

**ALASKA LEGISLATURE COMMITTEE FILES 1995-1996 86/2**

**8988 SENATE RESOURCES**

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COOK INLET REGION, INC.

April 22, 1996

VIA FAX: (907) 465-3810

Honorable Loren Leman  
Chairman  
Senate Resources Committee  
State Capitol  
Juneau, Alaska 99801-3810

Dear Senator Leman:

I am writing to you today as a follow up to my earlier testimony to the Committee and my conversations with you about Senate Bill 318. As you are aware, CIRI is heavily involved in the oil industry in Alaska through our own developments on the Kenai, as a working interest owner in Endicott, and through our three subsidiary companies, PEAK Oilfield Services, Construction Machinery, Inc. and Alaska Interstate Construction. So we benefit from more than our alliances and partnerships as a contractor on Alaska's North Slope.

It is our belief that SB 318, which would allow the development of Northstar, is a most vital piece of legislation. It will do more than just put hundreds of Alaskans to work and inject millions of private sector dollars into our economy. It will maintain flow in the Trans Alaska Pipeline. Clearly, the State must continue to support these smaller field developments or we will reach a point where it is uneconomic to transport oil through the pipeline. If the pipeline shuts down we can forget any future developments such as ANWR.

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

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

Senator Leman  
April 22, 1996  
Page 2

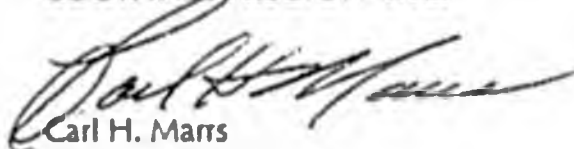
Cook Inlet Region, Inc. fully supports this negotiated agreement. For our part, we are satisfied that BP will do everything in its power to fulfill its commitments on local hire and local business participation in Northstar's development. We do not base this belief on misguided optimism, but on cold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

In summary, we believe BP means what they say and that the Northstar project is our best opportunity to forge a new standard for Alaskan's participation in oil development. It also sends the right message to other companies thinking about investing in Alaska. The legislature worked hard to pass HB 207 last year to send the message that Alaskans are willing to work with the industry on issues critical to the future development of Alaska's resources. This is one of those issues so let's -- as Alaskans live up to the intent of HB 207 and pass SB 318 as received from the Administration.

Accordingly, on behalf of Cook Inlet Region, Inc., I strongly urge you to support SB 318 as it was introduced and keep this vital legislation moving forward. Thank you.

Sincerely,

COOK INLET REGION INC.



Carl H. Marrs  
President & CEO

CHM/dm  
0028

April 15, 1996

To: Senator Loren Leman, Chair, Senate Resources Committee  
From: Thomas Cook, 1848 Kalgin Street, Anchorage, Alaska 99504  
(phone (907)333-1419; fax (907)338-9792)  
Subject: SB318--Northstar Beaufort Sea Net Profit Share Leases

I respectfully offer the following comments to you and your committee in support of SB 318 that would amend the terms of certain leases overlying BP's Northstar Prospect by deleting the provisions for net profit shares to the state.

Let me begin by acknowledging that, as an oil and gas industry consultant, I sometimes work for various companies in the oil industry including BP Exploration. However, I assure you and your committee that my comments are those of a concerned citizen and are offered to you at my own initiative.

From June 1, 1978 until May 31, 1980, I served as Director of the Division of Minerals and Energy Management, Department of Natural Resources. It was during my period as Director that the State prepared for and conducted the 1979 Joint State/Federal Beaufort Sea Oil and Gas Lease Sale which resulted in the net profit share leases which are now at issue.

I became Director at the same time as the State's new oil and gas leasing statute took effect. With the passage of this new law, the Division faced a major task of developing regulations to implement the law and the various new bidding provisions provided for in the revised leasing statute. The Division also faced a major task implementing a leasing program under the new law. With these responsibilities before me, I realized that I should review the legislative history of the new leasing law. More importantly, I wanted to review the studies and analytical work that I assumed had been done by the Department of Natural Resources in support of the newly enacted law. When I requested copies of these studies which I presumed had been undertaken, I learned that none had been done, or at least none had been documented.

The only study I could lay my hands on was a consultant's report prepared for the Department by Mr. Mason Gaffney. The report recommended a variety of unorthodox bidding methods and leasing strategies without much analytical support and no citations as to where these policies had been used and with what

results. Based on my past experience and knowledge, I was very skeptical about the application of contingency bidding methods, "checker-board" leasing, and "two-stage" leasing and other unproven leasing techniques which Mr. Gaffney was recommending to the Department.

As Director, I was strongly opposed to contingency bidding and net profit share bidding in particular, for the following reasons:

1. Contingency bidding methods and net profit share bidding, as a type of contingency bidding, have the effect of shifting risk from the private sector to the public sector. Under contingency bidding and net profits bidding, the State accepts a promise (higher royalty, share of profits, or a work commitment) in lieu of cash up front (bonus bid) as a criterion for awarding a lease. Reward to the State then becomes largely a function of geologic risk (is oil present or not), and business risk (will future oil prices justify and support development). Industry is in a much better position to deal with these risks. It does so through joint bidding with partners, conducting exploration and development in many areas of the world, and counting on enough successful ventures to pay for the more numerous unsuccessful ventures. The State has no significant means of spreading or lessening risk other than to accept the highest competitive cash bid as a criterion for a lease award.

2. Net profit share bidding (and some other forms of contingency bidding) can lead to unrealistic or irresponsibly high bids. There are really no factors which practically constrain a contingency bid which is a promise costing nothing and bearing little in the way of obligations. Cash bonus bidding by its nature requires that a bidder carefully evaluate its bid in terms of available cash and its desire to aggressively proceed with exploration and development. History shows that tracts receiving high bonus bids receive timely exploration and expeditious development if exploration results in a commercial discovery.

3. Net profit share leases are likely to involve excessive administrative costs and disputes as to how the net profit due the State is to be calculated. Regardless of how tightly accounting and regulatory definitions are drawn, there will still be differences of opinion as to the allocation of costs and revenues, the treatment of depreciation, and questions of fair return on investment. It is quite possible or even likely that administrative costs and disputes leading to litigation would negate the worth of a net profit share to the State.

4. Net profit share leases necessarily cause the State to be involved in business and technical decisions which are best left the responsibility of the lessee. For example, if the State became concerned that the costs of development, however necessary and prudent for a safe operation, were too high, it might pressure the lessee to cut corners and undertake less than prudent development to cut costs and thus increase profits.

These were my primary concerns in opposing the use of net profit share leasing in the 1979 Beaufort Sea Lease Sale. With this background in mind, I urge the Legislature to delete the net profit share provisions from the Northstar leases.

In choosing net profit share as the bid variable in 1979, the State chose to forgo hundreds of millions of dollars in lease bonuses which would have been forthcoming under the proven system of cash bonus bidding. The opportunity for large cash bonuses has been lost because times have changed. The late 1970's were times of extremely high oil prices. State and industry experts alike shared a general view that oil prices would remain high and many believed oil prices would increase in the future. The outlook now is considerably more sober. The state cannot recapture the opportunity it lost in 1979 by canceling and offering the leases at another sale.

The best course of action for the State is to delete the net profit share provisions and allow BP Exploration to proceed with development. This will lead to real benefits in terms of royalty payments and taxes to the State, jobs and economic opportunities for contractors and businesses across the state.

The simple fact that the Northstar leases have remained undeveloped by the original lessees for over fifteen years --in spite of promising discoveries--is ample proof that the original lessees found development to be uneconomic under net profit share obligations averaging 90 percent.

The Northstar leases are now owned by BP Exploration, a company with a demonstrated commitment to responsible and diligent development of Alaska's oil and gas resources. The State Legislature now has the opportunity to undo a past mistake in choosing net profit share lease terms by deleting the onerous and uneconomic net profit requirements. To do otherwise would be a ratification of a costly mistake and another decision to forgo the development of Northstar with its many benefits to the State and its citizens.

Thank you for the opportunity to comment on this important legislation.

APR 25 1996

Thomas C. Crafford  
3000 Princeton Way  
Anchorage, Alaska 99508  
April 23, 1996

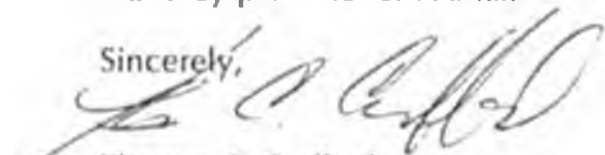
Senator Loren Leman  
Alaska State Legislature  
State Capitol (MS 3100)  
Juneau, Alaska 99801-1182

Dear Senator Leman :

I am writing you to express my support for SB 318/HB 548. These bills, as you know, provide for the development of the Northstar oil field. They do not constitute a "giveaway" or "concession" but, rather, are pacts between the State of Alaska and the lease owner, BP Exploration, that establish reasonable royalties for the oil produced from the field. Additionally, the bills provide not only for direct operating jobs for Alaskans, but also for construction jobs in the in-state fabrication and assembly of oil field modules to produce the oil. Alaska has long sought "value-added" activities that would leverage our natural resources production and these bills would go a long ways towards accomplishing that laudable goal.

I don't see how Northstar could ever be developed under the existing royalty scheme. SB 318/HB548 recognize that economic reality and through their provisions foster a "win-win" situation for both private industry and state government. I encourage you to support these bills and the economic benefits that they promote for Alaska.

Sincerely,



Thomas C. Crafford

# DEBENHAM

Electric Supply Co., Inc.

SB318

*Respond*

APR 18 1996

Senator Loren Leman  
Alaska State Legislature  
Resources  
State Capital  
Juneau, AK 99801-1182

Dear Senator Leman,

It was a pleasure meeting with you during the week of April 7, 1996 on behalf of The Alliance. I am now taking the opportunity to write you on behalf of Debenham Electric Supply Co., Inc. We wish to thank you for your efforts in developing a long term plan to balance the budget. We also wish to acknowledge your efforts toward the passing of legislation encouraging oil and gas exploration and production and your development of Tort reform legislation.

Debenham Electric Supply Co., Inc. would also like to let you know that we encourage the legislature to support BPXA in the development of the Northstar project. The Northstar project is good for the State of Alaska, Alaska hire and Alaska fabrication. We would also ask that you become involved in the Alaska buy issue, which is vital to the continued growth of the Alaska Supplier Community. The action taken, by BPXA, to out-source the supply of materials pertaining to the BPXA general goods bundle has been detrimental to many Alaska Suppliers. Fairmont Supply Co., a Price, Utah firm, has no Alaska connection, only that they supply the products that many Alaska Suppliers have been providing BPXA for years. Utah reaps the benefits in increased tax revenues. Because of a BPXA directive, the State of Alaska and its Supplier Community stand to lose if BPXA does not change its directive and purchase 100% of their supplies and services through Alaska Suppliers.

