 80 ft of gross pay sand in the tested interval and three other pay sands untested behind pipe.

The discovery well is 4 miles southwest of and analogous to Guerra field, which has produced 125 bcf of gas.

Tests of the 1 Longoria continued to determine permeability and the need to fracture the pay sands. The company hopes to complete a directional delineation well by yearend to optimize contact with at least four identified prospective pay sands.

Mustang Oil & Gas Corp., a unit of Gulf Resources Corp., San Antonio, and Tesoro Petroleum Corp. opened new pays in Lopeno field in Zapata County.

The 1 Palmyra, enhanced by 3D seismic data, flowed as much as 10.7 MMcfd of gas on a ⁸⁄₆₄ in. choke with 5,443 psig wellhead pressure from multiple zones in Eocene Upper Wilcox at about 11,000 ft. CAOF is 48,849 MMcfd.

The well cut 86 ft of gross pay sand in four producing intervals within the L-15, L-18, L-21, and L-22 sands.

Lopeno field, discovered in 1952, has produced about 120 bcf from L-5 through L-27 sands. Mustang used deviated drilling technology and multiple zone completion techniques that proved successful at Bob West gas field 6 miles southeast.

### Gulf Coast

Nuevo Energy Co. completed a Brookeland field well that is the third well on its 58,000 acre joint venture with Texaco Exploration and Production Inc.

The 1H Springer, in Jasper County, flowed 15.4 MMcfd of gas with 2,880 b/d of condensate through a ⁴⁄₆₄ in. choke with 3,375 psi FTP.

The Cretaceous Austin chalk well produces through dual laterals a combined 9,082 ft long. True vertical depth is 11,850 ft.

Patterson Energy Inc., Snyder, Tex., has boosted its holdings in the Iola area of the Cretaceous Austin chalk trend in Grimes County to 3,700 net acres.

The new holdings are near Patterson's Norwood and Davis wells, which were dual lateral completions.

## UTAH

Amerac Energy Corp., Houston, formerly Wolverine Exploration Co., staked a wildcat in Summit County between Pineview and Bridger Lake fields.

Projected TD is 17,000 ft at the 1 Table Top Unit, in 16-1n-10e, 18 miles east of Pineview oil field.

Barrett Resources Corp., Denver, is preparing to complete its 3 Cave Gulch well that has established the deepest production in Cave Gulch Unit in the Wind River basin.

The well was hooked to sales in mid-August at 5 MMcfd of gas and 40 b/d of oil from perforations at 8,537-8,830 ft in a previously untested section of the Upper Cretaceous Lower Lance. TD is 9,050 ft.

Barrett plans to perforate additional zones in Lance.

The company recently staked the 10 Cave Gulch Unit, in 32-37n-86w, Natrona County, as a 9,200 ft Lance test in Waltman field.

### API MONTHLY U.S. WELL COMPLETIONS*

| | Oil wells | Footage | Gas wells | Footage | Dry holes | Footage | Total wells† | Footage |
|---|---|---|---|---|---|---|---|---|
| June 1995 | 577 | 2,917,495 | 773 | 5,088,457 | 301 | 2,254,434 | 1,683 | 10,260,386 |
| May 1995 | 606 | 2,819,906 | 779 | 4,814,814 | 393 | [illegible] | 1,778 | 9,809,290 |
| June 1994 | 518 | 2,813,313 | 767 | 4,290,322 | 317 | 2,864,669 | 1,809 | 10,260,784 |

*Total wells reported to API during June 1995 and stratigraphic and core tests. †Includes oil, gas, and dry holes plus service wells.

# Pdvsa poised to sign first E&P profit sharing

Venezuela's state petroleum company Petroleos de Venezuela SA (Pdvsa) this month will sign its first exploration and production profit sharing contracts.

The effort represents Venezuela's most extensive offering of this type for private investment since nationalization 20 years ago. It also is the first offering of exploration acreage in Venezuela since 1958.

The program is expected to generate as much as $12 billion in added investment in Venezuela's upstream sector the next 10-15 years.

## Pdvsa goals

The E&P profit sharing program falls in line with Pdvsa's goal of boosting oil productive capacity to more than 5 million b/d by 2005 from the current level of slightly more than 3 million b/d, in expectation of growing world oil demand.

Pdvsa's 10 year business plan calls for total outlay of $60 billion to hike productive capacity to 5.691 million b/d. That breaks out as $33 billion for Pdvsa solo projects, another $11 billion for joint ventures, and $16 billion from private oil companies for marginal fields reactivation projects, E&P profit sharing deals, Orinoco heavy oil projects, and other oil and gas ventures.

Meantime, Pdvsa has earmarked about $6 billion in capital spending this year, with most of the focus on E&P to underpin production and reserves growth.

The company also is moving to consolidate its growing global role as a refiner and marketer of heavy crudes and related products.

## E&P program

The long awaited E&P profit sharing program is a departure from Venezuela's other recent efforts to attract private—especially foreign—investment to its upstream sector.

Pdvsa has signed some major "strategic alliance" agreements involving major oil companies for participation in heavy oil development/upgrading ventures (see table, OGJ, Aug. 14, 1995, p. 37).

In addition, Pdvsa is making progress in a 3 year old program targeting private investment to reactivate marginal oil fields in Venezuela (OGJ, June 12, 1995, p. 33).

Further, Pdvsa has all the elements in place except for a market for its liquefied natural gas export scheme, which includes offshore natural gas field development in cooperation with foreign oil companies (OGJ, Sept. 4, 1995, Newsletter).

**VENEZUELAN E&P PROFIT SHARING BIDDERS**

| | |
|---|---|
| Agip | Lasmo |
| Amoco | Maersk |
| Ampolex | Marathon |
| Anadarko | Marubeni |
| ARCO | Maxus |
| Astra Capsa | Mitsubishi |
| Benton Oil & Gas | Mitsui & Co |
| BHP | [illegible] Oil |
| Bca Energy | Mobil |
| British Petroleum | MOL |
| British Gas | Morgan Bros |
| Brown & Root | Murphy Oil |
| Canadian Occidental | Nippon Oil |
| Cia Gen de Combustibles | Nomeco |
| Chevron | Norcen |
| Clyde plc | Norsk Hydro |
| Coastal Corp | Numac |
| Conoco | OPIC |
| Elf Aquitaine | Occidental |
| ENAP | Pedco |
| Enron | Pennzoil |
| Enserch | Perez Companc |
| Enterprise plc | Petrobras |
| Exxon | Petrolera |
| Fluor | Petronas |
| Gulf Canada | Phillips |
| Home Oil | Pluspetrol |
| Husky | Ranger |
| Hyundai | Repsol |
| Idemitsu | Royal Dutch/Shell |
| Inelectra | Seagull |
| Japex | Statoil |
| JNOC | Talisman |
| Louisiana Land & Exploration | Tecpetrol |
| | Teikoku |
| | Texaco |
| | Total |

The profit sharing scheme under Pdvsa's "apertura" (opening) oil program is the first time since nationalization in 1976 that private companies will be allowed to conduct E&P programs in Venezuela as equity owners.

The profit sharing deals call for exploration of 10 undeveloped blocks earmarked for joint ventures financed totally by private companies. Minimum investment is expected to be $40-60 million/block.

The 10 blocks are spread over an area estimated at 4.5 million acres (see map, OGJ, Sept. 18, 1995, p. 65). Potential reserves are estimated at 7 billion bbl of high quality medium and light gravity crudes.

If commercial volumes of oil and/or gas are discovered, the private companies will form joint ventures with one of Pdvsa's subsidiaries, sharing the venture's profits and being reimbursed for exploration costs.

## Companies, timetable

More than 300 companies have expressed an interest in the E&P profit sharing program, and about 70 have qualified to bid (see table).

Here is the schedule for opening sealed bids under the profit sharing program:

- Jan. 22, Catatumbo Block A, Zulia and Merida states; La Ceiba Block B, Trujillo, Merida, and Zulia states.
- Jan. 23, Guanare Block C, Portuguesa state; San Carlos Block D, Cojedes and Portuguesa states.
- Jan. 24, El Sombrero Block E, Guarico state; Guarapiche Block F, Monagas and Sucre states.
- Jan. 25, West Gulf of Paria Block G and East Gulf of Paria Block H, both Sucre state.
- Jan. 26, Punta Pescador Block I and Delta Centro Block J, both Delta Amacuro state.

## Pdvsa 1996 spending

Pdvsa's 1996 budget focuses heavily on its efforts to boost Venezuela's crude oil reserves to about 66 billion bbl, which it reckons would be an increase of about 1.6 billion bbl.

Oil & Gas Journal estimated Venezuela's proved crude reserves as of Jan. 1, 1996, at 64.5 billion bbl (OGJ, Dec. 25, 1995, p. 44).

Pdvsa said its 1996 E&P program includes more funds for exploratory drilling in new areas such as the South Andean flank and North and Central Monagas state.

Increased spending also will go for development and appraisal drilling, secondary recovery, and steam injection projects.

In addition, Pdvsa expects to increase Venezuela's gas reserves by about 585 million bbl of oil equivalent (BOE) to about 25 billion BOE.

Pdvsa reported production of Orimulsion, its boiler fuel that is an emulsion of extra heavy crude, water, and a surfactant, will total about 4.8 million metric tons in 1996, up 104,000 tons from 1995. It also reported production and marketing of coal from its Carbones del Guasare joint venture will be about flat in 1996 with 1995's level of 4.5 million tons.

## Downstream plans

Pdvsa is pressing a program of upgrading and modernizing its refineries while eyeing possible further investments in refining abroad. All told, the goal is to add 600,000 b/d to worldwide refining capacity.

Plans call for increasing refining capacity in Venezuela by about 200,000 b/d by 2000 at a cost of about $5.2 billion.

Current refining capacity in Venezuela is about 1.167 million b/d. Crude throughput is pegged at 983,000 b/d for 1996.

Much of the refining investment emphasis is on processing larger volumes of heavy and extra heavy crudes.

Plans call for Pdvsa subsidiary Maraven SA to complete a $2 billion upgrade of its 286,000 b/d Cardon refinery this year.

Pdvsa also plans to expand the 195,000 b/d Puerto La Cruz and 115,000 b/d El Palito refineries operated by its Corpoven SA unit.

### Amuay project

In addition, Pdvsa subsidiary Lagoven SA will increase capacity of the hydrodesulfurization unit at its 571,000 b/d Amuay refinery. Plans call for expanding unit capacity to 250,000 b/d of high sulfur, heavy crudes from 190,000 b/d.

The project will allow the refinery to process feedstock from other refineries [illegible] feed distillates and gas oils, said Lagoven Refining Manager Heraldo Sifontes.

"That gas oil will be supplied to other refineries in the Pdvsa circuit to be used at catalytic cracking units for the production of gasoline," Sifontes said.

Amuay's expanded deep conversion capacity of 98,000 b/d breaks out as 64,000 b/d of flexicoking and 34,000 b/d of delayed coking.

During first half 1995, Amuay processed about 102,000 b/d of heavy crudes, the highest in 45 years of operation. That volume of throughput is expected to rise to about 170,000 b/d as expansion work progresses, Sifontes said.

"Refining hard to market heavy crudes means greater operational and commercial flexibility for Lagoven," Sifontes said.

Pdvsa estimates about 73% of Venezuela's oil reserves are heavy and extra heavy crudes and 27% medium and light crudes and condensate.

### Foreign refining

Pdvsa currently is negotiating the purchase of several refineries in the U.S. and possibly building another in Brazil, said Ronald Pantin, the company's strategic planning coordinator.

He did not disclose which plants are under consideration for purchase but said negotiations are based on an "association scheme" aimed at boosting Pdvsa's refining capacity by [illegible] b/d. Pdvsa has about [illegible] b/d of refining capacity in wholly or partly owned refineries at Lake Charles, La., Corpus Christi, Tex., Paulsboro, N.J., Savannah, Ga., Lemont, Ill., and Houston.

In addition, Pdvsa has 310,000 b/d of refining capacity at the Isla refinery in Curacao and a combined 260,000 b/d of capacity at refineries in Germany, Sweden, Belgium, and the U.K.

### Heavy oil upgrading

As an adjunct to the refining expansion, Pdvsa continues to press projects with ARCO, Conoco, Mobil, and Total intended to produce a combined total of about 500,000 b/d of extra heavy crude and convert it into a more marketable synthetic crude.

Following an agreement last month setting up a $2 billion heavy oil joint development/marketing venture between Chevron Corp. and Pdvsa unit Maraven SA (OGJ, Dec. 25, 1995, p. 29), Mobil is expected to complete negotiations on a similar project involving Orinoco extra heavy crudes with Lagoven.

"The prospects for that project look very positive," said Lagoven Pres. Julius Trinkunas.

He noted the prefeasibility study for the project is complete, and the contract should get a final green light for signing in the first quarter.

Under their strategic association, Mobil and Lagoven would set up a joint venture to produce about 100,000 b/d of extra heavy crude from the Orinoco belt's Cerro Negro region. The Cerro Negro crude will be upgraded at [illegible] as syncrude.

The deal is expected not only to open markets to Lagoven in the U.S. but also lead to other joint ventures involving the two companies in the U.S.

Last November, Maraven signed a 35 year, $1.5 billion strategic association contract with Conoco Inc. to produce, transport, and upgrade 120,000 b/d of Orinoco extra heavy crude (OGJ, Nov. 13, 1995, Newsletter).

Earlier, Maraven signed a contract with Total covering a $2.85 billion project to produce and upgrade 160,000 b/d of Orinoco crude.

A $3.5 billion strategic association between Corpoven and ARCO to produce 165,000 b/d of Orinoco crude, upgrade that to 210,000 b/d of syncrude, and export the syncrude still is pending approval (OGJ, Oct. 3, 1994, Newsletter).

# Protests linger over Shell Nigerian connection

Royal Dutch/Shell has come under more fire for its role in Nigerian operations.

In the latest development, London's Shell Centre buildings, U.K. headquarters for many of the company's international operations, was the starting point for a Jan. 4 protest against the company and Nigeria's military regime.

The Ogoni Community Association organized a march from Shell Centre to the Nigerian High Commission and on to St. James's Church, Piccadilly, for a memorial service for Ken Saro-Wiwa and eight other activists executed by the Nigerian government late last year (OGJ, Nov. 20, 1995, p. 37).

Also in London, members of Britain's Royal Geographical Society voted to expell Shell as one of their sponsors because of its Nigerian operations.

Meantime, Nigerian Minister of State for Petroleum Resources Kabir Chafe said threats by Britain and the U.S. to boycott Nigeria's oil won't harm his country's economy if they develop.

Chafe told Kaduna newsmen Nigeria would simply turn to other companies waiting to do business with his country if the U.K. and U.S. make good their threats.

### Target: Shell

Although Shell was once again the target of protests because of its supposed close links with government to facilitate its oil operations in Nigeria, the anti-Shell feeling was more muted than in recent months.

A Shell International spokesman said only about 30 protesters gathered outside Shell Centre, and there did not appear to be any reference to Shell in posters and banners they displayed.

The official said Shell had been asked to protest to Nigeria's government over 19 more Ogoni tribe protesters, currently held on the same charges, murder, as Saro-Wiwa and colleagues and due for trial at an undisclosed date.

In Kaduna, Chafe pointed out that Iran and Libya are under U.S. oil embargos but are still exporting their oil to other buyers.

He said Ni[illegible]ria is bolstering its economic relat[illegible]s with China, Russia, and easter[illegible] European countries to forestall an[illegible] embarrassment sanctions from the [illegible]est might cause.

## Pdvsa unit lands biggest Asian supply contract for Orimulsion

Venezuela's Bitumenes Orinoco (Bitor) soon will sign a deal to sell 3.4 million tons/year of Orimulsion to Taiwan, matching its biggest sale to date.

Orimulsion is an emulsion of extra heavy crude oil, water, and a surfactant that is designed to back out coal as a low cost, environmentally preferred boiler fuel.

Bitor is a subsidiary of state owned Petroleos de Venezuela SA (Pdvsa).

### Far East market push

Bitor Pres. Jorge Zemella said his company received "with great satisfaction" a report from Taiwan on the outcome of a tender by Taiwan's state owned power company to select new projects assigned to independent power producers (IPPs).

Zemella said Bitor affiliate MC Bitor Ltd. will "significantly penetrate" the Asian market with the Orimulsion sale to Taiwan.

Orimulsion will be the sole fuel of a power plant to be built by a group led by Intergen at Lizhe in the Suao region on Taiwan's east coast. Sales will begin in 2000.

The project is one of many proposed under a Taiwanese government initiative to solicit IPPs from the private sector to build power plants to meet Taiwan's soaring electric power demand.

Taiwan's Ministry of Economic Affairs recently chose from the first round of proposals seven groups to build a total of 7.11 million kw. Combined power capacity of 23 projects proposed under the first round totaled 30.3 million kw.

Oil products and natural gas will feed some of the other winning projects.

### Lizhe project

Among the companies selected in the first round is a combine led by International Generating Co. (Intergen), a joint venture of Bechtel Group and Pacific Gas & Electric affiliates. Other members of the group are Taiwan Synthetic Rubber Corp., APED, and China Steel.

The combine's Lizhe plant will have an installed generating capacity of 1.5 million kw involving two units of 750,000 kw each.

One of the units will begin operations about mid-2000 and the second by the end of that year.

MC Bitor and Mitsubishi Corp. will supply those units about 3.4 million tons/year of Orimulsion for 25 years exported from the Jose terminal in Anzoategui state, eastern Venezuela.

It will be the largest supply contract of Orimulsion in the Asia-Pacific region. MC Bitor and Intergen are expected to sign the agreement soon.

Zemella said, "The approval constitutes the most significant step forward in the Asia-Pacific region by Bitumenes Orinoco, through MC Bitor, in penetrating the electricity segment of the energy market in the Far East."