Debenham Electric Supply Co., Inc. is hopeful that the Northstar project goes forth. We would also ask that you be mindful of the supplier issue as it relates to the overall purchasing scheme that BPXA has implemented. BPXA can easily reverse their directive by eliminating Fairmont Supply, the supplier. BPXA can continue their efforts in utilizing Fairmont Supply, the purchasing agent, to help reduce BPXA costs incurred through the execution of purchasing associated functions. This is a compromise which would allow BPXA to accomplish their goals of reduced procurement costs and at the same time receive unlimited support from the Supplier Community.

Debenham Electric Supply Co., Inc. is committed to support events that strengthen the State of Alaska. We support the State Legislature in providing leadership in the passing of legislation that will insure the State of Alaska will have a healthy and flourishing economy for years to come.

Sincerely,  


Mitch Robison  
Branch Manager  
Debenham Electric Supply Co., Inc.

Rick DeTavernier  
Inside Sales Representative  
Alaska Instrument Company, Inc.  
907 E. Dowling Rd. Suite 5  
Anchorage, AK 99518

April 29, 1996

Senator Loren Leman  
Alaska State Legislature  
State Capitol (MS 3100)  
Juneau, AK 99801-1182

Dear Senator Leman,

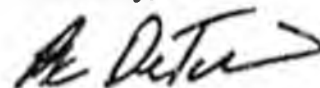
I would like it to be known that I'm very much in favor in the opening of the Northstar oil field. As a recent immigrant to Alaska from Michigan, I am very cognizant of the fact that oil makes the modern world move. I believe that we (Alaskans) should cash-in on the oil in the present and strive for a production base economy in the future.

The opening of the Northstar might bring in a new industry of manufacturing and fabricating of oil field modules. This industry, of manufacturing oil field modules, will most certainly have off shoot industries that will benefit the state as a production based state. Some of these off shoot industries just might survive, after the oil is depleted sometime in the future.

For myself, the issue really isn't Northstar but the issue is Alaska needs a larger manufacturing based economy. Northstar may be a stepping stone for a more productive and larger manufacturing based economy.

Alaska needs to start producing more finished goods, or when the oil runs out so does the future of Alaska. Opening Northstar oil field will certainly be a step in the right direction.

Sincerely,



Rick DeTavernier



Executive Office  
McKean Center  
Washington, PA 15301  
412-223-2200

D. M. CHURCH  
Director  
Purchasing and Materials Management

April 10, 1996

Dear Supplier,

Effective May 1, 1996, Fairmont Supply Company will relocate and centralize its Price, Utah Western Purchasing functions into our Corporate Purchasing and Materials Management Department out of Washington, Pennsylvania.

All future correspondence should be forwarded to the following address:

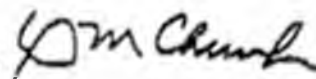
Fairmont Supply Company  
P. O. Box 501  
Washington, PA 15301  
Attn: Purchasing and Materials Management

Phone No.: 412-223-2200  
Hours: 8:00 a.m. - 5:00 p.m. E.S.T.  
Monday - Friday

Invoicing will remain as before.

Please update your files accordingly and notify the appropriate personnel of these changes at your company. If you have any questions or have any concerns, please contact Mr. Carl Grebner, Manager - Commodity Purchases.

Thank you,

  
D. M. Church  
Director  
Purchasing and Materials Management

Question to Alaskan Legislators  
Is this where you intended for BP  
Exploration to do their business?  
Do we now go to Pennsylvania  
to sell to the north slope oilfields?



April 26, 1996

APR 29 1996

Senator Loren Leman  
Alaska State Legislature  
State Capital (MS 3100)  
Juneau, Alaska 99801-1182

RE: Senate Bill 318/House Bill 548: DNR/BP Northstar Agreement

Dear Senator Leman:

I am writing to urge your support of the above legislative package that will enable BP Exploration (Alaska) Inc. (BPXA) to move ahead with the development of the Northstar oil field.

The terms of the deal struck between the Governor and BPXA which you are being asked to approve, is a fair deal for the state, and commits the operator to a performance standard that will translate into several hundred construction jobs for Alaskans.

At the time the Northstar leases were originally issued, crude oil prices were high and reserves were hard to come by in the marketplace. The State intended to capitalize on this opportunity, and as lessor, drafted lease terms which gave the State a bigger piece of the action. We all know what has occurred subsequently. If the original lease terms are left unmodified, I do not believe any prudent operator would develop the leases, given current petroleum economics. The lease modifications you are being asked to approve will carry the highest conventional royalty (20%) of any field on the North Slope plus an escalation factor based on oil prices.

Please use your influence to assure passage of this legislation prior to adjournment. It will provide income to the State through an acceptable royalty plus severance taxes; help stabilize the eroding job base on the North Slope; and provide some new jobs as well. At a time when Alaskans are looking to their legislators to reduce spending, increase revenues and provide an economic climate that will promote jobs for our residents, you have before you an opportunity to help accomplish two out of the three with this legislation.

Thank you.

A handwritten signature in cursive script, appearing to read "R. C. Gardner", is written over a faint, larger version of the same signature.

R. C. Gardner  
President

DAN R. GILBERTSON  
1240 GILMORE TRAIL  
FAIRBANKS, ALASKA 99712  
907-457-3989

POSTAGE PAID

March 26, 1996

MAR 29 1996

TO:

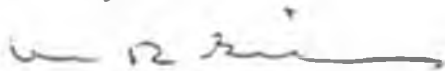
Petroleum News\* Alaska  
Anchorage Daily News, Fax: 907-258-2157  
Fairbanks Daily News Miner, Fax: 907-452-7917  
Legislative Information Office - All Legislators mailed to Juneau  
Bert Sharp - Chair Interior Delegation Hand Delivered  
Gene Therriault - State Representative  
Mike Stepovich  
Ken Boyd, Director, Division of Oil & Gas, Fax: 907-562-3852  
Charlie Cole

Enclosed please find a copy of our letter to Commissioner Shively. We are copying this letter to you not only for informational purposes but for any assistance that you as representatives of the people of our State could provide. At a time when the Legislator and the Senate seem to be going in a pro-development stage, why is it that we as individuals cannot get the same considerations.

Once read, I am sure you will find the attached letter extremely self-explanatory. I am sure you can understand my frustration with this situation

Thank you.

Sincerely,



Dan R. Gilbertson

## Dan R. Gilbertson

1240 GILMORE TRAIL  
FAIRBANKS, ALASKA 99712

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Telephone 907-467-3989

March 26, 1996

Commissioner John Shively  
Department of Natural Resources  
400 Willoughby Avenue  
Juneau, Alaska 99801-1724

VIA FAX TO: 1-907-465-3886

Dear Commissioner Shively,

As a small independent investor on the North Slope, one of only a handful in comparison to the major oil companies up there, I have some serious concerns as to why the Major Oil Companies and the State seem to be so bound and determined to allow only big oil on the North Slope. Specifically, this is in reference to Lease #365537, Lease Date commencing on 11/30/85 for 10 years (this lease has a 16 2/3% Royalty to the State of Alaska).

Let me provide you with some of the specifics on the above mentioned lease.

At one time this lease was part of the Badami Unit, and at the State's request, put into a separate unit (the Rheingold Exploration Unit). Obviously the Badami Unit overshadowed the Rheingold Unit, and there was no reason to have two separate units. We are still unclear as to why we were removed from the Badami Unit in the first place. We were the only lease not owned by major companies excluded from the Badami Unit. Perhaps you can shed some light on this as well.

A year ago, we negotiated with British Petroleum in good faith and thought we had consummated a deal to sell them this lease. BP was not negotiating in good faith. They would discuss the agreement with us verbally and then when we received the written agreement from them, it was not as previously discussed. To put it concisely they negotiated in bad faith.

My reason for this statement is that I suspected that BP was at their State acreage limit while they were negotiating with us. We then offered our lease to ARCO. ARCO stated they were not interested in that area, but then, one month later, at the December 5, 1995 lease sale #80, purchased the adjoining lease to ours- more than likely on BP's behalf.

As our lease was about to expire, we realized that we would not have a deal, and would need to come up with another game plan.

Since that time we have been attempting to seek a lease extension from the Division of Oil and Gas. It became glaringly apparent that we were not going to be allowed to be part of any Unit Agreement.

During the last week of November 1995, we sent our annual lease payment check in the amount of \$14,400.00 with our request for an extension of our lease which was to expire on November 30, 1995. The State subsequently cashed this check, but has yet to notify us if in fact our lease has been extended.

Is it safe to assume that since your department cashed the check, the lease is in fact extended? If so, I would appreciate some verification of this extension.

At this time it would be in the best interest of the State to provide us with an extension on the lease so we can proceed with our plans.

Currently, the Division of Oil & Gas, the Governor's Office, and the Legislators are going the extra mile to promote development on these fields in the North Slope and working directly with the Major Oil Companies. I think it would be very beneficial for the State to provide the same considerations and courtesies to the small independents that have been provided to the major oil companies. Earlier Commissioners have extended leases indefinitely with a discovery well on-site, and being that this particular lease has a discover well, I think we should be given the same consideration. Eg., two leases previously extended were ADL #47466 for ARCO and ADL #455527 for ARCO/EXXON.

I am concerned that if you do not encourage independent investors on the North Slope the same negotiating ability on lease terms and conditions you are giving BP and ARCO, that you will never know the true quantities and value of oil.

The State has had a hand in creating a monopoly for the major oil companies on the North Slope and the people of Alaska should demand that there be some other types of mechanisms structured in so that individuals and independents have equal access to Alaska's resources, so vital for the long term economic development of Alaska and its people.

As a lifelong resident of Alaska, whose family has been involved with oil and gas leases for 3 generations, I expect equal consideration be given individuals and independents that has been granted to the major oil companies.

If the State is to grant us a lease extension - there is nothing to lose, and it is a win-win situation. I feel that we could afford to pay a much higher royalty rate than what the major's say is to high. Alaska has much lower royalty rates than any other country. Our lease has a 16 2/3% royalty to the State of Alaska.

Oil and gas leasing in Alaska is open to all comers; individual, independents, and major oil companies. The State should respond to all lease owners in a consistent and fair manner and not favor just big oil in their decisions.

We feel our lease, ADL #365537 should be extended as we have previously requested and by this letter are asking your assistance and action on this request.

We would appreciate your response on this within 5 days.

Please let me know if you need anything further.

I look forward to your immediate response in the above matter. Thank you for your consideration.

Sincerely,



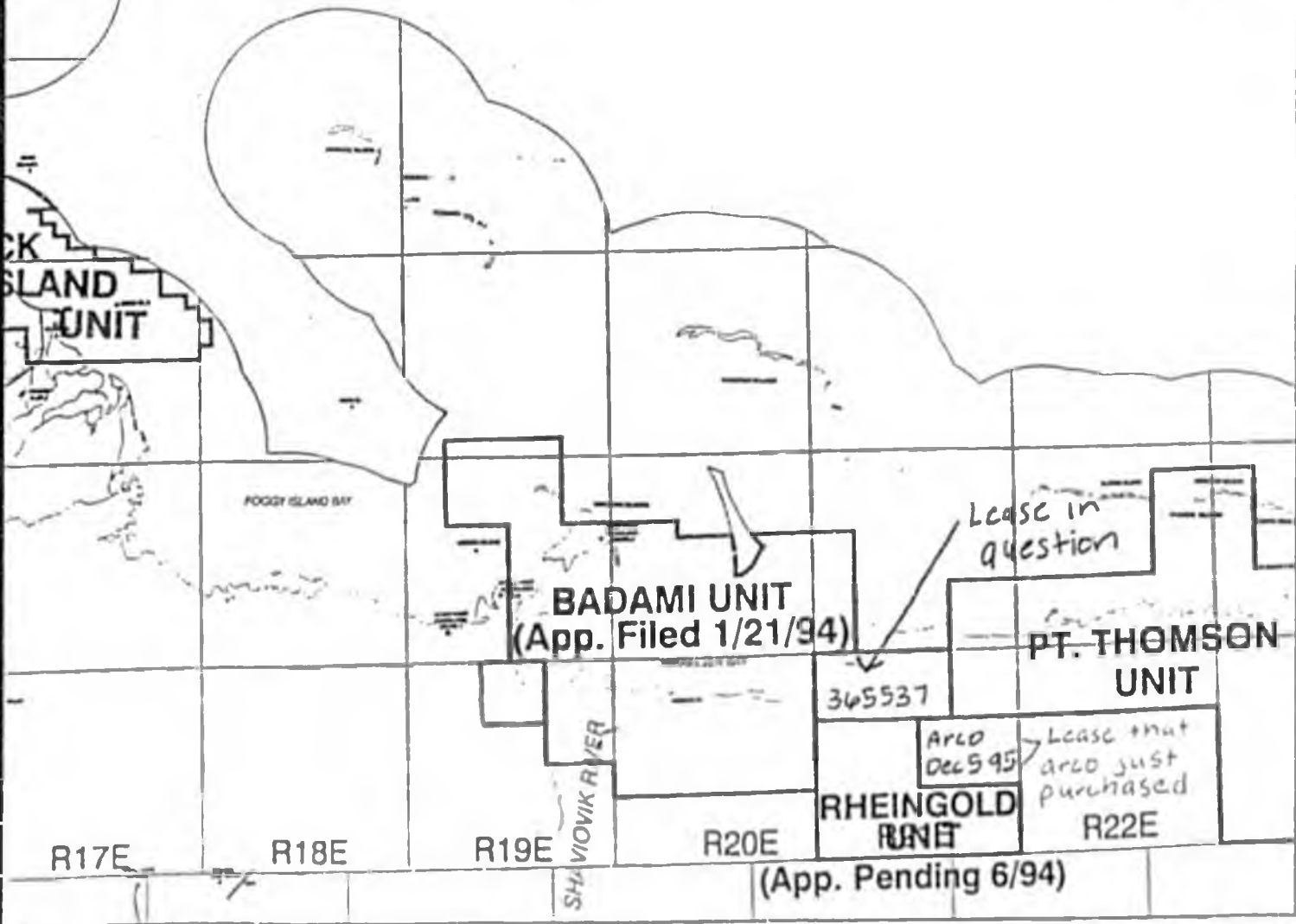
Dan R. Gilbertson

CC: Petroleum News\*Alaska  
Anchorage Daily News  
Fairbanks Daily News Miner  
Legislative Information Office - All Legislators  
Bert Sharp - Chair of the Interior Delegation  
Charlie Cole  
Cliff Burglin  
Jack Sexton  
Jacquie Gilbertson  
Ken Boyd, Director, Division of Oil & Gas

ALBERS EQUAL AREA/NAD27

BEAUFORT SEA

NORTH



135

PAY TO THE ORDER OF  
FEDERAL BANK OF MICHIGAN  
FOR DEPOSIT TO THE ACCOUNT OF  
THE SUBMINERAL PAYEE  
DEPT. OF NATURAL RESOURCES  
MICHIGAN REVENUE  
MICHIGAN STATE BANK OF MICHIGAN  
(110) 847 6

RECEIVED  
MICHIGAN REVENUE  
12500024  
MAY 28 1954

5901

C. BURGLIN - LAND CONSULTANT

P. O. BOX 17  
LANSING, MICH.

MAY 28 1954

PAY TO THE ORDER OF Dept. of Natural Resources \$ 7,412.70

for submineral payee

FEDERAL STATE BANK

FOR A126365537

1954 MAY 28 12 59 PM '54

12500024

**PRICE**

**H.C. PRICE CO.**

301 W. Northern Lights Blvd., Suite 300  
Anchorage, Alaska 99503  
(907) 278-4400 • Fax (907) 278-3255

April 26, 1996

APR 29 1996

Alaska State Legislature  
State Capitol (MS 3100)  
Juneau, Alaska 99801-1182

Attn: Senator Loren Leman  
Reference: SB 318  
Subject: Northstar Development and Alaska Jobs

Dear Senator Leman:

I enjoyed visiting with you while in Juneau two weeks ago. We are supporting the referenced bill as good business for the State and, based upon personal meetings with representatives of BP, good business for the Anchorage and Fairbanks areas.

You may not realize that H.C. Price Co. has been one of the largest employers of Alaskan construction workers over the past twenty-two years. We have performed over fifteen million man-hours of work since 1979 with Anchorage and Fairbanks dispatched craft employees. Most of those hours were on North Slope Projects (over 50%) and Alyeska Projects (40%). The balance were on jobs in and around Anchorage, Fairbanks, and the Kenai Peninsula, including BP's Hurl State Modules in 1989 and 1990, and other North Slope modules in 1991 and 1992.

We are currently providing BP with detailed costs and capabilities for Alaskan module construction to once again provide module fabrication for the Northstar Project. BP has been very positive regarding the use of Anchorage and Fairbanks resources to build the Northstar modules if the project goes ahead.

I urge you to support the administration-sponsored legislation without modification to ensure early development, early employment and business opportunities, and early State revenue flows.

Thank you for your consideration of this information.

Very truly yours,

H.C. PRICE CO.



Wesley P. Nason  
Vice President and General Manager

WPN/n/352

**FACSIMILE COVER PAGE**

**To: Sen Loren Laman**

**Time: 09:55:42**

**From: Brad Humelsine**

**Date: 04/19/96**

**Pages (including cover): 1**

Please find the following letter to BP. It was written in response to the direct mailing they made regarding Northstar.

This is the kind of sweet deal Alaska can do without.

Thank you,

Brad

James B. Humelsine  
2553 LaHonda Drive  
Anchorage, Alaska 99517  
Phone (907) 276-7826

April 19, 1996

John C. Morgan President, Alaska  
BP Exploration (Alaska) Inc.  
900 East Benson Blvd.  
P.O. Box 196612  
Anchorage, Alaska 99519

Dear Mr. Morgan:

I am responding to the direct mailing you sent me regarding the Northstar oil field.

As a strong supporter of the oil industry in Alaska, but I am very disappointed in BP and its handling of the Northstar affair. Your company purchased the field knowing full well, what the former owner had bid on the tracts. You also knew as the new owner would be bound by the same agreement. Since this tract was awarded by the competitive bid process, it should only be changed through the same bid process.

BP must feel they much to gain from this purchase and subsequent renegotiation, because in my 17 years in Alaska I have never seen such a concerted effort from an oil company to reopen a contract. In your letter you call this field "relatively small", however your PR effort is relatively large. You have spent a significant amount of money on advertising and other public relations efforts relating only to this field. Historically the themes of your advertising and PR campaigns have been the "good neighbor" or "look at we do for you Mr/ Mrs Alaskan", recently you have used increasingly more hard line themes such as "We are Alaska's biggest tax payer". But never before this have you said call you legislator and tell them "don't tinker with this deal we negotiated with the Governor". I closely follow the Ad campaigns of yours and other companies, I have witnessed your increasingly aggressive themes, and I do not approve of them, period. This another example of the bully attitude your company is pushing.

Sorry, Mr Morgan I am too smart to fall for such a ploy.

If this contract were to be successfully renegotiated, it would set a precedent that I am sure you would be happy to use many times in the future. I think this is wrong for Alaska, and should be stopped now.

Thank: you for taking the time to read my response.

Respectfully,

Brad Humelsine

CC:

Rep. Cynthia Toohy

Sen Loren Leman

Gov. Tony Knowles

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

April 22, 1996

Senator Loren Leman  
State Capitol, Room 113  
Juneau, AK 99801-1182

RE: Northstar Lease Terms

Dear Honorable Loren Leman,

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

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

Northstar Oil Production	State Earnings		BP Pays Alaska (\$/barrel)	
	w/net profit	w/o net profit	w/net profit	w/o net profit
Case 1=130 million	\$444 MM	\$435 MM	\$3.42	\$3.35
Case 2=105 million	\$312 MM	\$340 MM	\$2.97	\$3.24
Case 3=180 million	\$934 MM	\$639 MM	\$5.19	\$3.55

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

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

BP is fighting hard to negotiate this upside potential away from Alaskans. If they succeed, BP will earn a \$295 million profit as shown in Case 3. If their negotiations fail to remove the net profit sharing provision, they will pay \$1.64/barrel more revenues to Alaska. BP has even resorted to intimidating Alaskans by threatening not to develop Northstar unless we give up our net profit share. When our Senate Resource Committee tried to modify the agreement BP's vice-president Eric Luttrell said, "BP will not reopen the negotiations and cannot agree to the changes." I would respectfully suggest that Alaskans tell Mr. Luttrell and BP that, "Alaskans cannot agree to changing the Northstar lease terms because we believe a deal is a deal and Northstar lease terms will not be reopened for negotiations."

Some legislators and other officials may believe this upside potential at Northstar is speculative and has no value. Obviously, BP believes exactly the opposite. They are hopeful Alaska will change the lease terms in return for something like a few jobs. But look carefully at the proposal. BP makes no binding agreement to construct modules in Alaska or hire Alaskans. The fifty permanent jobs BP estimates will be created by Northstar development will be needed regardless of what the lease terms are or who develops the field. So, it is very difficult for me to understand exactly what BP is offering Alaska residents that is tangible in return for us giving away our net profit share of Northstar.

I urge you to do the right thing and vote against changing Northstar lease terms.