The market has been dominated by energy sources such as gas, coal, and conventional liquid hydrocarbon fuels.

The next step in marketing Orimulsion in the region is to prepare an environmental impact study to obtain permits from Taiwanese local and regional authorities.

# Venezuela's E&D round mostly successful

Venezuela's first profit sharing exploration and development licensing round has yielded generally positive results.

Although two of the 10 blocks up for bid received no bids, some of the remaining blocks received hefty ones. State owned Petroleos de Venezuela (Pdvsa) netted about $215 million in tiebreaker bonuses in the round, in addition to about $15 million from the sale of data packages to prospective bidders.

The 10 blocks, covering 4.5 million acres, are believed to contain potential oil reserves of at least 7 billion bbl of medium and light grade crude in addition to substantial potential volumes of natural gas (see map, OGJ, Sept. 18, 1995, p. 85). Preliminary estimates of potential oil reserves for the combined blocks ran as high as 23 billion bbl of light and medium gravity crude.

The tender marks the return of foreign companies to full equity participation in oil and gas E&D, a sector that Venezuela nationalized 20 years ago. It is expected to generate as much as $12 billion in added investment in Venezuela's upstream sector the next 10-15 years (OGJ, Jan. 15, p. 24).

The tender was marred by litigation stemming from concerns over clauses in proposed profit sharing contracts.

The push to expand foreign investment in Venezuela's upstream oil sector underlies the government's goal of doubling oil revenues in 7 years from the current $6 billion/year.

To meet that goal, Caracas is counting on investment by Pdvsa and private companies, especially foreign firms, to help jump productive capacity to 5.7 million b/d from today's 3.15 million b/d.

Venezuela currently claims to produce about 2.4 million b/d, close to its Organization of Petroleum Exporting Countries' quota of 2.359 million b/d. However, other sources have placed Venezuela's output considerably higher than that, exceeding quota by more than 300,000 b/d.

### How the bidding went

Pdvsa voiced satisfaction with results of the E&P profit sharing license round. More than 75 companies prequalified for the bidding.

"We are very pleased with the results," said Pdvsa Pres. Luis Giusti. "The most important thing is that the massive attendance of large, medium, and small companies has ratified investor confidence in the country's petroleum industry."

Beyond concerns over tax and currency issues, international oil and gas executives praised Pdvsa for a smoothly run tender.

"In some cases, we declined to submit bids simply because the risks in those areas were far too high or because we just did not have sufficient geological data to make a final decision," said one executive whose company failed to obtain a contract. "This by no means points to a lack of interest in Venezuela, which remains an attractive oil country."

Pdvsa estimates $1 billion will be spent in the first 3 year exploration period for the profit sharing blocks and another $10 billion the following 7 years. The contracts call for outlays of at least $40-60 million/block.

In the event of a commercial discovery, license terms call for a Pdvsa affiliate to have an option to purchase a working interest by paying a pro rata share of costs incurred to date.

Pdvsa is expected to hand over the signed contracts early this month to the Energy & Mines Ministry, which in turn will send the documents to the cabinet of ministers, then to Venezuela's congress for final approval.

Exploration generally is expected to get under way in first quarter 1997.

## Amoco blocks

Attracting the most interest in the bidding was the Guarapiche block in eastern Venezuela, which is believed to hold as much as 1 billion bbl of medium and light gravity crude.

A combine of Amoco Corp., British Petroleum Co. plc, and YPF SA unit Maxus Energy Corp. won the block based on a 50% pretax profit sharing bonus (PEG) plus a tiebreaker bonus of almost $109 million.

Amoco bid solo to win the Punta Pescador block in eastern Venezuela, just east of the Guarapiche block in which the company is a partner. Amoco offered a 50% PEG and a tiebreaker bonus of $10.7 million.

That topped a bid of 50% PEG and tiebreaker bonus of $5.6 million by a combine of France's Total and Norway's Den norske stats oljeselskap AS.

Amoco plans to spend at least $40 million to explore its Punta Pescador block. The block lies just south of gas fields Amoco is developing off Trinidad.

Ronald Pantin, Pdvsa strategic planning coordinator, expressed surprise that Amoco and the Total/Statoil combine each offered a 50% PEG. He noted industry sees only one major oil play in the area but added that a major natural gas strike is highly prospective there.

In addition, the swampy region poses logistical challenges.

## La Ceiba block

A close second to the Guarapiche bid was the winning offer for the La Ceiba block along the southeast edge of Lake Maracaibo, thought to hold 790 million bbl of oil reserves.

Here, a Mobil Corp. led group that includes Germany's Veba Oil AG and Japan's Nippon Oil Exploration U.S.A. Ltd. made a winning bid of 50% PEG and tiebreaker bonus of almost $104 million.

Mobil and partners snared the 1,793 sq km La Ceiba block on the southeast shore of Lake Maracaibo on the first day of bidding, Jan. 22 (OGJ, Jan. 29, Newsletter). Interests in the block are Mobil 50%, Veba 30%, and Nippon 20%. Their winning tiebreaker bonus bid topped bids by nine other groups that matched the 50% PEG bonus.

Closest to the winning bid was Exxon/Shell, which offered a 50% PEG bonus plus a $57.5 million tiebreaker bonus. Others bidding for La Ceiba were Amoco, Texaco Inc./Mitsubishi Corp./Maxus, Elf Aquitaine/Conoco Inc., Agip SpA/Norsk Hydro, Total/Statoil/Petronas Carigali, Marathon Oil Co./Lasmo plc, Petroleos Brasileiro SA/Benton Overseas Petroleum & Investment Co., Unocal Corp./Japan Petroleum Exploration Co. Ltd., and Repsol SA/Enterprise plc.

Work commitment for the La Ceiba block in the first 5 year phase of exploration is about $50 million. The minimum work commitment calls for drilling of three wildcats. Plans call for seismic surveys to get under way this year.

Ronald Wilson, president of Mobil Latin America business development ventures, noting Mobil is familiar with the La Ceiba area, said, "We expect to find large accumulations."

Mobil first operated in Venezuela in 1934 and, with the country's new efforts to attract foreign investment, seeks to expand its presence.

Mobil is currently negotiating a $1.8 billion strategic association with Pdvsa subsidiary Lagoven SA to produce and upgrade 100,000 b/d of extra heavy crude from the Orinoco oil belt. In addition, Mobil recently returned to lubricant manufacturing and marketing in Venezuela last year, when it purchased 50% of local company CA Nacional de Grasas & Lubricantes, the country's biggest lube plant.

Veba also has a long association with Pdvsa, dating to 1978 when it entered into a government backed accord between Germany and Venezuela for technical cooperation in the energy sector. In 1983, Veba and Pdvsa formed a joint venture, Ruhr Oel, to operate Germany's biggest refining system with throughput capacity of 440,000 b/d.

## Conoco blocks

Conoco bid alone in winning the West Gulf of Paria block in shallow water off Venezuela's northeastern coast in the Caribbean Sea.

Competing against Conoco were the Canadian-South Korean group of Canadian Occidental Petroleum Ltd., Numac Energy Inc., Yukong Ltd., and Korea Petroleum Development Corp.; Agip/Norsk Hydro; and the Canadian-Argentine combine Talisman Energy Inc./Astra Capsa.

Conoco offered a 50% PEG plus a tiebreaker bonus of $21.2 million compared with the runnerup Canadian-South Korean group's bid of $20.2 million.

Terms call for a 4 year, $30 million commitment to drill two wells and acquire seismic data in the western

### Results of Venezuela's E&P profit sharing round

| Block* | Area (sq km) | Estimated potential oil reserves (Million bbl) | Estimated potential production (1,000 b/d) | Winning bidder(s) (%) | Profit sharing bonus bid (%) | Tiebreaker bonus bid (Million $) | First year projected exploration investment (Million $) | Five year projected investment (Million $) |
|---|---|---|---|---|---|---|---|---|
| Guanare | 1,890 | 825 | 180 | Elf 50, Conoco 50 | 50 | — | 56 | 541 |
| San Carlos | 1,171 | 405 | 95 | Perez Companc | 40 | — | 28 | 698 |
| Guarapiche | 1,990 | 990 | 200 | BP 37.5, Amoco 37.5, Maxus 25 | 50 | 109 | 162 | 1,583 |
| West Gulf of Paria | 1,134 | 600 | 135 | Conoco 100 | 50 | 21.2 | 144 | 1,146 |
| East Gulf of Paria | 1,080 | 630 | 130 | Enron 90, Inelectra 10 | 29 | — | 121 | 1,201 |
| Delta Centro | 2,138 | 820 | 160 | LL & E 37.5, Norcen 37.5, Benton 25 | 41 | — | 107 | 1,393 |
| Punta Pescador | 2,046 | 700 | 134 | Amoco 100 | 50 | 10.7 | 99 | 695 |
| La Ceiba | 1,742 | 791 | 160 | Mobil 37.5, Veba 37.5, Nippon 25 | 50 | 104 | 129 | 1,492 |

*Catatumbo and El Sombrero blocks did not receive bids.

Gulf of Paria between Venezuela and Trinidad. Exploration is to get under way right after the contract is signed.

Conoco combined with Elf Aquitaine 50-50 to take the Guanare block in Portuguesa state in western Venezuela. The block is in the foothills of the Merida Andes.

The work commitment calls for a 5 year, $30 million outlay to drill four wells and acquire seismic data. Work is to get under way immediately after the contract is signed.

Conoco also has a strong presence in Venezuela.

It formed a joint venture, Petrozuata, with Pdvsa unit Maraven SA to produce 1.5 billion bbl of Orinoco extra heavy crude and convert it to synthetic crude, most of which will be processed in Conoco's U.S. refineries. Construction on the $1.4 billion project is to get under way early in 1997.

Conoco also is a partner with Bitumenes Orinoco SA to convert Orinoco bitumen to Orimulsion. Pdvsa's proprietary heavy oil/water/surfactant emulsion is used as a boiler fuel.

### LL&E group block

A group made up of Louisiana Land & Exploration Co. (LL&E), New Orleans, Norcen Energy Resources Ltd., Calgary, and Benton Oil & Gas Co., Carpinteria, Calif., won the Delta Centro block in eastern Venezuela.

Operator LL&E will hold a 35% interest in the block. Norcen will take 35% and Benton 30%.

The Delta Centro block lies in a mostly marshy region of the Orinoco River delta in Northeast Venezuela's Delta Amacuro state.

The group's work commitment calls for acquiring and processing 1,300 line km of seismic data and drilling three wells in 5 years with an option to extend the exploration period 4 years.

Work is to get under away after the contract with Pdvsa is signed.

LL&E Chairman H. Leighton Steward noted the Delta Centro block's marshy terrain is similar to marshlands in Louisiana where LL&E has long operated.

### Other bidding

Perez Companc SA took the San Carlos block in Cojedes and Portuguesa states of Southwest Venezuela.

The Argentina company topped a bid by Elf by offering a 40% PEG. Perez Companc currently is involved in reviving oil production in Venezuela under the country's marginal fields participation program.

A combine of Enron Corp. and

## Watching the World

*With David Knott from London*

# The unequal split of British Gas

Facing competition in U.K. gas markets, restrictions by government regulations, and massive gas contract debts, British Gas plc will split into two companies.

The former U.K. gas supply monopoly, privatized in stages beginning in 1986, will split into a large company, to be known as Transco International plc, and a smaller unit, British Gas Energy plc.

Chairman Richard Giordano said, "This demerger is about the creation of two separate companies that will manage our business more effectively to the advantage of our customers, shareholders, and employees."

But some pundits say the move is designed to protect the company's profitable businesses from losses in long term take or pay gas purchase contracts.

Ahead of gas market deregulation, U.K. operators developed gas fields to support their plans to supply gas directly to end users. Trading in gas began among companies. And with the glut of new gas the spot price fell.

### Assets shareout

Because of the low spot price, British Gas is said to face losses of £1.5 billion ($2.25 billion) on long standing contracts worth a combined £40 billion ($60 billion).

The new Transco unit will get the biggest asset, British Gas' transportation and storage business, along with most of the exploration and production assets and the potentially lucrative power generation business and international operations.

British Gas Energy will be a comparative runt, given only the parent's supply and trading business. This is where it faces intense competition from new suppliers and big losses on gas purchase contracts.

British Gas Energy also will get U.K. Morecambe Bay producing gas fields, which a spokesman said would allow it to compete with independents in liberalized markets.

Two fields with original reserves amounting to 6.6 tcf of gas, one of which has been on stream since 1985 and one since 1994, does not seem a great deal with which to take on fierce competition—particularly when British Gas estimated its reserves in 1994 at almost 2 billion bbl of oil equivalent.

### Public outcry

British Gas said the smaller company will receive no exploration assets or expertise in the transfer. So it will face an immediate problem in replacing reserves to remain competitive.

Transco is to be like a utility with steady returns, while British Gas Energy will be more like a consumer company with ups and downs in income. And everybody knows how quickly a consumer business can die.

The breakup has been overshadowed in the British press by the news that Cedric Brown, British Gas chief executive, is to retire Apr. 30.

Following a furor over Brown's 75% pay hike in December 1994, Britons are now incensed by reports that he will get a £4 million ($6 million) retirement package and will be retained as a consultant for the demerger.

Government's original idea in privatizing British Gas was supposed to be to make a cumbersome giant efficient and profitable. This latest mess is a warning against following political dogma to the detriment of practical considerations of gas supply.

Inelectra won the East Gulf of Paria block.

Catatumbo block, southwest of Lake Maracaibo, and El Sombrero block, in Central Venezuela, failed to attract bids.

Noteworthy for their absence from the list of winning bidders was a combine of Exxon Corp. and Royal Dutch/Shell Group that was expected to dominate bidding. However, the combine bid conservatively for the La Ceiba and Punta Pescador blocks and came away empty handed.

Some prospective bidders were daunted by the stiff terms Venezuela imposed on the profit sharing deals. They call for income taxes totaling 67.7% and royalties of 16.7% in addition to the PEG and tiebreaking bonuses.

## A second try

Pdvsa on Jan. 29 tried again and failed to attract bidders for the Catatumbo and El Sombrero blocks.

Representatives from several private companies said high risks, low prospects for crude oil discoveries, and lack of geological data discouraged interest in those areas.

Juan Szabo, president of Venezuelan Petroleum Corp. (CVP), said, "The lack of interest in some areas is relatively normal because each company chooses those blocks that fit their figures and their particular strategies."

CVP, a once defunct Pdvsa subsidiary, was revived specifically for the bidding process and given the portfolio of blocks to be tendered.

Winning bidders will sign the profit sharing contracts and set up joint ventures (JVs) with CVP. The Pdvsa unit will own as much as 35% of the JV stock, with the remainder held by foreign partners.

Pdvsa is considering putting together another tender for new blocks as part of its apertura, or "oil opening" policy, which includes profit sharing contracts, operating agreements, strategic associations, and alliances. A new round of bidding could occur as early as the end of this year or early next year.

## Legal concerns

The tender was held against a backdrop of optimism in government and oil industry circles and concern among many oil executives regarding aspects of the proposed joint venture tax issues and Venezuela's onerous currency control regulations.

Venezuela currently is negotiating an economic restructuring accord with the International Monetary Fund, under which it had agreed to lift currency exchange controls in first quarter 1996.

In addition, a group of intellectuals including Central University of Venezuela Rector Simon Munoz and chamber of deputies (lower house) energy and mines committee Chairman Ali Rodriguez filed two lawsuits in Venezuela's supreme court over the proposed profit sharing contracts. They claimed the proposed clauses allowing international litigation to settle differences and barring municipal authorities from exercising autonomy on tax matters violate the constitution.

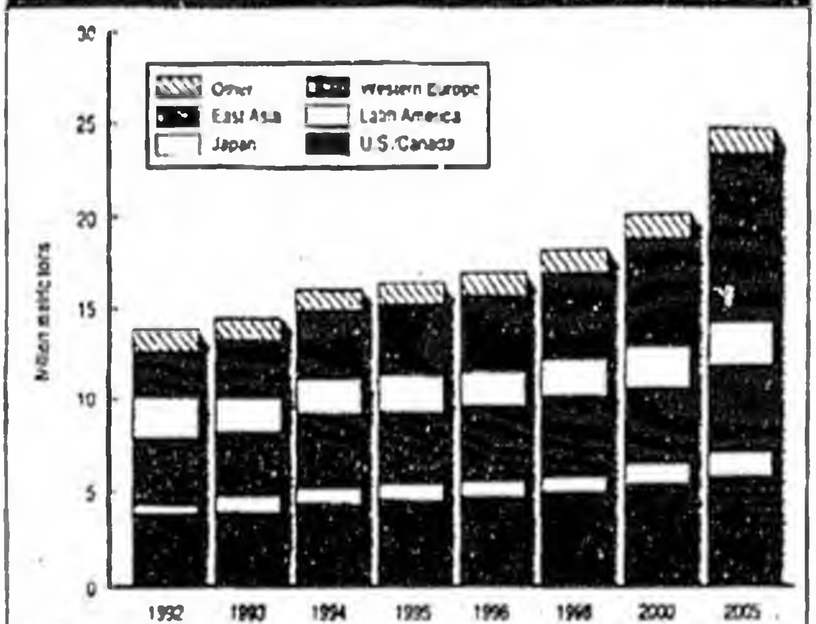
Giusti said there are no legal grounds for the lawsuits because under the constitution, municipal authorities have no autonomy to set taxes for the oil industry.

Regarding currency controls, Giusti said regulations currently allow companies to hold offshore dollar accounts and make profit remittances in foreign currency.

However, private oil companies contend issues such as municipal and other taxes and currency controls should be clarified in the contracts.

Government sources said a decree is being written to allow foreign companies operating in Venezuela to choose dollar accounting as the nation's stiff currency control system is put aside. ∎

HOW WORLD STYRENE DEMAND WILL RISE




*Other includes Eastern Europe, Oceania, Africa, and Middle East.
Source: Chem Systems Inc.

# Strong styrene growth foreseen

Eastern Asia will lead hefty growth in world styrene demand through 2005.

Driving the region's 9.3%/year increase in styrene consumption are economic growth, improved standards of living, and increasing exports of finished products.

Those are the findings of a study by Chem Systems Inc., Tarrytown, N.Y.

The firm predicts world styrene consumption will increase at an average 4.1%/year through 2005, fueled by increased demand for polystyrene and acrylonitrile butadiene styrene (ABS).

Most styrene capacity expansion will take place in eastern Asia. Chem Systems expects additions in that region to total 2.5 million metric tons/year by 1998. This massive capacity increase will reduce world operating rates, shift trade patterns, and squeeze profits in traditional exporting countries.

World styrene consumption increased 9.6% during 1994, making styrene one of the leaders in commodity petrochemicals' recent recovery.

Demand growth was strong for all styrene derivatives, especially polystyrene and ABS, which combined account for 75% of world styrene consumption.

In 1995, says Chem Systems, growth in styrene demand was less than anticipated because of inventory adjustments and an unexpected slide in shipments to China after the country closed its southern border. ∎

European gasoline prices. Furthermore, if the WTO orders Washington t relax restrictions on gasoline from foreign plants, imports from Brazil could soar to 30,000 b/d, as in 1993, instead of the meager 12,000 b/d of components state Petrobras has been selling to the US of late (p8). The loss of 110,000 b/d of gasoline supply in the East Coast — enough to cover more than 3.5% of local demand — could add 1¢ a gallon to prices, according to Houston-based Stone Bond.

**An expected drop in the availability of spot barrels — as Tosco diverts gasoline from its nearby Bayway refinery into its filling stations to replace the lost barrels from Marcus Hook — could also prove a stimulant to New York Harbor prices, by weakening the heavy-selling firm's bearish influence over that market.** Recent changes to the New York gasoline futures contract should further boost liquidity and price transparency.

•

## Successful Tender Sets Stage For Next Act In Venezuela

**Any remaining skepticism about the level of international company interest in Opec-member Venezuela's oil patch disappeared last week. At a licensing round for 10 exploration blocks, large foreign oil companies — led by British Petroleum, Conoco, and Mobil — bid aggressively in terms of both bonuses and proffered government take for the most prospective acreage, pushing the hemisphere's heavyweight closer to its goal of lifting burgeoning capacity from 3.1-million barrels a day to 5.5-million b/d in 2005. State Petroleos de Venezuela is now mulling over the next stage in the country's reopening, including the possibility of direct negotiations to reactivate smaller fields ahead of another competitive tender.** Firms have conducted geological studies on some of Venezuela's oldest fields in PDV subsidiary Maraven's domain around Lake Maracaibo, with hopes of clinching direct service deals like the one Chevron signed for the Boscan field last month (PIW Dec.11,p8). Pennzoil has its eye on Mene Grande, and Canadian Occidental is targeting Cabimas, both of which now pump only a few thousand barrels a day. But political pressure still favors competitive bidding for most acreage awards, and PDV is already pondering which areas to offer in a third marginal-fields round at year's end.

**Underscoring the majors' enthusiasm, despite complaints over fiscal terms and lingering uncertainties in the profit-sharing contract, the bidding opened with an impressive nine-way tie out of 11 participants for the prized La Ceiba block east of Lake Maracaibo. It was finally awarded to Mobil and partners Germany's Veba and Japan's Nippon Oil in a high-stakes runoff in which they posted a hefty $104-million cash bonus. The runners-up were Exxon with Royal Dutch/Shell and Texaco with Mitsubishi and Argentine YPF. BP, Amoco, and YPF paid a $109-million bonus in order to break a four-way tie f the coveted Guarapiche block in the swampy Delta region.** Other blocks turned fewer heads, and the gas-prone El Sombrero generated no bids at all. El Sombrero, which lies southwest of Caracas, is to be re-offered this week. As at La Ceiba, which holds an estimated 800-million barrels or more of reserves, the companies offered the government the maximum 50% share in pre-tax profits at offshore Gulf of Paria West and at onshore Guanare, Guarapiche, and Punta Pescador. Conoco won the first after posting a $21.2-million bonus, and then teamed up with Elf Aquitaine as operator to win Guanare. Amoco got Punta Pescador with a $10.6-million cash bonus. Enron with local consulting giant Inelectra was sole bidder for offshore Gulf of Paria East, offering Caracas a 29% profit share, while Argentine Perez Companc outbid Elf for the San Carlos tract in the central region, offering the state 40% of profits (PIW Jan.15,p8).

**Impending changes in PDV's upper ranks, possibly even uprooting savvy President Luis Giusti, probably won't shift the country's basic reopening campaign or its recession-driven grab for market share, given the gravity of the Caldera administration's domestic economic woes.** Indeed, word that Giusti could take over the Finance Ministry raises the prospect of a further loosening in economic controls, a possibility that would spark even more interest in oil and gas projects. Talks with the International Monetary Fund, however, seem to be faltering, as President Rafael Caldera continues to resist another hike in subsidized domestic gasoline prices. The high level of bonuses obtained in the bid round may feed opposition to an IMF deal. A PDV insider would likely replace Giusti.

# Alaska State Legislature

Official Business

SENATE RESOURCES COMMITTEE

State Capitol
Juneau AK 99801

FAX MEMO

| | | |
|---|---|---|
| TO: | Mr. John Morgan/BP Exploration | (564-~~5514~~ 5900) |
| | Commissioner John Shively, DNR | (269-8918) |
| | Attorney General Bruce Botelho | (465-2075) |
| FROM: | Annette Kreitzer, Aide to Senate Resources Committee AK | |
| DATE: | April 1, 1996 | |
| RE: | Requests for information from March 29 Resources meeting | |

Attached is the list of requests for information from the March 29 meeting of the Senate Resources Committee. Please provide the information to me as soon as possible. Information regarded by the state as confidential should be gathered to be disseminated during a confidential session of the committee. Please advise me, though, when the information is ready for the committee, so that the chairman can schedule a confidential session.

Thank you for your assistance.

# Alaska State Legislature

Senate Resources Committee
Information Requests from Committee Members
re: SB 318: Northstar Lease Agreement
March 29, 1996 Hearing

Official Business

State Capitol
Juneau AK 99801

FIRST REQUEST:

Halford: How much did BP pay Amerada Hess for the leases? (Available to Legislature under confidentiality measure).

SECOND REQUEST:

In response to question from Senator Pearce, Senator Leman requested BP provide details on what BP agreed to in BP's successful January bid on leases in Venezuela that are similar or the same as net profit share leases.

THIRD REQUEST:

Halford:
Want an analysis from Law re: conclusion as to whether development fund carries forward.

Want list of other bidders on these parcels/leases in the sale (where BP acquired Amerada Hess leases).

If there is a lawsuit that stops development because of a change in the bid variable, what happens to the economic benefits (in the BP agreement)?

Want economic module to be run on 135 million barrels and on double that.

Want to know what the projected severance tax rates will be.

FOURTH REQUEST:

Pearce: Federal definition of net profit share. (Patrick Coughlin verbalized at 3/30/96 hearing, but this was not passed out to members for context of where the definition appears. Mr. Coughlin needs to provide the definition and its context to the committee.)

FIFTH REQUEST:

Leman: Wants list of how many and locations of employees from BP, CIRI, VECO and Arctic Slope and their subsidiaries. (after testimony from these companies regarding local hire)

SIXTH REQUEST:

Leman: Wants BP to provide the committee comparable numbers for BP's decisions to proceed with other North Slope developments. Estimated per barrel development costs which BP management considered before committing to develop: 1) Kuparuk, 2) shallow oil deposits at Milne Point (Schrader Bluff), 3) Niakuk, 4) Pt. McIntyre and any other North Slope fields BP has developed.

**BP EXPLORATION**

Alaska Exploration & Developments

BP Exploration (Alaska) Inc.
900 East Benson Boulevard
P.O. Box 196612
Anchorage, Alaska 99519-6612
(907) 561-5111

April 2, 1996

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

Dear Senator Leman:

Per the request by Annette Kreitzer of your staff on April 1, I have enclosed responses to your six requests regarding SB 318 on the Northstar Lease Agreement. If you require additional information, please do not hesitate to call me (907-564-4892) or Daryl Kleppin (907-564-5418) on my staff.

Very truly yours,

E. M. Luttrell
Vice President
BP Exploration, Alaska Inc.

# BP Exploration, Alaska (Inc.)
## Response to Requests by Senate Resources Committee
## SB 318 - Northstar Lease Agreement

1.) How much did BP pay Amerada Hess for the leases?

The terms of the purchase agreement between Amerada Hess and BP for the Northstar leases are confidential. BP did secure permission from Amerada release that information under confidentiality agreements to specific staff within the Department of Natural Resources. We have requested permission from Amerada to provide that information to the Alaska Legislature under a similar confidentiality agreement.

2.) Please provide details on what BP agreed to in BP's successful bid on leases in Venezuela that are similar or the same as net profit share leases.

Both Alaska and Venezuela derive their oil income from a combination of taxes and royalties. In addition, Venezuelan law allows the State Oil Company (PDVSA) to participate in the new E&P ventures up to 35% by paying full proportionate costs including any historical costs which are inflated at the prime interest rate. Reporting in the recent press assumes that PDVSA will do so.

Assuming that PDVSA takes its 35% share, the total government take in Venezuela (taxes, royalty, PDVSA) equals about 92% of profits. A comparable value for Northstar in Alaska is about 62% (State royalty, severance, and income tax; Federal royalty and Income tax).

Venezuela can take a higher proportion of the benefits since the costs of developing, operating and transportation are substantially lower. In Venezuela, BP's cost per barrel (F&D, lifting, transportation) is about $2.00 per barrel. Comparable costs in Alaska are about $7.00 per barrel. In Venezuela, BP looks to make a profit of about $1.20 per barrel from a capital investment (F&D) of about $1.00 per barrel (a 1.2 ratio). In Alaska, we look to make about $3.25 per barrel on a capital investment of about $3.50 per barrel (a .94 ratio).

Economically (and from a view of simple capital efficiency), both of these ventures look attractive to BP, although BP's profit per barrel in Alaska is higher than in Venezuela. We also expect a much greater reserve potential in Venezuela (up to possibly 1 billion barrels).

3.) a) Please provide analysis from Law re: conclusion as to whether development fund carries forward.

To be provided by Alaska Department of Law

b) Please provide a list of other bidders on these parcels/leases in the sale (where BP acquired Amerada leases).

See attachment #1.

c) If there is a law suit that stops development because of a change in the bid variable, what happens to the economic benefits (in the BP agreement)?
To be provided by DNR staff.

d) Please provide economic model runs on 135 million barrels and on double that.
The DNR will provide for an upside development case with reserves of 160 million barrels.

e) What is the projected severance tax rates?
The ELF at field startup (1999) is .7 and goes to .03 in 2005 and zero there after. Therefore, the severance rate varies from 8.7% in 1999 to zero in 2006.

4.) Please provide Federal definition of net profit share.
DNR and Department of Law to provide.

5.) Please provide list of how many and location of employees from BP, C'RI, Veco, and Arctic Slope and their subsidiaries.
At year end 1995, BP employed 1,077 in Alaska of which 917 or 85.1% were Alaska residents. BPX would encourage it's Northstar Alliance contractors to provide similar data to the committee.

6.) Please provide to the committee a comparable number for BP's decisions to proceed with other North Slope developments. Estimate per barrel development costs which BP management considered before committing to develop: 1) Kuparuk; 2) shallow oil deposits at Milne Point (Schrader Bluff); 3) Niakuk; 4) Pt. McIntyre and other North fields BP has developed.

| Field | Sanction Year | Development Cost ($/bbl) | ANS WC ($/bbl) (MOD) | ANS WC (1996$) (real) |
|---|---|---|---|---|
| Kuparuk | 1982 | 6.65 | 30 | 40 |
| Endicott | 1985 | 5.40 | 25 | 33 |
| PBU: GHX-2 | 1992 | 4.45 | 18 | 19 |
| Pt McIntyre | 1992 | 2.30 | 18 | 19 |
| Niakuk | 1993 | 2.50 | 16 | 17 |
| **Not sanctioned** | | | | |
| MPU-Schrader Bluff | 1996-97?? | 1.80 | 17 | 17 |
| Northstar | 1996-97? | 2.90 | 17 | 17 |

## Attachment #1

## Sale 30 (12/79) Northstar Bidding

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

**ADL 312798**

| Bid Group/Co. | Co. Interest | NPS Bid |
|---|---|---|
| Ameraca Hess | 100% | 93.20000% |
| Texas Eastern | 50% | 80.56789% |
| Texaco | 50% | |
| Amoco | 100% | 71.12509% |
| Texas Gulf | 10% | 61.67000% |
| Conoco | 48% | |
| Placid | 22% | |
| Cities Service | 20% | |
| Murphy | 10% | 40.79133% |
| Shell | 90% | |
| Phillips | 50% | 34.46464% |
| Chevron | 50% | |

**ADL 312808**

| Bid Group/Co. | Co. Interest | NPS Bid |
|---|---|---|
| Texas Eastern | 100% | 85.25978% |
| Texas Gulf | 6% | 38.12530% |
| Gulf Oil | 25% | |
| Conoco | 25% | |
| Placid | 16% | |
| Rowan | 3% | |
| Cities Service | 25% | |
| Unocal | 100% | 25.50000% |
| Phillips | 50% | 10.14550% |
| Chevron | 50% | |
| Atlantic Richfield | 40% | 2.11111% |
| Murphy | 10% | |
| Shell | 50% | |

**ADL 312799**

| Bid Group/Co. | Co. Interest | NPS Bid |
|---|---|---|
| Amerada Hess | 100% | 91.20000% |
| Amoco | 100% | 82.59999% |
| Texas Eastern | 50% | 80.56789% |
| Texaco | 50% | |
| Rowan | 2% | 71.62539% |
| Conoco | 20% | |
| Texas Gulf | 5% | |
| Getty | 0.2 | |
| Placid | 13% | |
| Gulf | 20% | |
| Cities Service | 20% | |
| Murphy | 10% | 56.77133% |
| Shell | 90% | |
| Phillips | 33% | 43.26273% |
| Mobil | 33% | |
| Chevron | 34% | |
| Unocal | 100% | 32.00000% |

**ADL 312809**

| Bid Group/Co. | Co. Interest | NPS Bid |
|---|---|---|
| Texas Eastern | 100% | 85.25978% |
| Amoco | 100% | 71.25009% |
| Marathon | 50% | 63.83000% |
| Amerada | 50% | |
| Gulf | 25% | 46.37549% |
| Placid | 16% | |
| Getty | 25% | |
| Texas Gulf | 6% | |
| Rowan | 3% | |
| Cities Service | 25% | |
| Unocal | 100% | 38.00000% |
| Mobil | 34% | 34.23333% |
| Phillips | 33% | |
| Chevron | 33% | |
| Atlantic Richfield | 45% | 31.69117% |
| Shell | 55% | |

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Co. Heather Lemon | Co. DNR
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AUTHORITY: 5 U.S.C. 301 et seq.; 25 U.S.C. 396 et seq.; 25 U.S.C. 396a et seq.; 25 U.S.C. 2101 et seq.; 30 U.S.C. 181 et seq.; 30 U.S.C. 351 et seq.; 30 U.S.C. 1001 et seq.; 30 U.S.C. 1701 et seq.; 31 U.S.C. 9701; 43 U.S.C. 1301 et seq.; 43 U.S.C. 1331 et seq.; 43 U.S.C. 1801 et seq.

## Subpart A—General Provisions—[Reserved]

## Subpart B—Oil, Gas, and OCS Sulfur, General

SOURCE: 53 FR 1217, Jan. 15, 1988, unless otherwise noted.

### § 202.51 Scope and definitions.

(a) This subpart is applicable to Federal and Indian (Tribal and allotted) oil and gas leases (except leases on the Osage Indian Reservation, Osage County, Oklahoma) and OCS sulfur leases.

(b) The definitions in subparts C, D, and I of part 206 of this title are applicable to subparts B, C, D, and I of this part.

### § 202.52 Royalties.

(a) Royalties on oil, gas, and OCS sulfur shall be at the royalty rate specified in the lease, unless the Secretary, pursuant to the provisions of the applicable mineral leasing laws, reduces, or in the case of OCS leases, reduces or eliminates, the royalty rate or net profit share set forth in the lease.

(b) For purposes of this subpart, the use of the term royalty(ies) includes the term net profit share(s).

### § 202.53 Minimum royalty.

For leases that provide for minimum royalty payments, the lessee shall pay the minimum royalty as specified in the lease.

## Subpart C—Federal and Indian Oil

### § 202.100 Royalty on oil.

(a) Royalties due on oil production from leases subject to the requirements of this part, including condensate separated from gas without processing, shall be at the royalty rate established by the terms of the lease. Royalty shall be paid in value unless MMS requires payment in kind. When paid in value, the royalty due shall be the value, for royalty purposes, determined pursuant to part 206 of this title multiplied by the royalty rate in the lease.

(b)(1) All oil (except oil unavoidably lost or used on, or for the benefit of, the lease, including that oil used off-lease for the benefit of the lease when such off-lease use is permitted by the MMS or BLM, as appropriate) produced from a Federal or Indian lease to which this part applies is subject to royalty.

(2) When oil is used on, or for the benefit of, the lease at a production facility handling production from more than one lease with the approval of the MMS or BLM, as appropriate, or at a production facility handling unitized or communitized production, only that proportionate share of each lease's production (actual or allocated) necessary to operate the production facility may be used royalty-free.

(3) Where the terms of any lease are inconsistent with this section, the lease terms shall govern to the extent of that inconsistency.