Very truly yours,

Donald W. Ince  
via fax

SB 318

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

April 6, 1996

Senator Loren Lemman  
State Capitol, Room 113  
Juneau, AK 99801-1182

RE: Northstar Lease Terms

Dear Honorable Loren Lemman,

I am writing this letter to voice my opposition to modifying the net profit sharing lease terms for Northstar oil field. As a citizen of Alaska and co-owner of Northstar oil along with all other Alaska residents, I believe this is a bad deal for several reasons.

First, this deal circumvents the competitive lease sale bid process and establishes a dangerous precedent. If British Petroleum can re-negotiate lease terms awarded in a competitive bid sale why can't any other oil, timber and mineral lease holder do the same? Modifying Northstar lease terms sends a message to corporations that when they formulate a lease bid it doesn't matter what they promise to pay Alaskans for our resources. Actual terms can be re-negotiated at a later date once they've been awarded leases based on commitments they might never plan to keep.

Next, oil fields on the North Slope and elsewhere in the world have a documented history of becoming much larger than original estimates once development begins<sup>1</sup>. The remarkable growth of estimated reserves at Prudhoe Bay is highly publicized by the oil industry. Point McIntyre field was originally estimated to be about 100 million barrels when first discovered. It is now estimated to be nearly 400 million barrels in size. BP's Niakuk field was first estimated to be about 50 million barrels and is now estimated to contain approximately 100 million barrels. It is very likely BP's initial estimate of 130 million barrels at Northstar is similarly too low. It is also very likely Alaskans will lose hundreds of millions of dollars in revenues if we agree to change the terms as proposed by BP. It is clear BP is attempting to negotiate away the net profit sharing provision before development begins and the true size of Northstar is revealed. Any modification of lease terms to prolong field life should occur only after development begins and the amount of oil at Northstar is better known.

Also, BP knew precisely what the Northstar lease terms were when they bought them. It simply makes no sense that a company would spend money on leases they believe have no value and the oil is not economic to develop. Either BP is very dumb for buying these leases or they believe Alaskans will be even dumber.

We should not be swayed or concerned by BP's threats not to develop Northstar. If BP refuses to develop Northstar, Alaskans can cancel the leases and re-issue them for competitive bids. BP has already publicized the initial size, development plan and potential worth of the field. Chances are high the oil industry will show a keen interest in this field and Alaskans are certain to get better terms than the current deal proposed by BP. If Northstar leases are re-offered, all oil companies, including BP, will be free to offer Alaskans what they consider a bid-winning price for this oil. BP's attempt to hold our Northstar oil hostage while requesting Alaskans ransom our oil back from them in return for more profitable lease terms is unacceptable.

Finally, the recent revelation that BP might request secret hearings to convince a few legislators why Alaskans must give up our net profit share of Northstar is ludicrous. If BP is unable to convince Alaskans in an open, public manner why this is a good deal then legislators should be unwilling to go behind closed doors and negotiate. Alaskans will not accept the old "trust us ... it's good" phrase coming out of secret meetings. This issue must be decided based on the merits of public and not secret data. If BP decides not to reveal information to the public this is their own choice. We are under no obligation to grant them secret hearings. Again, consider the precedent. Companies could promise Alaskans anything during a competitive lease sale and then secretly go behind closed doors to negotiate final lease terms.

I strongly support plans to provide incentives for oil companies to develop smaller and marginally economic oil fields in Alaska. This makes good sense for both Alaska and oil companies who choose to conduct business here. However, I do not believe re-negotiating competitively bid lease terms is the proper route from which to provide these incentives. I urge you to oppose lease term changes for Alaska's Northstar oil field.

Very truly yours,

Donald W. Ince  
via electronic communication

Reference:

- (1) Title: ADVANCES IN OIL AND GAS RESERVOIR APPRAISAL  
Author: SPENCER J A  
Source: ENERGY EXPLOR EXPLOIT V 8, NO 6, PP 393-402, 1990  
Publication Year: 1990  
ISSN: 0144-5987

Abstract: Significant variation in reserves during the life of a field, from initial discovery through production and decline to abandonment, has long been recognized as a fact of life in the oil industry. As a fundamental asset of an oil company, there is a global desire to limit inaccuracies and present not only a consistent, but also an accurate view of reserves. Discussed are the stages of a field's development and how these relate to reserves growth and decline. The impossibility of exact prediction from an inaccurate science in a changing world is acknowledged. Statistical information is analyzed to illustrate historical movement and trends in reserves. The application and effect of recent advances in the techniques used in reservoir appraisal and reserves estimation is reviewed.

SB318

Used for  
std response

April 25, 1996

Kathleen M. Ladner  
3420 Telstar Circle  
Anchorage, Alaska 99517

Senator Loren Lemman  
Alaska State Legislature  
State Capitol (MS3100)  
Juneau, Alaska 99801-1182

Dear Senator Lemman:

Considering the state of our economy, any reasonable option we have to improve it should be closely examined. Such an option is Senate Bill 318. Without this bill, Northstar will not be developed. This field means 500 direct jobs in Alaska during the peak of construction, 50 direct, permanent jobs in Alaska throughout the project's life and about \$250 million in new capital spending for the state. All are much needed to ensure an increase and maintain stability in Alaska's economy.

If we fail to pass Senate Bill 318, the message to the oil industry will be clear. Alaska is not interested in reasonable development. A statement I am sure you will disagree with. BP has committed to the development and is ready for action the day after the lease amendment is approved. They have a proven record of success in resource development in Alaska and, more importantly, have committed themselves to Alaska hire, both on their own and through contractors.

You must vote yes on Senate Bill 318. Alaska's people depend on you for their future and the future of the entire state. Thank you.

Sincerely,



Kathleen M. Ladner  
Concerned Citizen

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Thursday, April 4, 1996  
(Hon.) Senator Loren Lehman  
Alaska State Senate  
Juneau, Alaska 99811

Via Fax

RE: BP Proposal; Big Dipper Oil; gratitude to you and Senator Taylor

I note in today's paper (ADN: 4.4.96: B1: SENATE PANEL CONSIDERS BP PROPOSAL) that BP spokesman Luttrell emphasized that the fundamental difference between the net profit share arrangement in Venezuela and Alaska is the profitability of the field. This is *prima facie* baloney! There are a myriad of other differences built into the Venezuela deal including foreign exchange benefits and equity in the project which gives a reduction of the net to the venture by allowing profit-taking by a JV holding company...I am attempting to get more details via the internet and will pass them on to you.

You and Senator Taylor are absolutely right to question this deal. Think of Alaska as an Oil Company. Let's call it "Big Dipper Oil". Think of each Alaskan as a shareholder in that Company. Now think of yourself as a member of the Board or Directors of Big Dipper. Now consider the fiduciary responsibility of that Board AND the CEO (Governor) to ensure profit maximization. In this context, then I must ask the following: Why in the hell are we not requesting Statements of Interest from every potential development partner in the World? Why are we giving the Franchise for our State's Future to the Big Oil Triumvirate when there is a world virtual alliances and partnerships available out there. Why don't we buy back the \*@#! lease if we prospect a better deal? Why don't we start acting with some *cajones* when these companies sit down at the table--this is OUR future at play!

Senator, I am a lifelong Alaskan, a lifelong Democrat, and a (former) supporter of the Governor, but as far as I can tell, you and Senator Taylor are the only ones in leadership who are asking the right questions. Thank you for exercising your fiduciary duties in this monumentally important issue.

Please pass this along to Senator Taylor with my gratitude...

Sen. Loren Leman,

4-20-96

First of all I want to compliment you on your handling of the Northstar issue.

I also want to pass on a couple thoughts/ideas to you.

In this deal with BP can we establish a review board that looks at this every year to see if both parties are living up to their end of the deal?

And in this review board could we have a couple BP north slope employees on it.

Also give this review board the power to cancel the agreement or at least halt it until agreements are met.

Keep up the good work

Mark A. Niven

p.s. We had a rally in front of the BP building on the 17<sup>th</sup>, news came out but didn't give us any air time. But we had a lot of support from cars driving by, honking their horns and giving the "thumbs up" sign!



Oilfield Service Co.

APR 29 1996

April 26, 1996

Senator Loren Leman  
Alaska State Legislature  
State Capitol (MS 3100)  
Juneau, Alaska 99801-1182

Dear Senator Leman,

I want to ask you for your support of Senate Bill 318.

The continuing decline of oil production in Prudhoe Bay only means that we as a state must find smaller oilfields to develop to keep our economy strong. Northstar can and should be developed soon.

BP has made a commitment to the state with the Northstar package. BP has committed to use local hire and stimulate a new local job market with module construction occurring in the state. In addition, royalties to the state could be the highest of any Alaskan oilfield produced to date.

As a concerned Alaskan and as a professional in an industry that is the biggest financial contributor to state government, I urge you and your colleagues to support Northstar.

In addition, your efforts to reduce the operating budget should be commended, but your reluctance to tackle the taxes supported by most Alaskans (Cigarette & Alcohol) and raise fuel taxes to national levels leave me questioning your ability to make the hard decisions. Also, you have not proposed any long range financial plan that deals with the constitutional budget reserve, the ever-increasing budget deficit, nor the "Alaskan Give Away Program", the Permanent Fund, that continues to escalate and pay transient residents and future additions to our population from our accumulated state wealth. Having been appointed and spent numerous hours on the aforementioned budget problems, I find it inexcusable that our Legislature does not resolve to plan against Alaska's fiscal crisis.

Sincerely,

Michael R. O'Connor  
President

711 Montagne  
Anchorage, Alaska 99507  
(907) 337-8538

# PETRO MARINE SERVICES

Petroleum Marketing to the Marine Industry

5B318

APR 17 1996

April 15, 1996

Senator Loren Leman  
Room 113  
State Capitol  
Juneau, Alaska 99801-1182

Dear Senator Leman,

The Alaska Legislature is currently in the process of making a decision on the Northstar offshore oil field, located six miles north of Prudhoe Bay. According to BP Exploration (Alaska) Inc. officials, Northstar will yield about \$500 million in new government revenues and another \$500 million in direct spending in Alaska over the life of the project.

As a lifelong Alaskan and businessman, I can clearly see the benefits of this project. I consistently embrace and support projects that offer the opportunity to be a "win" for all parties. Northstar represents a creative -- and mutually beneficial -- approach to developing a field with marginal economics because of the 89-percent net profits requirements.

On the other hand, I recognize that in your position as a legislator, this may be a challenging decision. Northstar will break new ground for our traditional oil and gas policies. In any event, as I understand it, we are exchanging long-term risk for the short-term certainty of a 20-percent base royalty and the potential of another 7.5-percent supplemental royalty. While some will view this strategy as a "trade-off," from my perspective it is a symbol of a true partnering relationship between industry and the state.

P.O. Box 389 • Seward, Alaska 99664



Phone (907) 224-3190 • Fax (907) 224-3937

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In addition, BP says that Northstar will directly create 500 construction jobs and 50 permanent jobs, as well as generate hundreds of indirect jobs. In my opinion, this is a substantial and significant step forward in positioning Alaska as an attractive state in which to conduct business.

At the present, I view the Alaska economy as being reasonably stable. While we are not experiencing dynamic growth, I have no overriding anxieties that we are facing a down cycle. If we are to maintain economic stability, I encourage the Legislature to continue to support the private sector in Alaska, which ultimately benefits all Alaskans. Accordingly, this letter is to respectfully request your support of the Northstar agreement as negotiated between BP and the Alaska Department of Natural Resources. Again, and for the record, I am squarely behind Northstar!

I appreciate your taking the time to consider my views.

Sincerely,



Dale R. Lindsey  
President/Chief Executive Officer

**April 24, 1996**

**Senator Loren Leman, Chairman  
Senate Resources Committee  
Fax 907-465-3810**

**In exchange for Northstar, please consider requiring BP to renegotiate their unitization agreement for Prudhoe Bay gas. We can't sell our gas and build a gas pipeline until the major owners all agree to a gas sale. The sale of gas has a wildly different impact on their respective financial statements. They can't agree because the present unitization agreement was driven by oil economics. A new unitization agreement for the gas would establish some commonality among the owners. It is the most important condition precedent for building the gas line.**

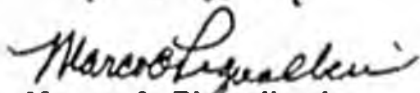
**Our petroleum resources are constitutionally owned by all the people of Alaska. We deserve to have hearings in our communities. This is not an issue that should be confounded in the rush to a sine die adjournment. However, you can put in to place a mechanism to accomplish Northstar and the re-unitization of the gas in the next legislative session while giving the public time to absorb the issues.**

**Your proposed royalty rollback for heavy oil is good leverage to get ARCO (West Sak) to agree to reunite.**

**I would also urge you to consider dropping the litigation against EXXON in exchange for their agreement to renegotiate a unitization agreement for the gas. Circumstances are in alignment for us to accomplish a win-win for everybody. With BP, EXXON and ARCO in harmony with us, we will sell our gas and get the gas pipeline built.**

**This message is too lengthy to be sent as a POM. I'd appreciate it if you would distribute this to other Senate and House members.**

**Respectfully,**



**Marco A. Pignalberi  
4222 Pinnacle Circle  
Anchorage, Alaska 99504  
907-338-2924**



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APR 10 1996

April 6, 1996

Senator Loren Lemman  
Alaska State Legislature  
State Capitol (MS3100)  
Juneau, Alaska 99801-1182

Subject: Northstar NPSL Leases

Dear Senator,

I am writing this letter to you requesting your support for the request made by BP Exploration to remove the net profit terms from the Northstar Unit's five state leases. Removal of net profit terms from these leases is essential for Northstar to be a competitive investment. BP cannot develop Northstar if the current net profit terms remain in place.

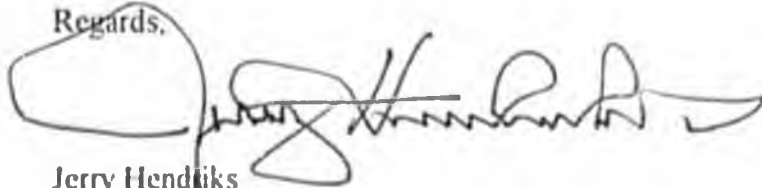
I have been an Alaska resident since 1966, when I moved to Kenai, Alaska to support the Cook Inlet oil boom. I started Puget Sound Pipe in Anchorage, Alaska in March of 1984 to support Alaska's needs for pipe, valves and fittings. The oil industry currently represents 90 percent of my Alaska sales dollars. I have 16 full time sales and warehouse people in my Anchorage operation, all of which are Alaska residents. Our Alaska sales in 1995 were 13 million dollars. This was an increase of 35 percent over 1994 sales. This increase was due largely to the purchases made by BP Exploration for the expansion of the Milne Point Production Facilities. My direct sales to BP Exploration were up 23 percent, plus my contractor sales of over \$4 million dollars for piping material for the Milne Project. In 1995 BP Exploration represented over 50 percent of my total sales. Myself and my 16 employees all need for BP to develop the Northstar Field. We depend on the continued development of small fields for our jobs here in Alaska.

There has been some question as to BP Exploration's plans regarding the purchase of material outside of the state of Alaska, for MRO needs as well as project requirements. Since this question was presented by several vendors, BP Alaska Exploration agreed to meet with all concerned Alaska Vendors. I have attended several of these meetings and was very pleased to hear from BP contract managers that they plan to keep their materials purchases here in Alaska. In fact they have committed to increase Alaska spending by purchasing goods in Alaska that have in the past been purchased in the lower 48 states. I have every reason to believe this will be the case based on purchasing history for the Milne Point Project.

The recent agreement between BP and the State on Northstar is an important milestone for Alaska and the oil industry. It not only offers jobs and long-term economic benefits, but also marks the beginning of a dynamic, State-Industry Partnership. Under this agreement, the State would collect at least \$430 million in royalties and taxes during Northstar's 15-year life, including \$37 million in supplemental royalties. About 500 construction and 50 permanent jobs would be created. Production modules would be fabricated in Alaska, significantly upgrading and expanding that industry, which has already produced about 100 modules for the North Slope.

The NPSL Leases were a product of the 1970's, when some believed oil prices would soar to \$100 per barrel. In the fiercely competitive 1990's these assumptions must be re-examined. I am a materials supplier to BP Exploration, but also a longtime Alaskan. For the benefit of all Alaskans, I urge the Legislature to pass legislation allowing Northstar to move forward.

Regards,

A handwritten signature in black ink, appearing to read "Jerry Hendriks". The signature is written in a cursive style with a large, looped initial "J".

Jerry Hendriks  
Vice President  
Alaska Operations

APR 20 1996

April 17, 1996

Honorable Loren Leman  
Alaska State Senate  
State Capitol  
Juneau, Alaska 99801-1182

Dear Senator Leman:

I'm writing to express my concern that nothing much seems to be going on with respect to the development of the Northstar oil field.

I understand that any business arrangement that concerns hundreds of millions of dollars, as this one does, requires intelligent deliberation. What I do not understand is that this legislature — comprising as it does a majority of lawmakers who, purportedly, are aware of the priorities and needs of the state's major industry — should in effect sit on its hands while a major source of jobs and state revenues is frittered away.

Acquaintances have explained away the Republicans' lack of zeal as sour grapes that stem from the fact that, so the story goes, the governor got there first. It's an entertaining explanation, but I simply can't apply it to serious legislators such as yourself.

If in fact there is serious deliberation going on and the pluses and minuses are being added and subtracted, can you let us in on what's going on? Northstar sounds, in short, like a good deal for everybody concerned. Can we get it passed this session?

I look forward to your reply.

Sincerely,



Harold Pierce  
2535 Discovery Court  
Anchorage, Alaska 99517

★ 1975 Serving Alaska for 20 years 1995 ★



# Resource Development Council

for Alaska, Inc.

121 West Fireweed Lane, Suite 250, Anchorage, Alaska 99503-2035  
Phone 907/276-0700 Fax 276-3887

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April 12, 1996

Senator Loren Leman, Chair  
Senate Resources Committee  
Rm. 113, Capitol  
Juneau, AK 99801-1182

Dear Senator Leman and Members of the Committee:

The Resource Development Council (RDC) supports the recently-negotiated agreement regarding the Northstar oil field in the Beaufort Sea. The economic incentives provided by the bill transmitted to the Legislature to authorize, approve and ratify the amendment of the Northstar Unit c.d and gas leases will enable BP Exploration (Alaska) to move ahead and invest in the technology to develop the field.

RDC finds the Northstar pact a refreshing and promising development in this era of budget cutting and declining state revenues. Development of Northstar will generate hundreds of millions of new dollars into the state treasury from royalties and taxes and create hundreds of good new jobs. Those jobs will go to Alaskans, as will the contracts to build oil field modules, similar to the large skid-sized modules that in the past were assembled in the Lower 48. All of this activity will generate new economic growth throughout the private sector.

With the expansion of infrastructure, other known oil fields and prospects in the area will become more attractive, so it is probable the success of Northstar will lead to additional development opportunities that might not otherwise occur.

With only weeks remaining in this legislative session, RDC appreciates your committee taking the time and the appropriate steps to consider and, hopefully, support the Northstar proposal. Thank you for your efforts to amend the Northstar leases to promote more immediate development, create jobs for Alaskans and revenue for the State.

Sincerely,

RESOURCE DEVELOPMENT COUNCIL  
for Alaska, Inc.

  
Bucky L. Gay  
Executive Director

cc: House Speaker Gail Phillips  
RDC Board of Directors

To: Senator Loren Leman, Chairman, and members of the Resources  
Committee.  
April 9, 1996

From: Jack Roderick - 1620 Hidden Lane, Anchorage, 99501  
(907) 272-8089

Re: SB 318 - Northstar net profits  
Beaufort Sea leases.

As state deputy commissioner of natural resources in 1977, I drafted the oil and gas leasing amendment (which included net profit leasing) used in the December 1979 joint federal-state Beaufort Sea lease sale. I am now testifying as a private citizen.

Sixteen oil companies bid net profits in December 1979 on state Tracts 46 and 47, now at the center of the Northstar oil field. (All state tracts carried a fixed 20 percent royalty, plus a fixed bonus payment.)

Union Oil of California offered 32 percent net profits to the state on Tracts 46 and 47. Shell and Murphy Oil bid 56 percent. Conoco, Placid (Hunt), Cities Services, Getty, Gulf Oil, and Texas Gulf bid 61 and 71 percent. Texaco and Texas Eastern Exploration Co. bid about 80 percent on each tract. Amoco, bidding alone, offered 71 and 82 percent. Amerada Hess, the high bidder for Tracts 46 and 47, bid 93 and 91 percent, respectively.

Texas Eastern Exploration Co. bid on two other net profits Northstar tracts with winning net profits bids of about 85 percent. Prior to assigning these two Northstar leases to Amerada Hess in 1991, Texas Eastern and Shell drilled several wells. Their Seal Island No. 3 well ("capable of producing oil in paying quantities") extended the leases under a unit agreement.

In 1995, BP made the business decision to buy Amerada Hess' and Shell's interest in Northstar for an undisclosed price and against unnamed competitors. BP felt it could convince the Governor to abolish net profit provisions in Northstar leases and re-negotiate the lease terms. It was a business decision that BP now wishes to justify.

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

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

SB 318  
Roderick - 2

However, Northstar is not an exploration prospect. It is a development project. Northstar is a discovered oil field. It is at least partially developed. Five wells at Northstar are capable of producing oil. BP estimates that at least 130 million barrels of oil can be produced from the field. (It is a known geologic structure (KGS) and, as such, any leasing of it must be by competitive bid.)