(c) If BLM determines that oil was avoidably lost or wasted from an onshore lease, or that oil was drained from an onshore lease for which compensatory royalty is due, or if MMS determines that oil was avoidably lost or wasted from an offshore lease, then the value of that oil shall be determined in accordance with 30 CFR part 206.

(d) If a lessee receives insurance compensation for unavoidably lost oil, royalties are due on the amount of that compensation. This paragraph shall not apply to compensation through self-insurance.

(e)(1) In those instances where the lessee of any lease committed to a federally approved unitization or communitization agreement does not actually take the proportionate share of the agreement production attributable to its lease under the terms of the agreement, the full share of production attributable to the lease under the terms of the agreement nonetheless is subject to the royalty payment and reporting requirements of this title. Except as provided in paragraph (e)(2) of this section, the value, for royalty purposes, of production attributable to unitized or communitized leases will be determined in accordance with 30 CFR part 206. In applying the requirements of 30 CFR part 206, the circumstances involved in the actual disposition of the portion of the production to which the lessee was entitled but did not take shall be considered as controlling in arriving at the value, for royalty purposes, of that portion as though the person actually selling or disposing of the production were the lessee of the Federal or Indian lease.

(2) If a Federal or Indian lessee takes less than its proportionate share of agreement production, upon request of the lessee MMS may authorize a royalty valuation method different from that required by paragraph (e)(1) of this section, but consistent with the purpose of these regulations, for any volumes not taken by the lessee but for which royalties are due.

(3) For purposes of this subchapter, all persons actually taking volumes in excess of their proportionate share of production in any month under a unitization or communitization agreement shall be deemed to have taken ratably from all persons actually taking less than their proportionate share of the agreement production for that month.

(4) If a lessee takes less than its proportionate share of agreement production for any month but royalties are paid on the full volume of its proportionate share in accordance with the provisions of this section, no additional royalty will be owed for that lease for prior periods when the lessee subsequently takes more than its proportionate share to balance its account or when the lessee is paid a sum of money by the other agreement participants to balance its account.

(f) For production from Federal and Indian leases which are committed to federally-approved unitization or communitization agreements, upon request of a lessee MMS may establish the value of production pursuant to a method other than the method required by the regulations in this title if: (1) The proposed method for establishing value is consistent with the requirements of the applicable statutes, lease terms, and agreement terms; (2) persons with an interest in the agreement, including, to the extent practical, royalty interests, are given notice and an opportunity to comment on the proposed valuation method before it is authorized; and (3) to the extent practical, persons with an interest in a Federal or Indian lease committed to the agreement, including royalty interests, must agree to use the proposed method for valuing production from the agreement for royalty purposes.

[53 FR 1271, Jan. 15, 1988]

### § 202.101 Standards for reporting and paying royalties.

Oil volumes are to be reported in barrels of clean oil of 42 standard U.S. gallons (231 cubic inches each) at 60 °F. When reporting oil volumes for royalty purposes, corrections must have been made for Basic Sediment and Water (BS&W) and other impurities. Reported American Petroleum Institute (API) oil gravities are to be those determined in accordance with standard industry procedures after correction to 60 °F.

[53 FR 1271, Jan. 15, 1988]

## Subpart D—Federal and Indian Gas

SOURCE: 53 FR 1272, Jan. 15, 1988, unless otherwise noted.

royalty including NPS

# Net Profit Share Leases - Ownership Within Units

*01-Apr-96*

| UNIT | LEASE NUMBER | NAME | | | WORKING INTEREST % |
|---|---|---|---|---|---|
| **DUCK ISLAND** | | | | | |
| ADL | 312828 | | | | |
| | | BP EXPLORATION (ALASKA) INC | | | 95.5 |
| | | COOK INLET REGION INC | | | 2.5 |
| | | DOYON LIMITED | | | 0.5 |
| | | NANA REGIONAL CORPORATION | | | 1.5 |
| | | | Total for Segment | 1 | 100 |
| ADL | 312834 | | | | |
| | | ARCO ALASKA, INC | | | 33.33333 |
| | | EXXON CORPORATION | | | 33.33334 |
| | | UNION OIL COMPANY OF CALIFORNIA | | | 33.33333 |
| | | | Total for Segment | 1 | 100 |
| **KUPARUK RIVER** | | | | | |
| ADL | [illegible] | | | | |
| | | ARCO ALASKA, INC | | | 100 |
| | | | Total for Segment | 1 | 100 |
| ADL | [illegible] | | | | |
| | | ARCO ALASKA, INC | | | 100 |
| | | | Total for Segment | 1 | 100 |
| ADL | [illegible] | | | | |
| | | ARCO ALASKA, INC | | | 100 |
| | | | Total for Segment | 1 | 100 |
| ADL | [illegible] | | | | |
| | | ARCO ALASKA, INC | | | 100 |
| | | | Total for Segment | 1 | 100 |
| **KUUKPIK** | | | | | |
| ADL | [illegible] | | | | |
| | | ARCO ALASKA, INC | | | 80 |
| | | EXXON CORPORATION | | | 20 |
| | | | Total for Segment | 1 | 100 |
| | | AMERADA HESS CORPORATION | | | 50 |
| | | EXXON CORPORATION | | | 50 |
| | | | Total for Segment | A | 100 |
| ADL | [illegible] | | | | |
| | | ARCO ALASKA, INC | | | 100 |
| | | | Total for Segment | 1 | 100 |
| | | HUNT PETROLEUM CORPORATION | | | 16.80673 |
| | | PLACID OIL COMPANY | | | 64.38573 |
| | | ROSEWOOD RESOURCES INC | | | 18.80734 |
| | | | Total for Segment | A | 100 |
| ADL | [illegible] | | | | |
| | | ARCO ALASKA, INC | | | 100 |

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| UNIT | LEASE NUMBER | NAME | | WORKING INTEREST % |
|---|---|---|---|---|
| | | | Total for Segment 1 | 100 |
| | | HUNT PETROLEUM CORPORATION | | 16.80672 |
| | | PLACID OIL COMPANY | | 64.28572 |
| | | ROSEWOOD RESOURCES INC | | 18.90756 |
| | | | Total for Segment A | 100 |
| ADL | 388035 | | | |
| | | ARCO ALASKA, INC | | 100 |
| | | | Total for Segment 1 | 100 |
| | | ARCO ALASKA, INC | | 50 |
| | | TEXACO EXPLORATION & PRODUCTION | | 50 |
| | | | Total for Segment A | 100 |
| ADL | 388036 | | | |
| | | ARCO ALASKA, INC | | 87.5 |
| | | UNION TEXAS PETROLEUM CORPORATION | | 12.5 |
| | | | Total for Segment 1 | 100 |
| | | AMERADA HESS CORPORATION | | 50 |
| | | HUNT PETROLEUM CORPORATION | | 4.20168 |
| | | PLACID OIL COMPANY | | 28.57143 |
| | | ROSEWOOD RESOURCES INC | | 4.72689 |
| | | UNION TEXAS PETROLEUM CORPORATION | | 12.5 |
| | | | Total for Segment A | 100 |
| ADL | 388037 | | | |
| | | ARCO ALASKA, INC | | 93.75 |
| | | UNION TEXAS PETROLEUM CORPORATION | | 6.25 |
| | | | Total for Segment 1 | 100 |
| | | AMERADA HESS CORPORATION | | 25 |
| | | HUNT PETROLEUM CORPORATION | | 2.10084 |
| | | MIDGARD ENERGY COMPANY | | 25 |
| | | PLACID OIL COMPANY | | 14.285715 |
| | | ROSEWOOD RESOURCES INC | | 2.363445 |
| | | TEXACO INC | | 25 |
| | | UNION TEXAS PETROLEUM CORPORATION | | 6.25 |
| | | | Total for Segment A | 100 |
| ADL | 388038 | | | |
| | | ARCO ALASKA, INC | | 93.75 |
| | | UNION TEXAS PETROLEUM CORPORATION | | 6.25 |
| | | | Total for Segment 1 | 100 |
| | | AMERADA HESS CORPORATION | | 25 |
| | | HUNT PETROLEUM CORPORATION | | 2.10084 |
| | | MIDGARD ENERGY COMPANY | | 25 |
| | | PLACID OIL COMPANY | | 14.285715 |
| | | ROSEWOOD RESOURCES INC | | 2.363445 |
| | | TEXACO INC | | 25 |
| | | UNION TEXAS PETROLEUM CORPORATION | | 6.25 |
| | | | Total for Segment A | 100 |
| ADL | 388039 | | | |
| | | ARCO ALASKA, INC | | 93.75 |
| | | UNION TEXAS PETROLEUM CORPORATION | | 6.25 |

| UNIT | LEASE NUMBER | NAME | | | WORKING INTEREST % |
|---|---|---|---|---|---|
| | | | Total for Segment | 1 | 100 |
| | | AMERADA HESS CORPORATION | | | 25 |
| | | HUNT PETROLEUM CORPORATION | | | 2.10084 |
| | | MIDGARD ENERGY COMPANY | | | 25 |
| | | PLACID OIL COMPANY | | | 14.285715 |
| | | ROSEWOOD RESOURCES INC | | | 2.363445 |
| | | TEXACO INC | | | 25 |
| | | UNION TEXAS PETROLEUM CORPORATION | | | 6.25 |
| | | | Total for Segment | A | 100 |
| ADL | [illegible] | | | | |
| | | ARCO ALASKA, INC | | | 100 |
| | | | Total for Segment | 1 | 100 |
| | | ARCO ALASKA, INC | | | 80 |
| | | TEXACO EXPLORATION & PRODUCTION | | | 20 |
| | | | Total for Segment | A | 100 |
| ADL | 364470 | | | | |
| | | AMERADA HESS CORPORATION | | | 11.35 |
| | | ANADARKO PETROLEUM COMPANY | | | 22 |
| | | ARCO ALASKA, INC | | | 44.65 |
| | | UNION TEXAS PETROLEUM CORPORATION | | | 22 |
| | | | Total for Segment | 1 | 100 |
| ADL | 364471 | | | | |
| | | AMERADA HESS CORPORATION | | | 11.35 |
| | | ANADARKO PETROLEUM COMPANY | | | 22 |
| | | ARCO ALASKA, INC | | | 44.65 |
| | | UNION TEXAS PETROLEUM CORPORATION | | | 22 |
| | | | Total for Segment | 1 | 100 |
| ADL | 364472 | | | | |
| | | ANADARKO PETROLEUM COMPANY | | | 22 |
| | | ARCO ALASKA, INC | | | 56 |
| | | UNION TEXAS PETROLEUM CORPORATION | | | 22 |
| | | | Total for Segment | 1 | 100 |
| | | AMERADA HESS CORPORATION | | | 50 |
| | | ANADARKO PETROLEUM COMPANY | | | 6.16 |
| | | ARCO ALASKA, INC | | | 21.84 |
| | | UNION TEXAS PETROLEUM CORPORATION | | | 22 |
| | | | Total for Segment | A | 100 |
| ADL | 364473 | | | | |
| | | ANADARKO PETROLEUM COMPANY | | | 22 |
| | | ARCO ALASKA, INC | | | 56 |
| | | UNION TEXAS PETROLEUM CORPORATION | | | 22 |
| | | | Total for Segment | 1 | 100 |
| | | AMERADA HESS CORPORATION | | | 50 |
| | | ANADARKO PETROLEUM COMPANY | | | 6.16 |
| | | ARCO ALASKA, INC | | | 21.84 |
| | | UNION TEXAS PETROLEUM CORPORATION | | | 22 |
| | | | Total for Segment | A | 100 |
| ADL | 364474 | | | | |

| UNIT | LEASE NUMBER | NAME | | WORKING INTEREST % |
|---|---|---|---|---|
| | | ARCO ALASKA, INC | | 74 |
| | | UNION TEXAS PETROLEUM CORPORATION | | 26 |
| | | | Total for Segment 1 | 100 |
| | | AMERADA HESS CORPORATION | | 50 |
| | | ARCO ALASKA, INC | | 24 |
| | | UNION TEXAS PETROLEUM CORPORATION | | 26 |
| | | | Total for Segment A | 100 |
| | ADL 364475 | | | |
| | | ARCO ALASKA, INC | | 74 |
| | | UNION TEXAS PETROLEUM CORPORATION | | 26 |
| | | | Total for Segment 1 | 100 |
| | | AMERADA HESS CORPORATION | | 50 |
| | | ARCO ALASKA, INC | | 24 |
| | | UNION TEXAS PETROLEUM CORPORATION | | 26 |
| | | | Total for Segment A | 100 |
| | ADL 364476 | | | |
| | | ARCO ALASKA, INC | | 74 |
| | | UNION TEXAS PETROLEUM CORPORATION | | 26 |
| | | | Total for Segment 1 | 100 |
| | | AMERADA HESS CORPORATION | | 50 |
| | | ARCO ALASKA, INC | | 24 |
| | | UNION TEXAS PETROLEUM CORPORATION | | 26 |
| | | | Total for Segment A | 100 |
| | ADL 364477 | | | |
| | | ARCO ALASKA, INC | | 83.001 |
| | | UNION TEXAS PETROLEUM CORPORATION | | 16.999 |
| | | | Total for Segment 1 | 100 |
| | | AMERADA HESS CORPORATION | | 66.67 |
| | | ARCO ALASKA, INC | | 16.331 |
| | | UNION TEXAS PETROLEUM CORPORATION | | 16.999 |
| | | | Total for Segment A | 100 |
| | ADL 364478 | | | |
| | | ARCO ALASKA, INC | | 68 |
| | | UNION TEXAS PETROLEUM CORPORATION | | 32 |
| | | | Total for Segment 1 | 100 |
| | | AMERADA HESS CORPORATION | | 50 |
| | | ARCO ALASKA, INC | | 18 |
| | | UNION TEXAS PETROLEUM CORPORATION | | 32 |
| | | | Total for Segment A | 100 |
| MILNE POINT | | | | |
| | ADL 355016 | | | |
| | | BP EXPLORATION (ALASKA) INC | | 26.81 |
| | | BP EXPLORATION AND OIL COMPANY | | 64.38 |
| | | OXY USA INC | | 8.81 |
| | | | Total for Segment 1 | 100 |
| | | AMERADA HESS CORPORATION | | 50 |

| UNIT | LEASE NUMBER | NAME | | | WORKING INTEREST % |
|---|---|---|---|---|---|
| | | MIDGARD ENERGY COMPANY | | | 50 |
| | | | Total for Segment | A | 100 |
| | ADL 355017 | | | | |
| | | BP EXPLORATION (ALASKA) INC | | | 26.81 |
| | | BP EXPLORATION AND OIL COMPANY | | | 64.38 |
| | | OXY USA INC | | | 8.81 |
| | | | Total for Segment | 1 | 100 |
| | ADL 355018 | | | | |
| | | BP EXPLORATION (ALASKA) INC | | | 26.81 |
| | | BP EXPLORATION AND OIL COMPANY | | | 64.38 |
| | | OXY USA INC | | | 8.81 |
| | | | Total for Segment | 1 | 100 |
| | ADL 365021 | | | | |
| | | BP EXPLORATION (ALASKA) INC | | | 26.81 |
| | | BP EXPLORATION AND OIL COMPANY | | | 64.38 |
| | | OXY USA INC | | | 8.81 |
| | | | Total for Segment | 1 | 100 |
| | | AMERADA HESS CORPORATION | | | 50 |
| | | MIDGARD ENERGY COMPANY | | | 50 |
| | | | Total for Segment | A | 100 |
| NON-UNIT PRODUCTION | | | | | |
| | ADL 312827 | | | | |
| | | AMERADA HESS CORPORATION | | | 50 |
| | | BP EXPLORATION (ALASKA) INC | | | 50 |
| | | | Total for Segment | 1 | 100 |
| NORTHSTAR | | | | | |
| | ADL 312798 | | | | |
| | | BP EXPLORATION (ALASKA) INC | | | 100 |
| | | | Total for Segment | 1 | 100 |
| | ADL 312799 | | | | |
| | | BP EXPLORATION (ALASKA) INC | | | 100 |
| | | | Total for Segment | 1 | 100 |
| | ADL 312808 | | | | |
| | | BP EXPLORATION (ALASKA) INC | | | 100 |
| | | | Total for Segment | 1 | 100 |
| | ADL 312809 | | | | |
| | | BP EXPLORATION (ALASKA) INC | | | 100 |
| | | | Total for Segment | 1 | 100 |
| | ADL 355041 | | | | |
| | | BP EXPLORATION (ALASKA) INC | | | 100 |
| | | | Total for Segment | 1 | 100 |
| POINT THOMSON | | | | | |
| | ADL 312866 | | | | |
| | | EXXON CORPORATION | | | 100 |
| | | | Total for Segment | 1 | 100 |

| UNIT | LEASE NUMBER | NAME | | | WORKING INTEREST % |
|---|---|---|---|---|---|
| ADL | 343109 | | | | |
| | | BP EXPLORATION (ALASKA) INC | | | 50 |
| | | EXXON CORPORATION | | | 50 |
| | | | Total for Segment | 1 | 100 |
| ADL | 343110 | | | | |
| | | MOBIL OIL CORPORATION | | | 50 |
| | | PHILLIPS PETROLEUM COMPANY | | | 50 |
| | | | Total for Segment | 1 | 100 |
| ADL | 343111 | | | | |
| | | BP EXPLORATION (ALASKA) INC | | | 100 |
| | | | Total for Segment | 1 | 100 |
| ADL | 343112 | | | | |
| | | BP EXPLORATION (ALASKA) INC | | | 66.67 |
| | | CHEVRON U.S.A. INC | | | 33.33 |
| | | | Total for Segment | 1 | 100 |
| | | CHEVRON U.S.A. INC | | | 100 |
| | | | Total for Segment | A | 100 |
| | | BP EXPLORATION (ALASKA) INC | | | 66.67 |
| | | CHEVRON U.S.A. INC | | | 33.33 |
| | | | Total for Segment | B | 100 |