Being a development and not an exploration project, the ideal way for Northstar to be developed in the state's view is by net profits. Using net profit bidding on a partially discovered oil field was one of the situations the legislature contemplated when, in 1970-1979, it passed the leasing amendment that included net profits.

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

Northstar will have the first ever Beaufort Sea sub-sea pipeline. It will have the first ever production from a natural Arctic island. The state should welcome the idea of an operator having the incentive to spend more money developing and operating such a Beaufort Sea oil field. The project needs to be done right. Spending a few more dollars to do it right benefits everyone. Even contractors such as Veco and Arctic Slope - and even labor unions will do better under net profits than under straight royalty leases. BP has already sweetened the proposed deal with an offer of a "supplemental royalty" if and when oil prices rise, and it says it plans to already pay in-state contractors more to manufacture Northstar modules in Alaska. More such "in-sourcing" could be expected under a net profits operation.

An example of how net profits works for government can be seen at the Wilmington oil field offshore the City of Long Beach, California. When this giant oil field was discovered some three decades ago, five oil companies (THUMS) bid more than 90 percent net profits to develop and operate it. The City of Long Beach and the State of California (and some 6,000 uplands owners) have for more than thirty years been sharing net profit income from the field. No premature production shut-down has happened at Long Beach. Arco now owns the field, which is still producing more than 40,000 barrels of oil a day, and the field is expected to continue producing for another 10 to 15 years.

SB 318  
Roderick - 3

BP claims it won't develop Northstar unless all net profits is dropped. I think that if the legislature turns this deal down, BP would either re-think its decision not to proceed or find a successor to develop the field. I don't believe that BP would totally abandon its already substantial investment in Northstar. It has already reduced Amerada Hess' and Shell's original estimate of the cost of developing Northstar by two-thirds. Any successor would be able to take advantage of these cost reductions. I believe another company or group of companies could develop 130 million barrels of North Slope oil and make a profit.

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

The argument is sometimes made that if the BP-state deal is approved by the legislature other companies, especially those with Beaufort Sea net profit leases, will also expect to re-negotiate their lease terms. As a practical matter, I don't think many operators will so seek to trouble themselves and the Governor and the legislature, but if more Northstars are developed - and there will undoubtedly be some in the Beaufort - more re-negotiated lease deals can be expected. Likewise, bidders in future competitive lease sales could feel that their opening bids were only the first round in future negotiations with state officials. And any substantial future change in oil markets might find leaseholders seeking to re-negotiate lease terms.

If the BP-state proposed deal is turned down by the legislature and BP fails to proceed at Northstar and its leases are returned to the state, competitive re-bidding of these tracts will reveal the leases' true worth. If Northstar is developed under net profits - either by BP or someone else - the state will then know what the oil is truly worth.

SB 318  
Roderick - 4

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

I don't believe BP would shut-in a field still making a net profit. I think it would first find a successor (perhaps carrying less overhead than BP's) so that production would be allowed to continue. BP would rather own the North Slope oil than give it to a competitor. (Arco must be making some profit at Long Beach; at least it owns the oil being produced.)

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

PAGE 1-42

SB318

SENATOR LOREN LEMAN,

AS ALASKANS WE HAVE ALL WATCHED BIG OIL AND HOW IT DOES BUSINESS IN ALASKA. I HAVE SEEN THE BETTER PAYING HIGHLY SKILLED JOBS START TO BE CRIMINATED BY THE TERM "OUTSOURCE" SEVERAL YEARS AGO. I HAVE LIVED IN ALASKA MORE THAN 30 YRS. AND FEEL WE HAVE TO FIGHT HARDER EVERY DAY TO MAKE SURE OUR CHILDREN HAVE THE OPPORTUNITY WE HAD WORKING HARD AND MOVING FORWARD TO WORKING FOR GOOD EMPLOYERS THAT VALUED SKILLED WORKERS.

B.P. IS BACK TO "OUTSOURCING" AGAIN WITH MIKE TO COME AS THEY SAID "WE ARE LOOKING AT ALL JOBS AND OPPORTUNITIES TO CUT COST." THEY ALSO HAVE AGREED TO PURCHASE ALL GOODS FROM OUR MATERIALS GROUP TO "EXTRACT" A FIRM FROM UTAH. B.P. SAYS THE ALASKA SUPPLIERS HAVE TO BECOME COMPETITIVE - WE NEED TO ASK JOHN V. MORGAN (B.P. PRESIDENT) IF HE FEELS HE GOT THE SAME KINDS OF HOME IN ANCHORAGE FOR THE SAME MONEY AS HE WOULD IN MONT. WASH, MINN. ETC?

DICK OLIVER - DEPUTY CHIEF EXECUTIVE, B.P. - AT THE ANNUAL ALASKA SUPPLY INDUSTRY ALLIANCE MEET ALASKA CONFERENCE JAN. 27TH SAID "THE OIL INDUSTRY MUST REAFFIRM OUR COMMITMENT TO TRAIN AND HIRE ALASKANS" LETS HOLD B.P TO IT!! AT LEAST KEEP THEIR SKILLED WORK FORCE AS THEY ARE ALREADY TRAINED

PAGE  
20F

AND VERY SKILLED WITH MANY YEARS  
OF PROUDER BAY SERVICE.

WE HAVE SEEN ARTICLES RECENTLY  
ABOUT HOW THE LEGISLATURE AND EXECUTIVE  
OFFICES HAVE BEEN HELPING THE OIL COMPANIES  
GET TAX BREAKS FOR MARGINAL FIELDS ETC.  
THEY HAVE FINALLY RECEIVED A BIG BREAK  
THAT MEANS \$30,000+ EACH DAY THEY SHIP OIL  
TO THE PACIFIC RIM, AS THE EXPORT BAN IS  
NO LONGER IN THEIR WAY.

I'M ASKING THE STATE TO HOLD THEIR  
FEET TO THE FIRE AND NOT TO BE INTIMIDATED  
BY THEIR THREAT OF ALL THE JOB LOSSES ETC.

THEY WILL BRING ONLINE NEW FIELDS  
IT WILL ONLY TAKE A BIT LONGER BUT ITS  
WORTH IT TO BE TAKEN AND THEY WILL TAKE IT.

I VALUE YOUR JUDGMENT AND HAVE  
VOTED FOR YOU MORE THAN ONCE. I WAS  
OUT OF TOWN LAST WEEK BUT GET WORD YOU  
WORE THE ONLY ONE ASKING QUESTIONS OF RIG  
OIL IN JUNEAU. THANK YOU FOR YOUR TIME.

AND FIGHTING FOR ALASKA &

ALASKA'S ~~Oil~~ ~~Industry~~

RICHARD SIMMONS

3018 LEXINGTON AV.

ANCHORAGE AK. 99502

907-243-2951

*Fax Transmittal*

3243 Commercial Drive ~ Anchorage, AK. 99501 ~ 907-278-5773 ~ Fax 907-274-2646  
2132 Railroad Ave. ~ Anchorage, AK. ~ 907-276-4303 ~ Fax 907-276-3448

Please deliver the following pages to:

Name:	Loren Leman	No. of pages:	
Company:	Senator	From:	Richard Faulkner
City:		Date:	26 APR 96
Fax:	907-465-3810		

Reference: North Star Oil Field

Comments:

I'm writing in support of BP Exploration's agreement with Governor Knowles to open the North Star Oil Field and to express our full support here at STEELFAB.

STEELFAB is the largest steel supplier/fabricator in the state and employees approximately forty people, year round. All of our employees work, live and are raising their families here in Alaska.

STEELFAB believes that the opening of the North Star Oil Field would be very beneficial to our economy in Alaska and should be viewed as very positive opportunity for the private sector to continue business.

I'll reiterate, STEELFAB and our families support BP Exploration in opening the North Star Oil Field.

Sincerely,

Richard Faulkner  
President



# General Teamsters Local 959 State of Alaska

*Alliated with the International Brotherhood of Teamsters*

ANCHORAGE ALASKA 99504 4516 ROMIPACE HWY. (907) 265-4122 FAX (907) 337-8888 GERALD L. HUCO Sec. / Treas.

FAIRBANKS ALASKA 99701 P.O. Box 10629 (907) 452-2959 FAX (907) 452-5651  
JUNEAU ALASKA 99901 378 W. Hillside Dr. (907) 456-1225 FAX (907) 456-1227

May 3, 1996

MAY 03 1996

Senator Rick Halford  
Senator Steve Frank  
Co-Chairs, Senate Finance Committee  
Alaska State Senate  
Juneau, AK 99801

Dear Co-Chairmen:

As you are aware, I have previously corresponded with both the House and Senate Resource Committees expressing my concern with regard to the Administration's proposal on the North Star Leases.

After extensive conversations with officials of British Petroleum, its proposed subcontractors and members of the Administration, I am convinced the concerns raised in my previous correspondence have been eliminated and I now can strongly support the North Star proposal as it is embodied in the World Trade and State/Federal Relations committee substitute for House Bill 548.

My union along with several others have reached accord with subcontractors on this project to utilize our Alaskan hiring halls thus assuring a higher degree of residential hire than otherwise could have been expected absent such an agreement.

Because of the record established by Chairman Barnes during the World Trade Committee hearing conducted on April 29, 1996, I believe the legislation before you will pass constitutional muster. The review process established in the committee's substitute for HB 548 will keep this project under such a fine microscope that no prudent company wishing to continue to do business in this state dare violate it's spirit and intent.

Most importantly, BP's public commitment to utilize on-site production and processing modules and its further commitment to

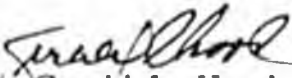
Senator Rick Halford  
Senator Steve Frank  
May 3, 1996  
Page 2

fabricate those modules within Alaska is an exciting development as other opportunities for future oil and gas exploration and production present themselves such as the eventual opening of ANWR. Without BP's public commitment this work most likely would have been performed in Canada or Louisiana.

Thank you for your consideration of my position on this most important matter. I urge you to pass the House World Trade and State/Federal Relations Committee substitute without amendment.

Sincerely,

TEAMSTERS LOCAL 959



Gerald L. Hood  
Secretary-Treasurer



# General Teamsters Local 959 State of Alaska

*Affiliated with the International Brotherhood of Teamsters*

ANCHORAGE, ALASKA 99504 4300 BONIFACE PKWY 907 262 4122 FAX 907 337 6263 GERALD L. HOOD Secretary/Treasurer

FAIRBANKS, ALASKA 99707, P.O. Box 70002 907 452 2959 FAX 907 452 1051  
JUNEAU, ALASKA 99801 706 Willoughby, 907 586 3225 FAX 907 586 1227

April 11, 1996

APR 15 1996

Senator Loren Leman  
Chairman, Resource Committee  
Alaska State Senate  
Juneau, AK 99801

Dear Mr. Chairman and Committee Members:

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

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

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

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

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

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

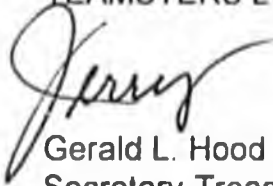


Senator Loren Leman  
April 11, 1996  
Page 2.

language to ensure Alaska hire is placed in SB318 and any other oil industry bills that grant economic relief or production incentives. To not grant such assurance is an economic downfall for all Alaskans.