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|---|---|---|
| To Annette Kreitzer | From Patrick Coughlin | |
| Co./Dept. Senator Leman | Co. DNR | |
| Phone # 465-2095 | Phone # 269-8800 | |
| Fax # 465-3810 | Fax # | |

# Net Profit Share Lease Ownership

*01-Apr-96*

| LEASE NUMBER | NAME | | WORKING INTEREST % |
|---|---|---|---|
| ADL 312798 | | | |
| | BP EXPLORATION (ALASKA) INC | | 100 |
| | Total for Segment | 1 | 100 |
| ADL 312799 | | | |
| | BP EXPLORATION (ALASKA) INC | | 100 |
| | Total for Segment | 1 | 100 |
| ADL 312808 | | | |
| | BP EXPLORATION (ALASKA) INC | | 100 |
| | Total for Segment | 1 | 100 |
| ADL 312809 | | | |
| | BP EXPLORATION (ALASKA) INC | | 100 |
| | Total for Segment | 1 | 100 |
| ADL 312827 | | | |
| | BP EXPLORATION (ALASKA) INC | | 50 |
| | AMERADA HESS CORPORATION | | 50 |
| | Total for Segment | 1 | 100 |
| ADL 312828 | | | |
| | DOYON LIMITED | | 0.5 |
| | NANA REGIONAL CORPORATION | | 1.5 |
| | COOK INLET REGION INC | | 2.5 |
| | BP EXPLORATION (ALASKA) INC | | 95.5 |
| | Total for Segment | 1 | 100 |
| ADL 312834 | | | |
| | ARCO ALASKA, INC | | 33.33333 |
| | UNION OIL COMPANY OF CALIFORNIA | | 33.33333 |
| | EXXON CORPORATION | | 33.33334 |
| | Total for Segment | 1 | 100 |
| ADL 312866 | | | |
| | EXXON CORPORATION | | 100 |
| | Total for Segment | 1 | 100 |
| ADL 343109 | | | |
| | EXXON CORPORATION | | 50 |
| | BP EXPLORATION (ALASKA) INC | | 50 |
| | Total for Segment | 1 | 100 |
| ADL 343110 | | | |
| | PHILLIPS PETROLEUM COMPANY | | 50 |
| | MOBIL OIL CORPORATION | | 50 |
| | Total for Segment | 1 | 100 |

| LEASE NUMBER | | NAME | | | WORKING INTEREST % |
|---|---|---|---|---|---|
| ADL | 343111 | | | | |
| | | BP EXPLORATION (ALASKA) INC | | | 100 |
| | | | Total for Segment | 1 | 100 |
| ADL | 343112 | | | | |
| | | CHEVRON U.S.A. INC | | | 83.33 |
| | | BP EXPLORATION (ALASKA) INC | | | 66.67 |
| | | | Total for Segment | 1 | 100 |
| | | CHEVRON U.S.A. INC | | | 100 |
| | | | Total for Segment | A | 100 |
| | | CHEVRON U.S.A. INC | | | 33.33 |
| | | BP EXPLORATION (ALASKA) INC | | | 66.67 |
| | | | Total for Segment | B | 100 |
| ADL | 355001 | | | | |
| | | BP EXPLORATION (ALASKA) INC | | | 100 |
| | | | Total for Segment | 1 | 100 |
| ADL | 355016 | | | | |
| | | OXY USA INC | | | 8.81 |
| | | BP EXPLORATION (ALASKA) INC | | | 26.01 |
| | | BP EXPLORATION AND OIL COMPANY | | | 64.38 |
| | | | Total for Segment | 1 | 100 |
| | | AMERADA HESS CORPORATION | | | 50 |
| | | MIDGARD ENERGY COMPANY | | | 50 |
| | | | Total for Segment | A | 100 |
| ADL | 355017 | | | | |
| | | OXY USA INC | | | 8.81 |
| | | BP EXPLORATION (ALASKA) INC | | | 26.81 |
| | | BP EXPLORATION AND OIL COMPANY | | | 64.38 |
| | | | Total for Segment | 1 | 100 |
| ADL | 355018 | | | | |
| | | OXY USA INC | | | 8.81 |
| | | BP EXPLORATION (ALASKA) INC | | | 26.81 |
| | | BP EXPLORATION AND OIL COMPANY | | | 64.38 |
| | | | Total for Segment | 1 | 100 |
| ADL | 355021 | | | | |
| | | OXY USA INC | | | 8.81 |
| | | BP EXPLORATION (ALASKA) INC | | | 26.81 |
| | | BP EXPLORATION AND OIL COMPANY | | | 64.38 |
| | | | Total for Segment | 1 | 100 |
| | | MIDGARD ENERGY COMPANY | | | 50 |
| | | AMERADA HESS CORPORATION | | | 50 |
| | | | Total for Segment | A | 100 |
| ADL | 355023 | | | | |
| | | ARCO ALASKA, INC | | | 100 |

| LEASE NUMBER | NAME | WORKING INTEREST % |
|---|---|---|
| | Total for Segment 1 | 100 |
| ADL 355024 | | |
| | ARCO ALASKA, INC | 100 |
| | Total for Segment 1 | 100 |
| ADL 355029 | | |
| | EXXON CORPORATION | 20 |
| | ARCO ALASKA, INC | 80 |
| | Total for Segment 1 | 100 |
| | AMERADA HESS CORPORATION | 50 |
| | EXXON CORPORATION | 50 |
| | Total for Segment A | 100 |
| ADL 355030 | | |
| | ARCO ALASKA, INC | 100 |
| | Total for Segment 1 | 100 |
| ADL 355031 | | |
| | ARCO ALASKA, INC | 100 |
| | Total for Segment 1 | 100 |
| | HUNT PETROLEUM CORPORATION | 16.80672 |
| | ROSEWOOD RESOURCES INC | 18.90756 |
| | PLACID OIL COMPANY | 64.28572 |
| | Total for Segment A | 100 |
| ADL 355032 | | |
| | ARCO ALASKA, INC | 100 |
| | Total for Segment 1 | 100 |
| ADL 355034 | | |
| | ARCO ALASKA, INC | 100 |
| | Total for Segment 1 | 100 |
| | HUNT PETROLEUM CORPORATION | 16.80672 |
| | ROSEWOOD RESOURCES INC | 18.90756 |
| | PLACID OIL COMPANY | 64.28572 |
| | Total for Segment A | 100 |
| ADL 355033 | | |
| | ARCO ALASKA, INC | 100 |
| | Total for Segment 1 | 100 |
| | ARCO ALASKA, INC | 50 |
| | TEXACO EXPLORATION & PRODUCTION | 50 |
| | Total for Segment A | 100 |
| ADL 355036 | | |
| | UNION TEXAS PETROLEUM CORPORATION | 12.5 |
| | ARCO ALASKA, INC | 87.5 |
| | Total for Segment 1 | 100 |
| | HUNT PETROLEUM CORPORATION | 4.20168 |

| LEASE NUMBER | NAME | | WORKING INTEREST % |
|---|---|---|---|
| | ROSEWOOD RESOURCES INC | | 4.72690 |
| | UNION TEXAS PETROLEUM CORPORATION | | 12.5 |
| | PLACID OIL COMPANY | | 28.57143 |
| | AMERADA HESS CORPORATION | | 50 |
| | Total for Segment | A | 100 |
| ADL 355037 | | | |
| | UNION TEXAS PETROLEUM CORPORATION | | 6.25 |
| | ARCO ALASKA, INC | | 93.75 |
| | Total for Segment | 1 | 100 |
| | HUNT PETROLEUM CORPORATION | | 2.10084 |
| | ROSEWOOD RESOURCES INC | | 2.363445 |
| | UNION TEXAS PETROLEUM CORPORATION | | 6.25 |
| | PLACID OIL COMPANY | | 14.285715 |
| | AMERADA HESS CORPORATION | | 25 |
| | MIDGARD ENERGY COMPANY | | 25 |
| | TEXACO INC | | 25 |
| | Total for Segment | A | 100 |
| ADL 355038 | | | |
| | UNION TEXAS PETROLEUM CORPORATION | | 6.25 |
| | ARCO ALASKA, INC | | 93.75 |
| | Total for Segment | 1 | 100 |
| | HUNT PETROLEUM CORPORATION | | 2.10084 |
| | ROSEWOOD RESOURCES INC | | 2.363445 |
| | UNION TEXAS PETROLEUM CORPORATION | | 6.25 |
| | PLACID OIL COMPANY | | 14.285715 |
| | MIDGARD ENERGY COMPANY | | 25 |
| | TEXACO INC | | 25 |
| | AMERADA HESS CORPORATION | | 25 |
| | Total for Segment | A | 100 |
| ADL 355039 | | | |
| | UNION TEXAS PETROLEUM CORPORATION | | 6.25 |
| | ARCO ALASKA, INC | | 93.75 |
| | Total for Segment | 1 | 100 |
| | HUNT PETROLEUM CORPORATION | | 2.10084 |
| | ROSEWOOD RESOURCES INC | | 2.363445 |
| | UNION TEXAS PETROLEUM CORPORATION | | 6.25 |
| | PLACID OIL COMPANY | | 14.285715 |
| | MIDGARD ENERGY COMPANY | | 25 |
| | AMERADA HESS CORPORATION | | 25 |
| | TEXACO INC | | 25 |
| | Total for Segment | A | 100 |
| ADL 355040 | | | |
| | ARCO ALASKA, INC | | 100 |
| | Total for Segment | 1 | 100 |
| | TEXACO EXPLORATION & PRODUCTION | | 20 |
| | ARCO ALASKA, INC | | 80 |
| | Total for Segment | A | 100 |

| LEASE NUMBER | NAME | | WORKING INTEREST % |
|---|---|---|---|
| ADL 364470 | | | |
| | AMERADA HESS CORPORATION | | 11.35 |
| | UNION TEXAS PETROLEUM CORPORATION | | 22 |
| | ANADARKO PETROLEUM COMPANY | | 22 |
| | ARCO ALASKA, INC | | 44.65 |
| | Total for Segment | 1 | 100 |
| ADL 364471 | | | |
| | AMERADA HESS CORPORATION | | 11.35 |
| | ANADARKO PETROLEUM COMPANY | | 22 |
| | UNION TEXAS PETROLEUM CORPORATION | | 22 |
| | ARCO ALASKA, INC | | 44.65 |
| | Total for Segment | 1 | 100 |
| ADL 364472 | | | |
| | UNION TEXAS PETROLEUM CORPORATION | | 22 |
| | ANADARKO PETROLEUM COMPANY | | 22 |
| | ARCO ALASKA, INC | | 56 |
| | Total for Segment | 1 | 100 |
| | ANADARKO PETROLEUM COMPANY | | 6.16 |
| | ARCO ALASKA, INC | | 21.84 |
| | UNION TEXAS PETROLEUM CORPORATION | | 22 |
| | AMERADA HESS CORPORATION | | 50 |
| | Total for Segment | A | 100 |
| ADL 364473 | | | |
| | ANADARKO PETROLEUM COMPANY | | 22 |
| | UNION TEXAS PETROLEUM CORPORATION | | 22 |
| | ARCO ALASKA, INC | | 56 |
| | Total for Segment | 1 | 100 |
| | ANADARKO PETROLEUM COMPANY | | 6.16 |
| | ARCO ALASKA, INC | | 21.84 |
| | UNION TEXAS PETROLEUM CORPORATION | | 22 |
| | AMERADA HESS CORPORATION | | 50 |
| | Total for Segment | A | 100 |
| ADL 364474 | | | |
| | UNION TEXAS PETROLEUM CORPORATION | | 26 |
| | ARCO ALASKA, INC | | 74 |
| | Total for Segment | 1 | 100 |
| | ARCO ALASKA, INC | | 24 |
| | UNION TEXAS PETROLEUM CORPORATION | | 26 |
| | AMERADA HESS CORPORATION | | 50 |
| | Total for Segment | A | 100 |
| ADL 364475 | | | |
| | UNION TEXAS PETROLEUM CORPORATION | | 26 |
| | ARCO ALASKA, INC | | 74 |
| | Total for Segment | 1 | 100 |
| | ARCO ALASKA, INC | | 24 |
| | UNION TEXAS PETROLEUM CORPORATION | | 26 |

| LEASE NUMBER | NAME | | WORKING INTEREST % |
|---|---|---|---|
| | AMERADA HESS CORPORATION | | 50 |
| | Total for Segment | A | 100 |
| ADL 364476 | | | |
| | UNION TEXAS PETROLEUM CORPORATION | | 26 |
| | ARCO ALASKA, INC | | 74 |
| | Total for Segment | 1 | 100 |
| | ARCO ALASKA, INC | | 24 |
| | UNION TEXAS PETROLEUM CORPORATION | | 26 |
| | AMERADA HESS CORPORATION | | 50 |
| | Total for Segment | A | 100 |
| ADL 364477 | | | |
| | UNION TEXAS PETROLEUM CORPORATION | | 16.999 |
| | ARCO ALASKA, INC | | 83.001 |
| | Total for Segment | 1 | 100 |
| | ARCO ALASKA, INC | | 16.331 |
| | UNION TEXAS PETROLEUM CORPORATION | | 16.999 |
| | AMERADA HESS CORPORATION | | 66.67 |
| | Total for Segment | A | 100 |
| ADL 364478 | | | |
| | UNION TEXAS PETROLEUM CORPORATION | | 32 |
| | ARCO ALASKA, INC | | 68 |
| | Total for Segment | 1 | 100 |
| | ARCO ALASKA, INC | | 18 |
| | UNION TEXAS PETROLEUM CORPORATION | | 32 |
| | AMERADA HESS CORPORATION | | 50 |
| | Total for Segment | A | 100 |

DEPARTMENT OF NATURAL RESOURCES
OFFICE OF THE COMMISSIONER
400 WILLOUGHBY AVENUE
JUNEAU, ALASKA 99801-1796
PHONE: (907) 465-2400
FAX: (907) 465-3886

Please deliver to: Annette

Location: FAX: 3810

Date: Time:

From: KEN BOYD

Number of pages 6
Including cover sheet

Comments: THIS IS WHAT WE COULD PUT TOGETHER TODAY

If you experience any problems receiving this FAX, please call Sharon or Eileen at the above phone number.

Names and Addresses of Sale 50 Bidders

| Original Bidder Name | Current Name | Phone Number | | Address | | City | State |
|---|---|---|---|---|---|---|---|
| AMERADA HESS CORPORATION | | 713 | [illegible] | ATTN: J. Y. CHRISTOPHER | [illegible] DALLAS ST | HOUSTON | TX |
| AMOCO PRODUCTION COMPANY | | 713 | [illegible] | ATTN: LAND MANAGER/AMA | PO BOX 3092 | HOUSTON | TX |
| ATLANTIC RICHFIELD COMPANY | | 907 | [illegible] | ATTN: LAND MANAGER | P.O. BOX 100360 | ANCHORAGE | AK |
| CHEVRON U.S.A. INC | | 713 | [illegible] | PO BOX 1635 | ATTN: P.G. WALKER | HOUSTON | TX |
| CITIES SERVICE COMPANY | OXY USA INC. | 918 | [illegible] | PO BOX 300 | | TULSA | OK |
| CONOCO INC | | 713 | [illegible] | 600 NORTH DAIRY ASHFORD | ATTN WILLIAM R DAUGHERTY | HOUSTON | TX |
| COOK INLET REGION INC | | 907 | [illegible] | PO BOX 93330 | | ANCHORAGE | AK |
| EXXON CORPORATION | | 713 | [illegible] | LAND/REGULATORY AFFAIRS | PO BOX 2305 | HOUSTON | TX |
| GETTY OIL COMPANY | TEXACO INC | 303 | [illegible] | PO BOX 2100 | ATTN: LAND DEPARTMENT | DENVER | CO |
| GULF OIL CORPORATION | CHEVRON U.S.A. INC | 713 | [illegible] | PO BOX 1635 | ATTN: P.G. WALKER | HOUSTON | TX |
| NOMAG INC | | 907 | [illegible] | C/O JOHN MERRICK | 4201 B ST #407 | ANCHORAGE | AK |
| MARATHON OIL COMPANY | | 713 | 629-6600 | ATTN CONTRACT & DIVISION ORDER | P.O. BOX 2369 | HOUSTON | TX |
| MOBIL OIL CORP | | 214 | [illegible] | ATTN: PROPERTY MANAGEMENT | PO BOX 650232 | DALLAS | TX |
| MURPHY OIL CORPORATION | MURPHY EXPLOR. & PROD.CO | 504 | [illegible] | ATTN: LAND DEPARTMENT | P.O. BOX 61780 | NEW ORLEANS | LA |
| NANA REGIONAL CORPORATION INC | | 907 | [illegible] | 1001 E. BENSON BLVD. | ATTN: VICE PRESIDENT MINERALS | ANCHORAGE | AK |
| PHILLIPS PETROLEUM COMPANY | | 713 | [illegible] | PO BOX 1967 | ATTN: AK REGION LAND MANAGER | HOUSTON | TX |
| PLACID OIL CO | | [illegible] | [illegible] | C/O OXY USA INC. | P.O. BOX 300 | TULSA | OK |
| BOWMAN PETROLEUM INC | BOWMAN DRILLING | [illegible] | [illegible] | TWO POST OAK TOWER | 5051 WESTHEIMER | HOUSTON | TX |
| SEALASKA CORP | | 907 | [illegible] | ONE SEALASKA PLAZA, SUITE 400 | MR WILLIAM N [illegible], PRESIDENT | JUNEAU | AK |
| SHELL OIL COMPANY | | 713 | [illegible] | TWO SHELL PLAZA | PO BOX 2099 | HOUSTON | TX |
| SOHIO NATURAL RESOURCES | BP EXPLORATION (ALASKA) INC | 907 | 561-5111 | E. P. ZSELECZKY, JR. | PO BOX [illegible] /900 E. BENSON BL. | ANCHORAGE | AK |
| TEXACO INC | | 303 | [illegible] | PO BOX 2100 | ATTN: LAND DEPARTMENT | DENVER | CO |
| TEXAS EASTERN EXPLORATION COMPANY | ENTERPRISE OIL EX CO INC | 713 | [illegible] | C/O ALAN R. BILLINGTON | 4201 FM 1960 WEST, STE. 310 | HOUSTON | TX |
| TEXAS GULF INC. | | [illegible] | [illegible] | [illegible] STREET | | GOLDEN | CO |
| UNION OIL COMPANY OF CALIFORNIA | | 907 | [illegible] | PO BOX 190247 | ATTN: LAND MANAGER | ANCHORAGE | AK |

# NET PROFIT SHARE LEASE OWNERS

*02-Apr-96*

| UNIT | HIGH BIDDER | BIDDING GROUP | BIDDER NAME | CURRENT NAME | PHONE # | |
|---|---|---|---|---|---|---|
| DUCK ISLAND UNIT | | | | | | |
| SALE 30 | | | | | | |
| ADL 312828 | | | | | | |
| | * | 15 | COOK INLET REGION INC | | 907 | [illegible] |
| | * | 16 | SOHIO NATURAL RESOURCES | BP EXPLORATION (ALASKA) INC | 907 | [illegible]6111 |
| | * | 16 | SEALASKA CORP | | 907 | [illegible]512 |
| | * | 14 | NANA REGIONAL CORPORATION INC | | 907 | 2654100 |
| | * | 16 | KONIAG INC | | 907 | [illegible] |
| | | 3 | AMOCO PRODUCTION COMPANY | | 713 | [illegible] |
| | | 7 | CITIES SERVICE COMPANY | CITY USA INC. | 918 | [illegible] |
| | | 7 | ROWAN PETROLEUM INC | ROWAN DRILLING | 907 | [illegible] |
| | | 7 | GULF OIL CORPORATION | CHEVRON U.S.A. INC | 713 | [illegible] |
| | | 7 | PLACID OIL CO | | 918 | [illegible] |
| | | 7 | GETTY OIL COMPAN . | TEXACO INC | 303 | 7954164 |
| | | 7 | TEXAS GULF INC. | | 907 | [illegible] |
| | | 7 | CONOCO INC | | 713 | [illegible] |
| | | 14 | MARATHON OIL COMPANY | | 713 | [illegible] |
| | | 14 | AMERADA HESS CORPORATION | | 713 | [illegible] |
| | | 19 | MURPHY OIL CORPORATION | MURPHY EXPLOR. & PROD.CO | 504 | [illegible]11 |
| | | 19 | SHELL OIL COMPANY | | 713 | [illegible] |
| | | 20 | CHEVRON U.S.A. INC | | 713 | [illegible] |
| | | 22 | EXXON CORPORATION | | 713 | [illegible] |
| | | 22 | UNION OIL COMPANY OF CALIFORNIA | | 907 | [illegible] |
| | | 22 | ATLANTIC RICHFIELD COMPANY | | 907 | [illegible] |
| ADL 312834 | | | | | | |
| | * | 21 | EXXON CORPORATION | | 713 | [illegible] |
| | * | 21 | UNION OIL COMPANY OF CALIFORNIA | | 907 | [illegible] |
| | * | 21 | ATLANTIC RICHFIELD COMPANY | | 907 | [illegible] |
| | | 20 | CHEVRON U.S.A. INC | | 713 | [illegible] |

| UNIT | HIGH BIDDER | BIDDING GROUP | BIDDER NAME | CURRENT NAME | PHONE # | |
|---|---|---|---|---|---|---|
| NON UNITIZED PRODUCING | | | | | | |
| SALE 30 | | | | | | |
| ADL 312827 | | | | | | |
| | * | 14 | MARATHON OIL COMPANY | | 713 | [illegible] |
| | * | 14 | AMERADA HESS CORPORATION | | 713 | [illegible] |
| | | 3 | AMOCO PRODUCTION COMPANY | | 713 | [illegible] |
| | | 7 | GETTY OIL COMPANY | TEXACO INC | 303 | [illegible] |
| | | 7 | TEXAS GULF INC. | | 907 | [illegible] |
| | | 7 | PLACID OIL CO | | 918 | [illegible] |
| | | 7 | ROWAN PETROLEUM INC | ROWAN DRILLING | 907 | [illegible] |
| | | 7 | GULF OIL CORPORATION | CHEVRON U.S.A. INC | 713 | [illegible] |
| | | 7 | CONOCO INC | | 713 | [illegible] |
| | | 7 | CITIES SERVICE COMPANY | OXY USA INC. | 918 | [illegible] |
| | | 17 | EXXON CORPORATION | | 713 | [illegible] |
| | | [illegible] | COOK INLET REGION INC | | 907 | [illegible] |
| | | [illegible] | KONIAG INC | | 907 | [illegible] |
| | | 18 | SEALASKA CORP | | 907 | [illegible] |
| | | [illegible] | DOYON REGIONAL CORPORATION INC | | 907 | [illegible] |
| | | 18 | SOHIO NATURAL RESOURCES | BP EXPLORATION (ALASKA) INC | 907 | [illegible] |
| NORTHSTAR UNIT | | | | | | |
| SALE 30 | | | | | | |
| ADL 312798 | | | | | | |
| | * | 1 | AMERADA HESS CORPORATION | | 713 | [illegible] |
| | | 2 | TEXACO INC | | 303 | [illegible] |
| | | 2 | TEXAS EASTERN EXPLORATION COMPANY | ENTERPRISE OIL EX CO INC | 713 | [illegible] |
| | | 3 | AMOCO PRODUCTION COMPANY | | 713 | [illegible] |
| | | 4 | PLACID OIL CO | | 918 | [illegible] |
| | | 4 | CONOCO INC. | | | |
| | | 4 | TEXAS GULF INC. | | 907 | [illegible] |
| | | 4 | CITIES SERVICE COMPANY | OXY USA INC. | 918 | [illegible] |
| | | 5 | SHELL OIL COMPANY | | 713 | [illegible] |
| | | 6 | CHEVRON U.S.A. INC | | 713 | [illegible] |
| | | 6 | PHILLIPS PETROLEUM COMPANY | | 713 | [illegible] |

| UNIT | HIGH BIDDER | BIDDING GROUP | BIDDER NAME | CURRENT NAME | PHONE # | |
|---|---|---|---|---|---|---|
| ADL | 312799 | | | | | |
| | * | 1 | AMERADA HESS CORPORATION | | 713 | [illegible] |
| | | 2 | TEXACO INC | | 303 | 7834164 |
| | | 2 | TEXAS EASTERN EXPLORATION COMPANY | ENTERPRISE OIL EX CO INC | 713 | [illegible] |
| | | 3 | AMOCO PRODUCTION COMPANY | | 713 | [illegible] |
| | | 7 | ROWAN PETROLEUM INC | ROWAN DRILLING | 907 | 2763448 |
| | | 7 | TEXAS GULF INC. | | 907 | 2788400 |
| | | 7 | GULF OIL CORPORATION | CHEVRON U.S.A. INC | 713 | 7547805 |
| | | 7 | CITIES SERVICE COMPANY | OXY USA INC. | 918 | 5613386 |
| | | 7 | CONOCO INC | | 713 | 2932750 |
| | | 7 | GETTY OIL COMPANY | TEXACO INC | 303 | 7934164 |
| | | 7 | PLACID OIL CO | | 918 | 5613386 |
| | | 8 | MURPHY OIL CORPORATION | MURPHY EXPLOR. & PROD.CO | 504 | 5612811 |
| | | 8 | SHELL OIL COMPANY | | 713 | 8704314 |
| | | 8 | PHILLIPS PETROLEUM COMPANY | | 713 | 6693741 |
| | | 8 | MOBIL OIL CORP | | 214 | 6513838 |
| | | 9 | CHEVRON U.S.A. INC | | 713 | 7547855 |
| | | 10 | UNION OIL COMPANY OF CALIFORNIA | | 907 | 2767800 |
| ADL | 312806 | | | | | |
| | * | 11 | TEXAS EASTERN EXPLORATION COMPANY | ENTERPRISE OIL EX CO INC | 713 | [illegible] |
| | | 6 | CHEVRON U.S.A. INC | | 713 | 7547855 |
| | | 6 | PHILLIPS PETROLEUM COMPANY | | 713 | 6693741 |
| | | 10 | UNION OIL COMPANY OF CALIFORNIA | | 907 | 2767800 |
| | | 12 | GULF OIL CORPORATION | CHEVRON U.S.A. INC | 713 | 7547855 |
| | | 12 | CITIES SERVICE COMPANY | OXY USA INC. | 918 | 5613386 |
| | | 12 | ROWAN PETROLEUM INC | ROWAN DRILLING | 907 | 2763448 |
| | | 12 | TEXAS GULF INC. | | 907 | 2786100 |
| | | 12 | CONOCO INC | | 713 | 2932750 |
| | | 12 | PLACID OIL CO | | 918 | 5613386 |
| | | 13 | SHELL OIL COMPANY | | 713 | 8704314 |
| | | 13 | MURPHY OIL CORPORATION | MURPHY EXPLOR. & PROD.CO | 504 | 5612811 |
| | | 13 | ATLANTIC RICHFIELD COMPANY | | 907 | [illegible] |

| UNIT | HIGH BIDDER | BIDDING GROUP | BIDDER NAME | CURRENT NAME | PHONE # | |
|---|---|---|---|---|---|---|
| ADL 312809 | | | | | | |
| | * | 11 | TEXAS EASTERN EXPLORATION COMPANY | ENTERPRISE OIL EX CO INC | 713 | [illegible]471 |
| | | 3 | AMOCO PRODUCTION COMPANY | | 713 | [illegible] |
| | | 9 | CHEVRON U.S.A. INC | | 713 | 754[illegible] |
| | | 8 | MOBIL OIL CORP | | 214 | [illegible] |
| | | 6 | PHILLIPS PETROLEUM COMPANY | | 713 | [illegible]741 |
| | | 10 | UNION OIL COMPANY OF CALIFORNIA | | 907 | 27[illegible] |
| | | 14 | AMERADA HESS CORPORATION | | 713 | [illegible] |
| | | 14 | MARATHON OIL COMPANY | | 713 | [illegible] |
| | | 15 | TEXAS GULF INC. | | 907 | 27[illegible]100 |
| | | 15 | GETTY OIL COMPANY | TEXACO INC | 303 | 7934164 |
| | | 13 | CITIES SERVICE COMPANY | OXY USA INC. | 918 | 5613366 |
| | | 15 | PLACID OIL CO | | 816 | 5613365 |
| | | 16 | GULF OIL CORPORATION | CHEVRON U.S.A. INC | 713 | 754[illegible] |
| | | 15 | ROWAN PETROLEUM INC | ROWAN DRILLING | 907 | 2792[illegible] |
| | | 14 | ATLANTIC RICHFIELD COMPANY | | 907 | 2634624 |
| | | 16 | SHELL OIL COMPANY | | 713 | 8704314 |
| POINT THOMSON UNIT | | | | | | |
| SALE 30 | | | | | | |
| ADL 312866 | | | | | | |
| | * | 17 | EXXON CORPORATION | | 713 | [illegible] |
| | | 5 | CHEVRON U.S.A. INC | | 713 | 754[illegible] |
| | | 6 | PHILLIPS PETROLEUM COMPANY | | 713 | [illegible]741 |

# Alaska State Legislature

SENATE RESOURCES COMMITTEE

Official Business

State Capitol
Juneau AK 99801

March 30, 1996

Mr. John Morgan, President
BP Exploration (ALASKA) Inc.
PO Box 196612
Anchorage, AK 99519-6612

Dear Mr. Morgan:

As the Senate Resources Committee continues its deliberations on Senate Bill 318, Northstar Lease Agreement, we will need additional information from BP.

The next hearing on SB 318 is Wednesday, April 3, 1996. We may need to hold an evening session from 7 p.m. to 9 p.m..

The subject of the hearing will be a detailed presentation by BP of its anticipated development plan for the Northstar Unit. Please provide the Committee staff with copies of the materials supporting your presentation by 5:00 p.m. on Monday, April 1, 1996. In addition, please provide responses to the requests for additional information which the Committee members made during the hearing yesterday.

Technical representatives of the Department of Natural Resources will be available in Juneau for the hearing next Wednesday. You should have your support staff present or online to answer detailed questions regarding the Northstar Unit development plan.

I am looking forward to continuing the hearings with the cooperation of BP and the departments of Law and Natural Resources.

Sincerely,

Loren A. Leman

Senator Loren Leman
Chairman, Senate Resources Committee

# *Northstar*

*Northstar*

A E D

BP

# Project Description

- Fully appraised (4 wells in structure) 130 mmbbl field
- Well product vity over 7 mbd/well, oil quality 42° API
- 6 miles offshore from existing infrastructure
- BP with 98% WI and Murphy with 2%
- Lease Terms
    - 20% royalty on State leases
    - 16.67% royalty on Federal leases

# Plan of Development



- Three year POD (Plan of Development) approved by DNR in April, 1995

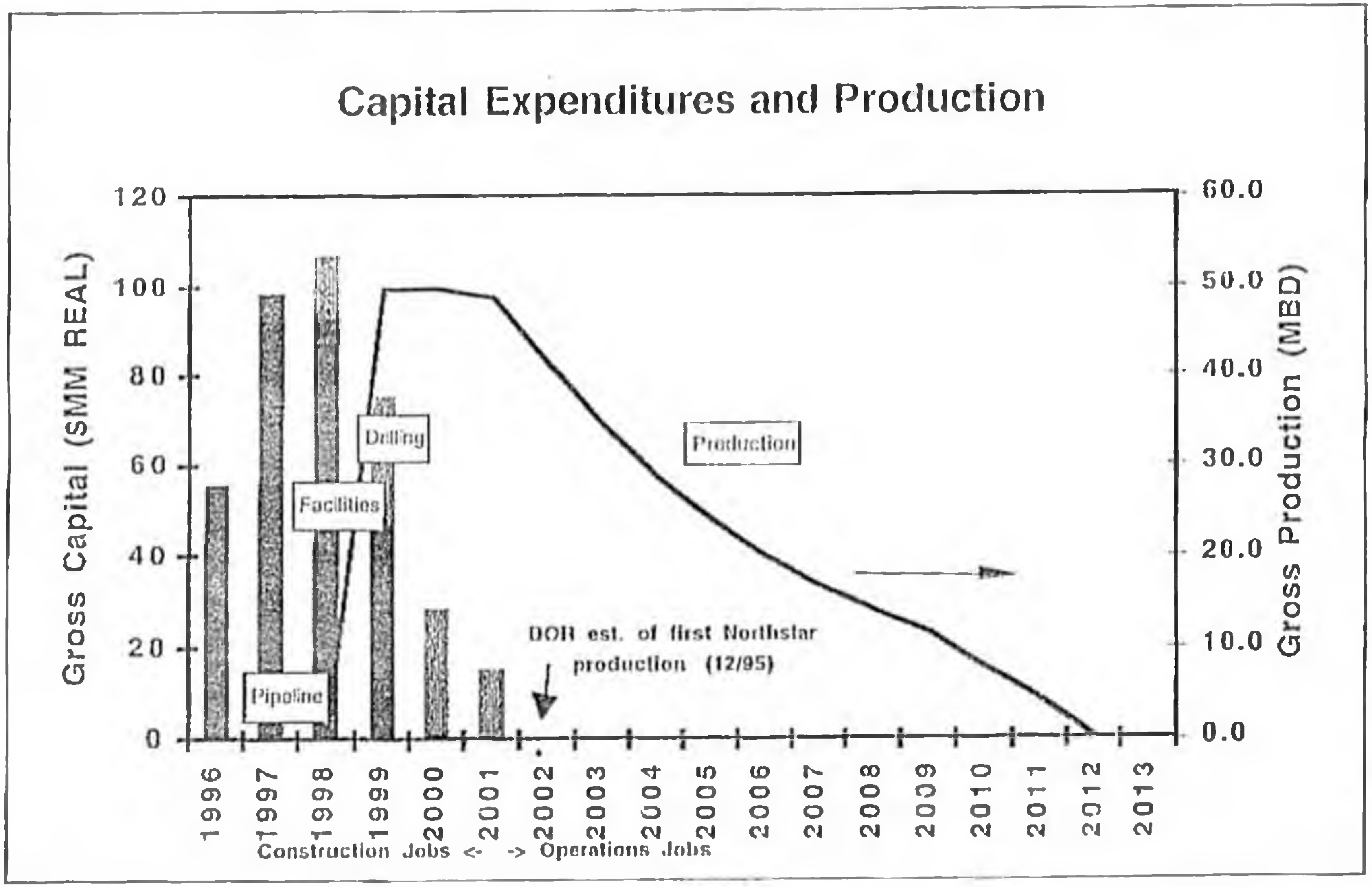
- Key items in POD
  - 3D seismic acquired in 3Q 1996
  - Updated reservoir description end 4Q 1996
  - Detailed development scenarios by 1Q 1998