Respectfully,

TEAMSTERS LOCAL 959

A handwritten signature in cursive script, appearing to read "Jerry", is written over the typed name "Gerald L. Hood".

Gerald L. Hood  
Secretary-Treasurer

/kk  
JH\North.Sta

Jacob G. Tuckerman 1836 S. Salem Drive Anchorage, Alaska 99508

April 22, 1996

Mr. John C. Morgan  
BP Exploration (Alaska) Inc.  
P.O. Box 196612  
Anchorage, Alaska 99519-5111

APR 25 1996

Dear Mr. Morgan:

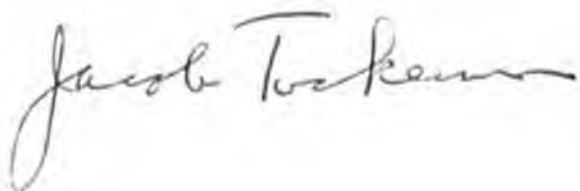
I received your letter asking for the support of Alaskans in changing the terms of the Northstar oil lease. I generally support prudent oil development in Alaska.

I cannot support BP's request to change the terms of the lease it purchased because BP is asking for better lease provisions without giving concrete benefits to Alaskans. BP purchased the Northstar lease knowing its terms. The proposed changes to the lease were undoubtedly negotiated in good faith. It is my understanding that BP has not made firm contractual commitments to start the project before the date required by the present lease, to hire Alaskans, or to build production modules in Alaska. We all make promises: some are kept, ... many are not. I would much rather see BP's promises secured by contract. The lack of binding promises, together with the sharp reduction in the State of Alaska's ability to share in the benefits if production exceeds estimates, argue strongly against changing the terms of the Northstar lease.

The oil companies in Alaska pointedly insist on having a stable business environment so that they know where they stand. Alaskans can ask no less of the oil companies, BP included.

A contracting officer I worked with used to say that bidders shouldn't get a "second bite at the apple". It sure looks like BP wants that second bite, but doesn't want to pay for it. The State and Alaskans deserve fair consideration for any change to the present Northstar lease.

Sincerely,



copies to:  
Gov. Tony Knowles  
Rep. Kay Brown  
Rep. Brian Porter  
Sen. Dave Donley  
Sen. Loren Leman

Senator Loran Leman  
Juneau, Alaska  
FAX <sup>(907)</sup> 465-3810

Several years ago in an irreverent play called "Sister Mary Agnes Answers All Your Questions" a young man asks an elderly nun if God answers all prayers. Her answer is, "Yes, but sometimes the answer is no." Governor Knowles must not have seen the play, because his answer to BP's prayer is the wrong one.

Many people are watching your struggle to do the right thing in the face of heavy opposition. All we can ask is that you do your best to protect the interests and future of the State of Alaska. The stakes are high and the deck may be stacked. But you already know that.

  
Sheila M. Turner



# UDELHOVEN

Oilfield System Services, Incorporated

11401 Olive Lane  
Anchorage, Alaska 99515  
Fax 907-522-2541  
907-344-1577

## MEMORANDUM

**TO:** Senator Loren Leman

**FROM:** James Udelhoven, President  
Udelhoven Oilfield System Services, Inc.

**SUBJECT:** NORTHSTAR LEGISLATION

The Northstar offshore field development is the most important issue before us this year. The approving of Northstar by the Senate, House and the Governor will send the message to the public that there is a spirit of cooperation between these important governing bodies. It will be a positive first step in the development of marginal oil fields in Alaska. Our industry can, if we work together, carry Alaska into the next century and beyond. We have a plan that provides jobs, that provides a guaranteed return to the state of Alaska. The decision you make today is a very important one, I ask for your consideration and the passage of Northstar.

April 23, 1996

APR 23 1996

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

Re: BP lease negotiations at Northstar

Dear Governor, Senators, and Representatives;

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

1. Probable reserve growth at Northstar

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

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

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

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

## 2. Level Playing Field

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

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

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

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

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

Sincerely yours

A handwritten signature in cursive script that reads "Gerry Van Kooten".

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



**BILL J. ALLEN**  
Chairman & CEO

APR 22 1996

21 April 1996

The Honorable Loren Leman  
Alaska State Legislature  
State Capitol (MS 3100)  
Juneau, Alaska 99801-1182

Dear Senator Leman:

I sincerely appreciated the opportunity to discuss with you last Friday, your concerns with the Northstar project. Your desire to insure that Alaska residents will benefit from the project and long-term opportunities for Alaskan contractors will be realized is commendable, and a desire I share as well.

I am writing this letter to further clarify VECO'S position regarding the Northstar project. We see this project as a real advancement for Alaskan contractors and Alaskan workers within the oil industry. On past projects, fifty percent (50%) of the craft labor has been performed in the lower 48 on all of the oil field facility projects. On GHX2 alone, this amounted to over three million man hours. On the Northstar project it is possible that one hundred percent (100%) of the craft labor will be performed in Alaska by Alaskan contractors employing available and capable Alaskans.

For years we have had to convince the oil companies that sea lift modules could be built competitively within the State of Alaska. With your support, the Northstar project will give us the opportunity to prove our position.

I am confident that the oil companies are able to make some of these marginal projects feasible by innovative approaches to the drilling, design, construction and operating philosophy of these developments.

It is important that legislation does not unduly inhibit that freedom



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The Honorable Loren Leman  
Page 2  
21 April 1996

and flexibility. With the Northstar project, BP Exploration has committed to making this new opportunity a reality.

I have had a long relationship with BP and have always found them to be a trustworthy client. When they give their word, a contract is not needed! BP is a major player in the oil business throughout the world, and they have significant opportunities for investment in very attractive projects. Alaska is lucky to have such a partner to be in business with, and to help us realize our Alaskan potential for building our own infrastructure for modules utilizing our skilled labor, which will be advantageous in world market competition.

Your full support of this negotiated agreement will help to make this happen.

Sincerely,

A handwritten signature in cursive script, appearing to read "Bill J. Allen".

Bill J. Allen  
Chairman & CEO

# **WETCO**

---

Wetco Incorporated

**Correspondence Address:**

PO BOX 220569  
Anchorage, Alaska  
99522-0569  
PH: (907) 276-4115  
Fax: (907) 276-5859  
e-mail: wilson@alaska.net

**Facsimile Transmission**

**April 29, 1996**

**From: Mark Wilson**  
**re: Alaska Vendor and Alaska Hire for the Northstar Project**

**Please support legislation that encourages BP Exploration to purchase goods and services from Alaska vendors. Support legislation that leads to employment of Alaska citizens.**

**Through legislation, craft incentives for BP's participation. Put these requirements in writing as conditions of the project development.**

**Remain committed ----- let us know how we can help you in this effort.**

**Thank you.**

**URGENT  
FAX**

---

RUSH TO: Honorable Loren Leman, State Senate

---

FAX: 907 465-3810

---

FROM: Mark Wilson, Wetco Incorporated

---

PAGES (INCLUDING THIS COVER): 2

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Alaska Vendor of Goods and Services  
and Alaska Hire

Northstar Project

Monday, April 29, 1996

---



# SENATOR LOREN LEMAN'S OFFICE

## TELECOPIER COVER SHEET

716 W 4th Avenue, Ste. 540, Anchorage, Alaska 99501-2133  
907-258-8189 (office) 907-258-3768 (fax)

ATTN: RACHAEL FAX: \_\_\_\_\_

OFFICE: \_\_\_\_\_ PHONE: \_\_\_\_\_

FROM: MIKE DATE/TIME: 04-25-96

COMMENTS: Here's another constituent who called to  
support the BP-Knowles Northstar agreement  
Mark A. Suave, 629 O Street, Anchorage, 99501.

NUMBER OF PAGES (including cover sheet): 1

\*\*\* Please note address and telephone changes \*\*\*

*Thanks for sending SB 199 list.*



04/13/96

LEGISLATIVE TELECONFERENCE NETWORK SYSTEM

LTN1150

14:29:19

PARTICIPANT LIST (ALL PARTICIPANTS)

BY:ANC

TCN:60691 SCHEDULED FOR:04/13/96 14:00 TO 17:00

FOR:ANC

PUBLIC HEARING

SENATE RESOURCES

LOCATION: ANCHORAGE  
SB 318

*Mike*  
~~NICK~~  
~~MIKE~~

BRUNER

TESTIFY

~~SB 318~~

~~PATRICK~~

~~COUGHLIN~~

~~DNR~~

~~TESTIFY~~

~~ALL ITEMS~~

~~RICHARD~~

~~GRAHAM (HB59, 265, HB329)~~

~~TESTIFY~~

*170 1:40 P. 2/2/96*

Mr. Jack E. Brown 283-4099  
PO Box 7073

*file response*

Date POM Sent	Constituency	Bill Number	Response	Subject	Distribution	Affiliation	Reg Voter
04/16/96	N	SB 318	Supports		05	self	Y

I SUPPORT THE NORTHSTAR PROJECT (HB 548 AND SB 318) AND ENCOURAGE YOU TO WORK WITH BP AND DNR TO MAKE IT HAPPEN. I ESPECIALLY ENDORSE THE CONCEPT OF JOBS FOR ALASKANS.

Ms. Verna M Lanting 333-7557  
6438 Colgate Dr

*file*

Date POM Sent	Constituency	Bill Number	Response	Subject	Distribution	Affiliation	Reg Voter
04/16/96	N	HB-548 SB318	Opposes		60		Y

NORTH STAR ROYALTY CAN ALWAYS BE REDUCED. BP WOULD NEVER INCREASE ROYALTY. NO COUNTRY IN THE WORLD GIVES AWAY AN OIL FIELD. REMOVING EVERY JOB POSSIBLE FROM ALASKA IS BP. BP'S FULL PAGE NEWSPAPER ADVERTISING SHOULD TELL YOU NORTH STAR IS THE SWEETEST DEAL IN THE WORLD FOR THEM.