# Development Plans

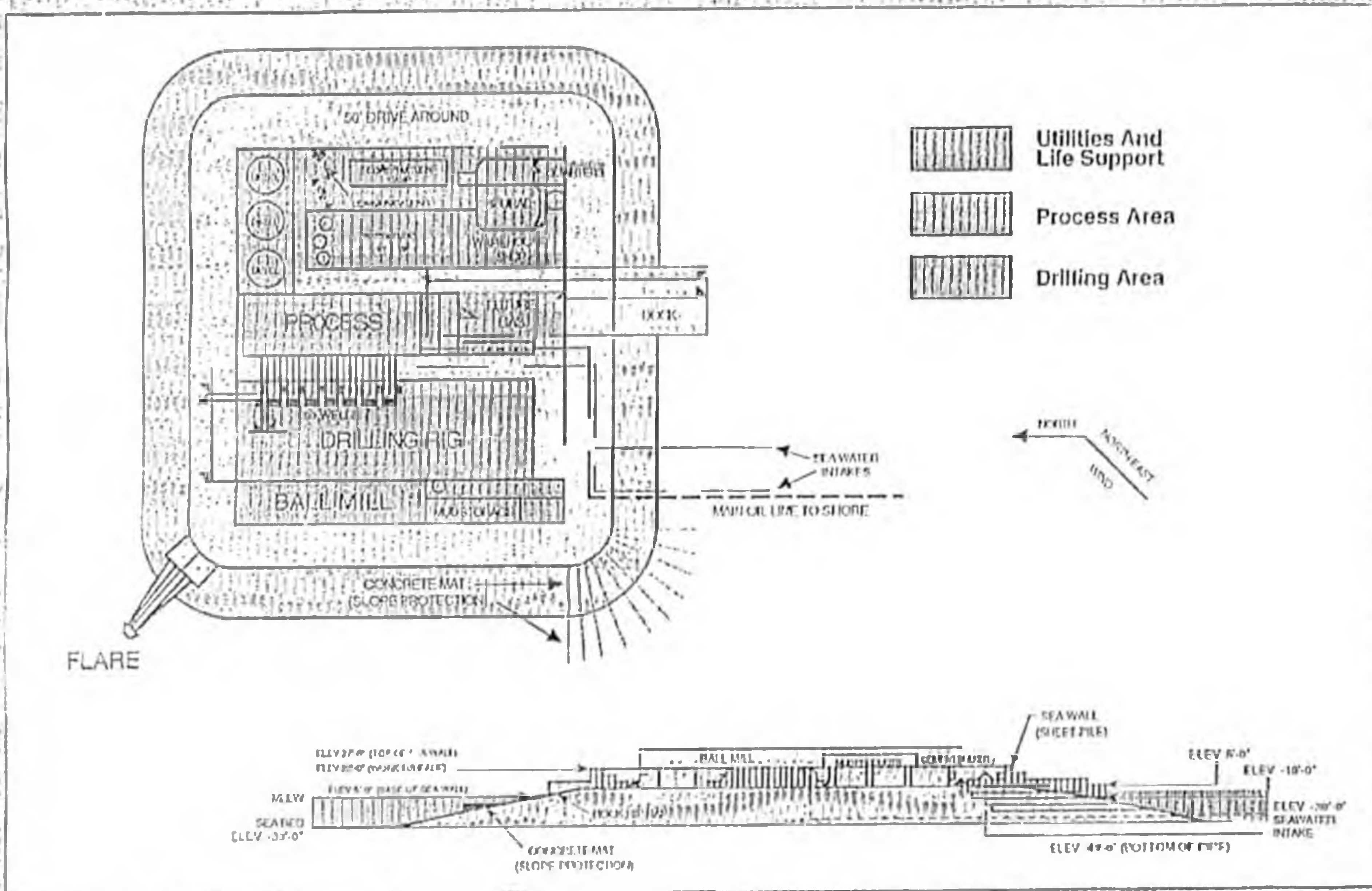
- Stand alone facility
  - 15+ year project life
  - Use Seal Island and enlarge
  - 50, 000 bbl/day peak rate
  - ~25 wells

*Northstar*

# Production and Capex

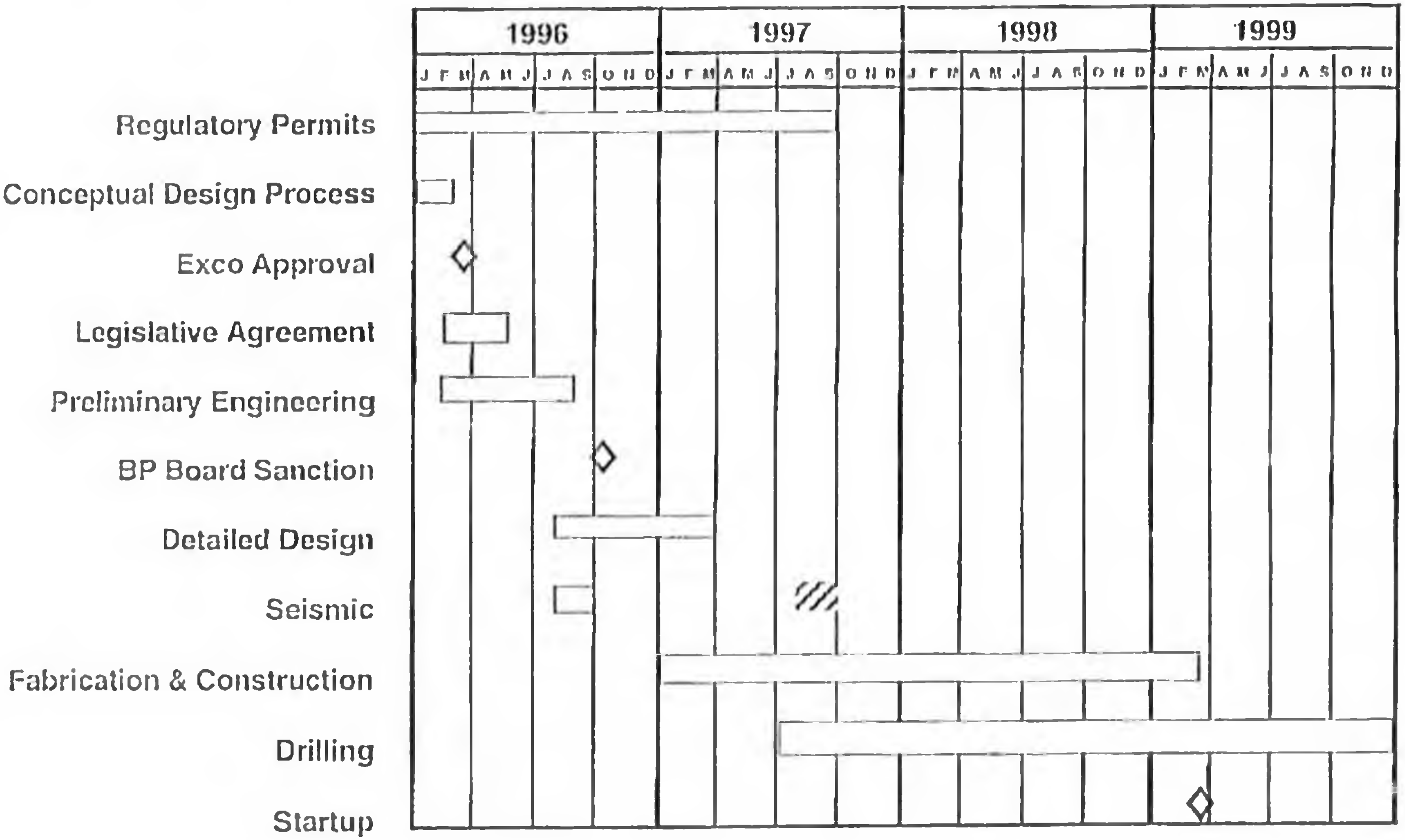


# Northstar Island and Facilities



*Northstar*

# Development Schedule



*Northstar*

# Preliminary Costs

A E D

| | Total Cost ($mm) | Imported Materials ($mm) | Contractor Costs ($mm) | Contractor % Alaska |
|---|---|---|---|---|
| Island | 28 | 7 | 21 | 100% |
| Pipeline | 28 | 8 | 20 | 100% |
| Facilities | | | | |
| • Installation | 12 | 2 | 10 | 100% |
| • Fabrication | 110 | 48 | 62 | 75% |
| Engineering | 16 | 0 | 16 | 10% |
| Drilling | 85 | 30 | 55 | 100% |
| Environmental/ Other Services* | 71 | 5 | 66 | 80% |
| Total | 350 | 100 | 250 | |

* Indirects (catering, transportation, etc.) and Infrastructure Costs

# Preliminary Alaskan Content

| | |
|---|---|
| Total Alaska Spend | $210-$230mm |

| | |
|---|---|
| Overall Northstar program | 60-65% |
| Overall program (excluding purchased materials) | 80-85% |
| Facilities fabrication | 70-75% |

AED (BP)

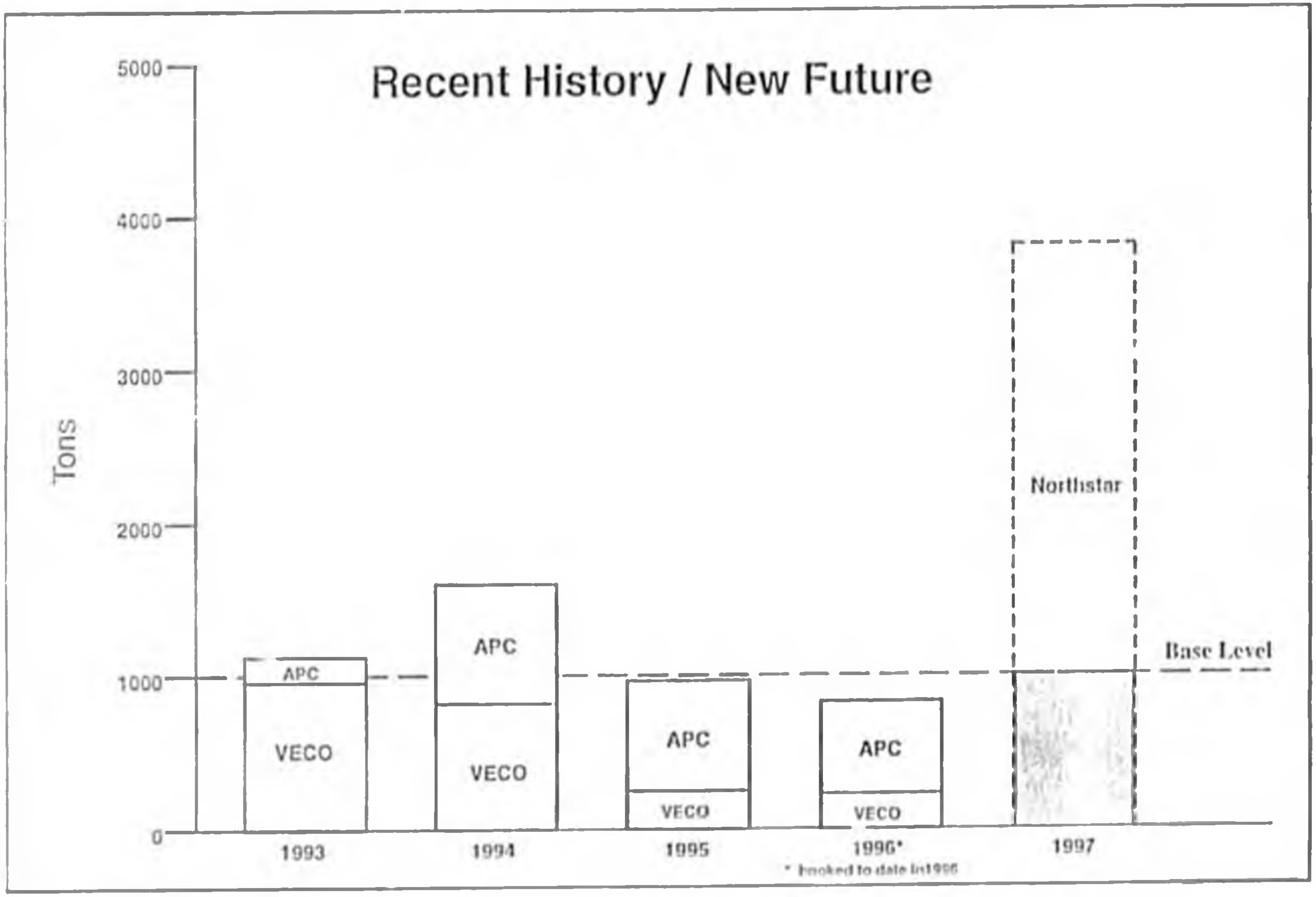
# Alaska Fabrication

- New jobs and economic development of Alaska's support industry

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

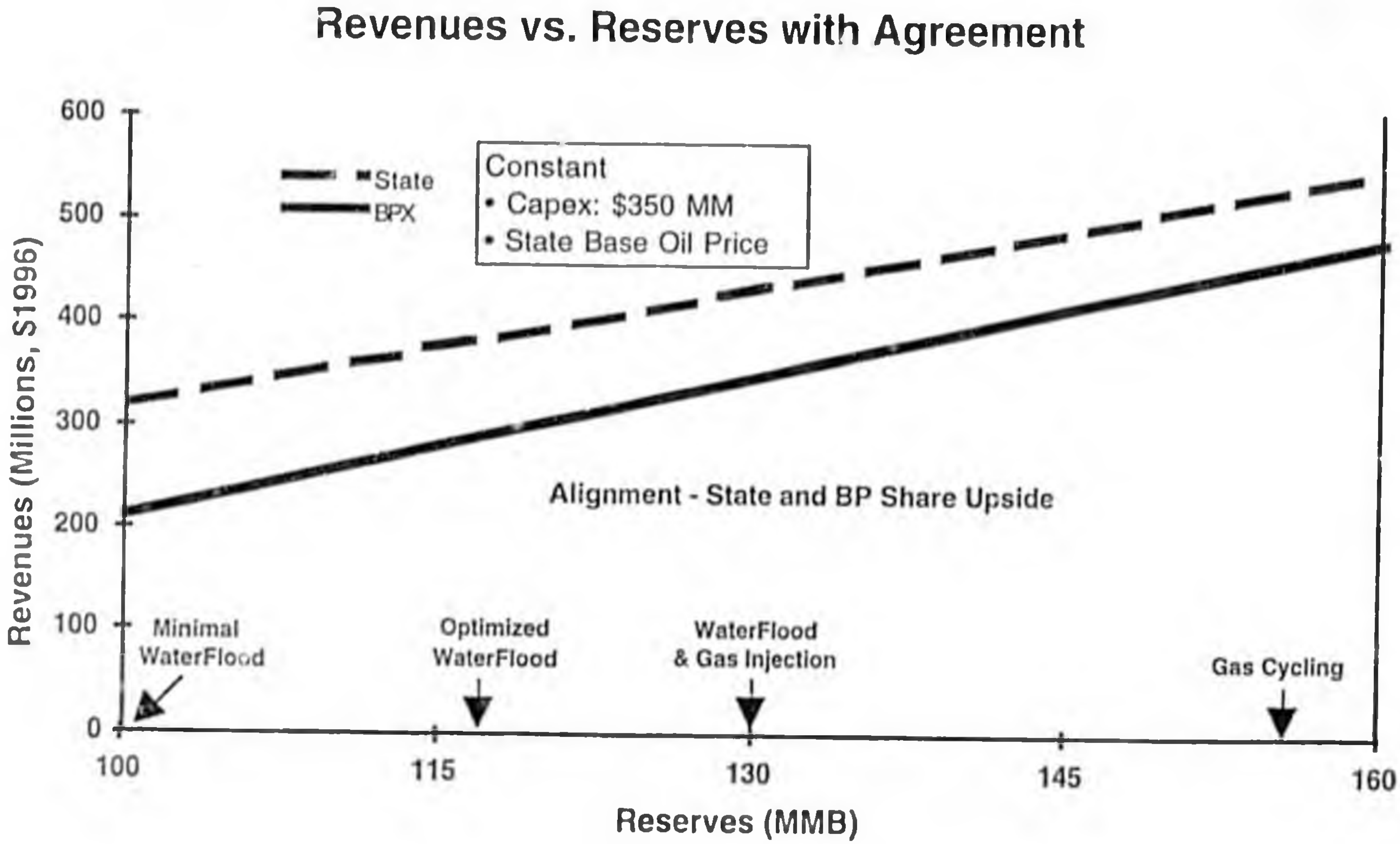
*Northstar*

# Alaska Fabrication



*Northstar*

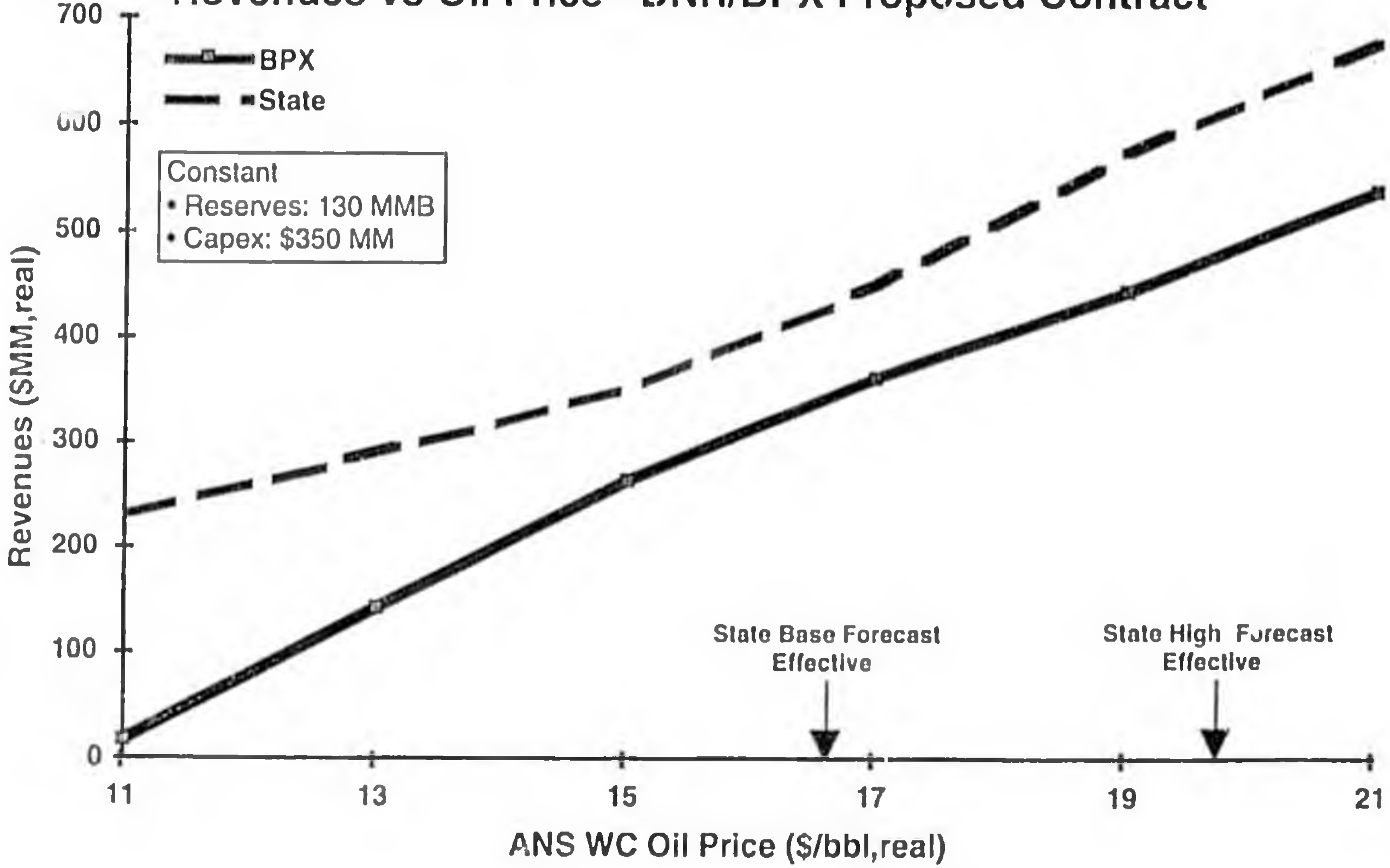
# Reserves Impact with Agreement



*Northstar*

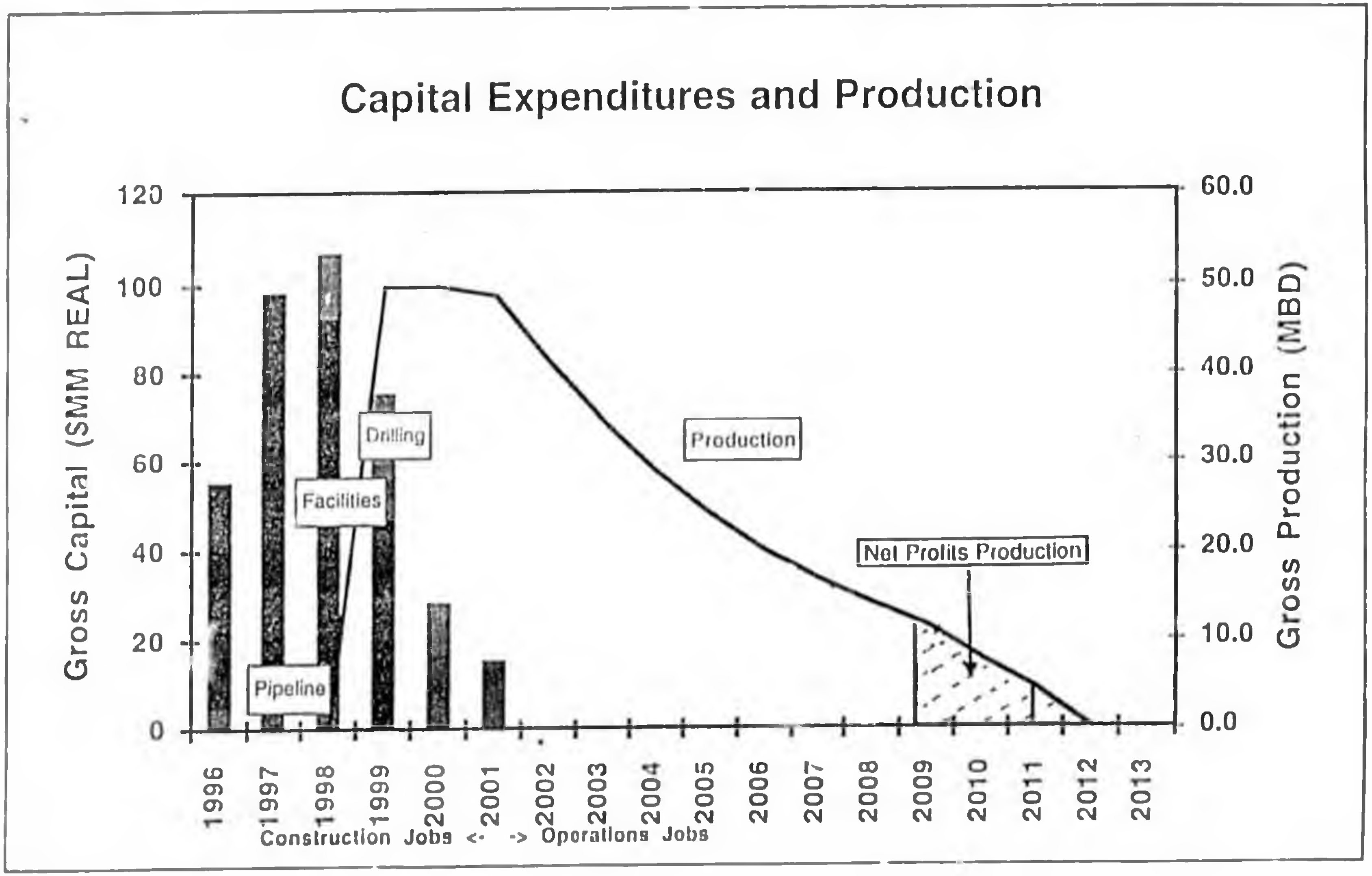
# Revenues vs Oil Price with Agreement

## Revenues vs Oil Price - DNR/BPX Proposed Contract



*Northstar*

# Production and Capex



John C. Morgan
President Alaska

**BP EXPLORATION**

BP Exploration (Alaska) Inc
900 East Benson Boulevard
P.O. Box 196612
Anchorage, Alaska 99519-6612
(907) 564-5422

April 29, 1996

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

Dear Representative Barnes:

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

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

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

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

We appreciate the opportunity to provide comments to your committee.

Sincerely,

John Morgan

John C. Morgan

James E. Eason

Oil and Gas Operations, Management and Policy

[illegible] • Anchorage, AK 99504-[illegible]
Phone [illegible] • Fax (907) [illegible]

May 2, 1996

The Honorable Loren Leman
Chairman, Senate Resources Committee
Alaska State Legislature
State Capitol Building, Room 113
Juneau, Alaska 99801-1182

Dear Senator Leman:

At your request last week Ms. Annette Kreitzer and I met with Division of Oil and Gas staff concerning the division's proposed amendments to the Senate Resources Committee's "Findings of Fact Regarding SB 318". Among the amendments requested by the division was the addition of the following language to Finding No. (4) of Article 3 of the Findings of Fact:

(4) The following day, on January 24, 1995, then Director Eason of the Department of Natural Resources approved BP Exploration (Alaska) Inc.'s request for a 90 day extension to submit a new plan of development because, according to Director Eason, it was "in everyone's best interest to allow BP additional time to conclude its acquisition and to formulate a new plan of development." **Mr. Eason has not explained why he took this action, instead of simply disapproving the plan and letting the unit terminate. There is no evidence that Director Eason consulted the Department of Law regarding whether he could have used this authority to grant the extension and approve the Plan of Development to leverage earlier production.** [AND] On January 24, 1995, the Minerals Management Service also approved BP Exploration (Alaska) Inc.'s request for an extension to file a more detailed Plan of Development until April 30, 1995.

With the exception of the text in bold lettering above, we agreed to amend the Findings of Fact to incorporate the division's language. In addition, as you requested, I am providing this letter for the record explaining why I agreed to a 90 day extension for BP Exploration (Alaska) Inc. to submit a new plan of development instead of disapproving the plan and letting the unit expire at that time.

To put the chronology of events in context, I was preparing to leave state employment at the time, having been informed by the governor's office that I was to be terminated. I was wrapping up several pending projects with the goal of leaving the division on February 10, 1995. There was much speculation at the time about my departure, both by members of my staff and the press. Some believed that my departure was related to my earlier handling of another BP matter—my unwillingness to approve the Badami Unit under terms proposed by BP, including a proposal to amend the royalty provisions of the Badami leases.

There had been several written exchanges between BP's Badami project manager, Mr. Terry Obeney, and me regarding the basis for my unwillingness to approve the unit's plan of exploration and my concern with BP's royalty amendment, which appeared to me to be a royalty reduction for which there was no statutory authority. Following several meetings with BP, I wrote Mr. Obeney on December 9, 1995 to outline those concerns. Pertinent excerpts from my letter are provided below:

> "In addition to the two leases upon which the discovery wells were drilled, BP also proposes to unitize 10 adjoining leases encompassing almost 40,000 acres. More than half of those leases are scheduled to expire in either 1995 or 1996, and although each carried a primary term of ten years, they have yet to be explored. Unitization, under the terms you have proposed, would extend to BP a potentially very valuable property right in these leases for a minimum additional term of five years. Yet, BP is unwilling to make specific commitments to explore any of these leases during the Plan of Exploration period."

> "We simply have a different view of prudent development. You characterize my reaction to BP's proposed Plan of Exploration as indicative that '"...the DNR Director appears to be in the mode of discouraging prudent development..."' I would suggest, alternatively, that it is my commitment to prudent development that really is the source of any disagreement. The plan you propose simply does not promote prudent development of the area proposed for unitization."

> "Again, I appreciate your desire to minimize risk, enhance profitability and preserve options. However, there seems to be a fundamental imbalance in this instance where the state is being asked to adopt a royalty scheme that is both insensitive to BP's profits, and which will likely, under most conceivable circumstances, result in substantial royalty reductions."

As you will recall, the Badami Unit Agreement was later approved by the Department of Natural Resources, and the administration submitted legislation which would allow it to reduce the state's royalty share from the Badami field. Through its passage of HB 207 at the end of the session, the legislature granted the authority requested, but set specific guidelines for exercising that authority.

In one of Mr. Obeney's letters to me concerning my reluctance to approve the Plan of Development and the royalty modifications for Badami, he posed the question of whether someone else sitting in my seat would make the same decision. Shortly thereafter, I received a call from Mr. Stan Jones of the Anchorage Daily News asking whether there was a linkage between my subsequently having been asked to leave and Mr. Obeney's comment. I told Mr. Jones that in all honesty I did not know if there was any connection between the two events. However, my concern about the possibility of a linkage did play a role in my decision to grant the 90 day extension, as explained below.

When BP approached the division with the news that it had purchased the Northstar leases with such a short time left under the department's default notice, I was concerned on two fronts. First, I was insistent that BP divulge the terms of its purchase so that I could make an informed judgment about whether or not the state should insist upon some sharing of the obvious, though undefined, value of the leases as a condition of further lease extension. BP refused repeated requests for that information.

Next, I was concerned about the specificity of BP's proposed Plan of Development. Given that the leases were fifteen years old and that the limits of the Northstar oil accumulation was fairly well defined, BP's willingness to purchase the leases with the risk of default and unit termination hanging over them, suggested to me that BP felt the development to be economical. With that in mind, I told BP that I viewed its proposed Plan of Development to be inadequate, and that I felt that it should make a firm commitment to development. BP was adamant that it would not make such a commitment.

I realized that under the circumstances, my decision to deny the application likely would lead to a request for reconsideration which would place my successor in a very unenviable position. He would have been confronted with having to make a difficult choice, only a matter of days after my departure, and under circumstances in which the new administration's policy was still being formulated. For better or worse, I thought that was both unfair to him, and an unnecessary further complication. I believed that by my providing the extension, it would allow all parties sufficient time to determine what the administration's policy was to be, and to settle on an appropriate Plan of Development. Obviously, I hoped that the result would be a commitment from BP to develop Northstar.

As to the last issue raised by the division in its response to the Findings of Fact, I do not recall consulting with the Department of Law before agreeing to the extension. However, I believed then, as I do now, that it was within my authority to grant the extension.

Sincerely;

Jim

James E. Eason

STATE OF ALASKA

**DEPARTMENT OF LAW**

*OFFICE OF THE ATTORNEY GENERAL*

*TONY KNOWLES, GOVERNOR*

*PLEASE REPLY TO:*

1031 WEST 4TH AVENUE, SUITE 200
ANCHORAGE, ALASKA 99501-1994
PHONE (907) 269-5100
FAX (907) 276-3697

KEY BANK BUILDING
100 CUSHMAN ST., SUITE 400
FAIRBANKS, ALASKA 99701-4679
PHONE (907) 451-2811
FAX (907) 451-2846

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

APR 22 1996

April 22, 1996

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

Re: SB318 (Northstar Unit net profit share reduction)

Dear Senator Leman:

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

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

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

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

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

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

Very truly yours,

BRUCE M. BOTELHO
ATTORNEY GENERAL

By: James L. Baldwin
James L. Baldwin
Assistant Attorney General

JLB:clh

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

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

## FACSIMILE TRANSMITTAL

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

PLEASE DELIVER TO. Senator Loren Leman

FAX NUMBER: 465-3810

NUMBER OF PAGES (including cover): 10

FROM: Ken Boyd
269-8800

COMMENTS:

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

Attachment.

# MEMORANDUM
DEPARTMENT OF NATURAL RESOURCES

# State of Alaska
DIVISION OF OIL AND GAS

TO: Ken Boyd
Director

DATE: April 16, 1996

FILE NO:

THRU:

TELEPHONE: 269-8799

FROM: Kevin Banks

SUBJECT: Northstar--Response to Senate Resources Committee

You received a letter from Senator Loren Leman on April 12, 1996, which asked that the division provide to the Senate Resources Committee forecasts of state revenues using the "illustrative" Northstar model. The Senator's letter specifically requested model results assuming a peak rate of 80,000 barrels per day, assuming reserves of 190, 160, and 115 million barrels, and assuming capital expenditures and processing fees associated with facility sharing. The impact of these assumptions on State, federal, and BPXA revenues are attached. I did not analyze a facility sharing alternative, instead, I asked BPXA to provide their own analysis. I also asked BPXA what they felt would be the capital expenditure requirements for the various reserve assumptions and discussed their numbers with Bill Van Dyke.

These tables provide a forecast of revenues from a calculation of both supplemental royalties and net profit shares. Revenues including net profits shares are estimated assuming a full production start-up in 2002 and 1999. To be consistent, supplemental royalties should be compared to the net profit shares forecasted under the delayed development scenario.

The first table assumes that peak production of 80,000 barrels per day is achieved in 1999 for the estimate of supplemental royalties or 2002 for the estimate of net profit shares. Capital expenditures of $139 million are added to the "most likely" case in order to achieve these rates. Production rates decline precipitously and the field shuts-in eight years after start-up.

The next three tables illustrate the effect of changing reserve assumptions. The 190 million barrel case assumes the same capital expenditures and peak production rates as above, but the production decline is less. The field life is the same as the "most likely" case. The 160 million barrel reserve case is achieved with capital expenditures of an additional $48 million over the "most likely" case. The peak production rate is also 80,000 barrels per day. The last table illustrates the 115 million barrel case. No additional capital expenditures are assumed. The peak production rate and field life is the same as the "most likely" case.

Bill Van Dyke has also prepared a "per barrel" analysis of the cash flows in response to the questions asked by Senator Frank during the hearing on April 11, 1996. His analysis is also attached.

Senator Leman also wrote on April 15, 1996 requesting details about what I dubbed the "Marginal Lease Method," a system that calculates state take on the basis of cash flow.

This is the "formula" that Commissioner Shively refered to in his testimony. In a nutshell, the MLM approach allows for a reduction in state "take" so that the lessee can attain a rate of return necessary to develop an oil field. If, in any year, the cash flow (calculated from price, production, allowable operating and capital costs) actually received by the lessee exceeds the cash flow predicted to achieve the lessee's rate of return, the excess is paid to the state. The lessee pays this excess to the point that the state is made whole for the amount that the state's take was reduced. If the field earns additional revenues beyond this point, this excess is split between the lessee and the state. I have attached the spreadsheet that we shared with BPXA that shows how the MLM works. As you know, BPXA rejected the MLM approach stating that it was not interested in a "tax scheme," that it had "very little negotiating room," and that it wished to continue "discussion on the Supplemental Royalty approach."

Attachment.

# Northstar Economic Evaluation

Alaska Department of NATURAL RESOURCES

## Estimated Total Revenues

| Senate Resources Committee Letter--rec'd 4/12/96 80,000 Barrels/Day Peak Rate | Supplemental Royalty and 1999 Development | Net Profit Share and 2002 Development | Net Profit Share and 1999 Development |
|---|---|---|---|
| | | (Real 1996 Dollars) | |
| **State Revenues** | | | |
| State Royalty | 261 | 262 | 261 |
| State Supplemental Royalty | 16 | 0 | 0 |
| NPSL | 0 | 0 | 0 |
| State Share of Federal Royalty | 17 | 17 | 17 |
| Severance Tax | 94 | 109 | 94 |
| Spill & Conserv. Tax | 3 | 3 | 3 |
| Ad Valorem Tax | 34 | 37 | 34 |
| Income Tax | 11 | 11 | 11 |
| Total | 435 | 438 | 420 |
| **Federal Revenues** | | | |
| Royalty (Net of State Share) | 45 | 45 | 45 |
| Income Tax | 180 | 181 | 185 |
| Total | 225 | 226 | 230 |
| **BPXA Cash Flow** | | | |
| After Tax Funds Flow | 275 | 277 | 285 |
| Real Rate of Return | 20.1% | 20.1% | 20.6% |

Totals may not add due to rounding.

(This table is based on the Illustrative Northstar model described in Senate Resources Committee hearings--April 11, 1996.)