Mrs. Carol Jensen 272-4366  
1800 E 112th Ave

*file*

Date POM Sent	Constituency	Bill Number	Response	Subject	Distribution	Affiliation	Reg Voter
04/12/96	N	SB318	None	OIL & GAS	26		Y

THE OIL COMPANIES HAVE HAD ENOUGH ROYALTY BREAKS. YOU ARE CONSIDERING DEMOLISHING FISH AND GAME HABITAT PROTECTION, ENFORCEMENT, AND EDUCATION WHILE SIMULTANEOUSLY GIVING AWAY OUR SHARE OF OUR OWN OIL IN ALASKA. OUR FUTURE STILL ISN'T GUARANTEED.

Mr. Edward P Slater 563-3211  
PO Box 232532

*response*

Date POM Sent	Constituency	Bill Number	Response	Subject	Distribution	Affiliation	Reg Voter
04/15/96	N	HB-548 SB318	Supports		60		Y

I AM IN SUPPORT OF THE RATIFICATION OF THE NEGOTIATED SETTLEMENT BETWEEN THE DEPARTMENT OF NATURAL RESOURCES AND THE OIL INDUSTRY.

Mr. Tom  
PO Box 100648

Lakosh

338-1606

Anchorage AK 99510

*North Star*  
*file*  
Distribution  
07

Affiliation

Reg Voter  
U

Date POM Sent Constituency Bill Number Response Subject  
04/09/96 N SB 318 Opposes

PLEASE PROVIDE FOR A PUBLIC COMMENT HEARING WITH A TELECONFERENCE SITE IN ANCHORAGE. THIS BILL VIOLATES MY CONSTITUTIONAL RIGHTS, UNDER ARTICLE I SECTION 5, BY IMPAIRING A CONTRACT. PROPER PROCEDURE REQUIRES DISSOLUTION OF THE UNIT, REVERSION OF LEASES, AND RE-OFFERING OF THE LEASES PURSUANT TO COMPETITIVE BIDDING PROCEDURE THIS AUGUST.

Mr. Jerry  
PO Box 241623

McCutcheon

000-0000

Anchorage AK 99524

*file*  
Distribution  
60

Affiliation

Reg Voter  
U

Date POM Sent Constituency Bill Number Response Subject  
04/15/96 N HB 548 SB 318 Opposes

LAST WEEK AT A EIS HEARING, BP REFUSED TO DISCLOSE THE AMOUNT OF OIL IN PLACE OR THE SIZE OF THE STRUCTURE. REFUSED TO DISCLOSE OF GAS THEY ARE GOING TO FLAIR OR THE SIZE OF THE GAS CAP. NORTH STAR HAS 5 TIMES AS MUCH GAS PER BARREL AS PRUDHOE BAY. THEY REFUSED TO DISCLOSE WHAT THEY WERE GOING TO DO WITH THE GAS.

Mr. Garvin  
PO Box 870298

Bucaria

271-2516

Wasilla AK 99687

*file*  
Distribution  
60

Affiliation

Reg Voter  
U

Date POM Sent Constituency Bill Number Response Subject  
04/18/96 N SB 318 Opposes

I CANNOT CONCEIVE OF A SITUATION WHERE I HAVE RECEIVED A PERSONAL LETTER FROM BRITISH PETROLEUM THAT WOULD NOT BE IN THEIR BEST INTERESTS. I WOULD LIKE THE ORIGINAL LEASE ARRANGEMENT SET BY THE STATE TO REMAIN IN PLACE. THEY BOUGHT THE LEASE, LET THEM ACCEPT THE ORIGINAL CONDITIONS.

Mr. Samuel  
2221 Muldoon Rd #561

S Haywood

277-5329

Anchorage AK 99504

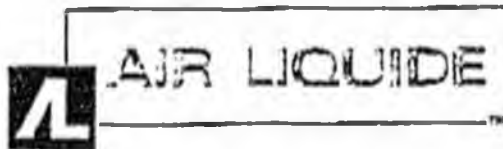
*file*  
Distribution  
60

Affiliation

Reg Voter  
Y

Date POM Sent Constituency Bill Number Response Subject  
04/18/96 N HB 548 Supports

ALSO SB 318: ALLOW BP TO DEVELOP NORTH STAR. I THINK IT MAKES GOOD SENSE.



MAY 6, 1996

Senator

Loren Lemay

VIA FAX TRANSMITTAL

Alaska State Legislature

State Capital

Juneau, AK 99801

Re: Approval of Northstar Development Proposal

Dear Senator:

I am writing to you to request your support for the request made by BP Exploration (Alaska) to remove the net profit terms from the Northstar Units leases, in exchange for other considerations.

I am an Alaska resident working for Air Liquide America, Inc. in Anchorage. This company manufactures welding and medical gases, widely used by oil companies and most industrial companies.

Each year our company produces welding gases such as oxygen and acetylene to satisfied customer requirements which keeps our plant running 24 hours 7 days a week during our summer season. I have supported our local economy for the last 7 years while working for Air Liquide America.

Keep me working! Please support this agreement and pass the legislation required to allow northstar to move forward.

Thank you for your attention!

Sincerely,

405-5810  
RM 113

April 25, 1996

DISTRICT #13

Senator LOREN LEHMAN

VIA FAX TRANSMITTAL

Alaska State Legislature  
State Capitol  
Juneau, AK 99801

Re: Approval of Northstar Development Proposal

Dear Senator:

I am writing to you to request your support for the request made by BP Exploration (Alaska) to remove the net profit terms from the Northstar Units leases, in exchange for other considerations.

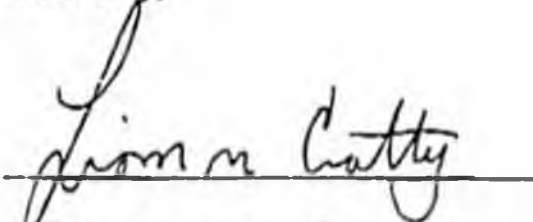
I am an Alaska resident working for Quality Fabrication, Inc. in Anchorage. This company fabricates structural steel, including the structures for truckable modules, for the oil companies, including BPX.

Last year our company worked over 100,000 hours on oil-field related projects. As an individual, I worked 4 months of 1995 on projects such as Mine Point. This work enabled me to pay for living expenses and other goods and services in our local economy.

Keep me working! Please support this agreement and pass the legislation required to allow Northstar to move forward.

Thank you for listening!

Sincerely,



3216 OREGON  
ANCHORAGE ALASKA 99507

MAY 02 1996

Date: 4-26-76

Dear Senator: *Jensen Lehman*

As a resident of the State of Alaska, I am writing this letter to express my sincere concern with the ongoing stronghold that oil companies continue to have on our State. Hopefully, this same stronghold is not on our elected representatives.

I understand there are several bills that the oil companies have been pushing through the House and Senate this legislative session. The two most familiar ones to me are the North Star and Heavy oil issues, both giving significant tax breaks or concessions to the oil companies. I have lived in Alaska for many years and have watched many of our Alaskan jobs go to non-residents of this State. If the legislature is going to continue to give breaks to these multi-million dollar companies, it seems only fair that we Alaskans get something in return. The track record of these companies, with respect to local hire, speaks sadly to the number of jobs we have lost over the years.

I support economic development, but not at the cost of further demise of our job opportunities in Alaska. I urge you to represent the interests of working (or non-working) Alaskans and ensure that any tax breaks or incentives that may be given to the oil companies are done only with strong resident hire language. Nothing more, nothing less. Who is to say these companies will not proceed to reap the profits of our great State and then pull up stakes and move on. If jobs are not available to Alaskans, then maybe the oil companies should move sooner, not later.

Your effort in assuring jobs for Alaskans is greatly appreciated.

Sincerely,

*Ray Frey*  
7601 Wisteria  
Anchorage, AK  
99502

465-3816  
Rm 113

April 23, 1996

Senator Loren Leman  
Alaska State Legislature  
State Capitol  
Juneau, AK 99801

VIA FAX TRANSMITTAL

Re: Approval of Northstar Development Proposal

Dear Senator:

I am writing to you to request your support for the request made by BP Exploration (Alaska) to remove the net profit terms from the Northstar Units leases, in exchange for other considerations.

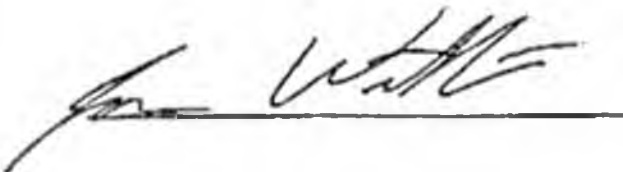
I am an Alaska resident working for Quality Fabrication, Inc. in Anchorage. This company fabricates structural steel, including the structures for truckable modules, for the oil companies, including BPX.

Last year our company worked over 100,000 hours on oil-field related projects. As an individual, I worked 12 months of 1995 on projects such as Milne Point. This work enabled me to pay for living expenses and other goods and services in our local economy.

Keep me working! Please support this agreement and pass the legislation required to allow Northstar to move forward.

Thank you for listening!

Sincerely,



Fax 465-3810

Rm 113

April 25, 1996

Senator Loren Leman  
Alaska State Legislature  
State Capitol  
Juneau, AK 99801

VIA FAX TRANSMITTAL

Re: Approval of Northstar Development Proposal

Dear Senator:

I am writing to you to request your support for the request made by BP Exploration (Alaska) to remove the net profit terms from the Northstar Units leases, in exchange for other considerations.

I am an Alaska resident working for Quality Fabrication, Inc. in Anchorage. This company fabricates structural steel, including the structures for truckable modules, for the oil companies, including BPX.

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Keep me working! Please support this agreement and pass the legislation required to allow Northstar to move forward.

Thank you for listening!

Sincerely,

Robert F. Rost

465-3810

Rm 113

April 25, 1996

Senator Leman  
Alaska State Legislature  
State Capitol  
Juneau, AK 99801

VIA FAX TRANSMITTAL

Re: Approval of Northstar Development Proposal

Dear Senator:

I am writing to you to request your support for the request made by BP Exploration (Alaska) to remove the net profit terms from the Northstar Units leases, in exchange for other considerations.

I am an Alaska resident working for Quality Fabrication, Inc. in Anchorage. This company fabricates structural steel, including the structures for truckable modules, for the oil companies, including BPX.

Last year our company worked over 100,000 hours on oil-field related projects. As an individual, I worked 10 months of 1995 on projects such as Milne Point. This work enabled me to pay for living expenses and other goods and services in our local economy.

Keep me working! Please support this agreement and pass the legislation required to allow Northstar to move forward.

Thank you for listening!

Sincerely,

Michael Hood

**THE PRECEDING PAGES  
WERE TREATED AS A UNIT  
IN THE ORIGINAL FILE**

**SB**

**318**

**(File 5)**

# North Star Unit

## Briefing Paper

March 1996



# STATE OF ALASKA

TONY KNOWLES, GOVERNOR

## DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

400 WILLOUGHBY AVENUE  
JUNEAU, ALASKA 99801-1796  
PHONE: (907) 465-2400  
FAX: (907) 465-3666

March 29, 1996

The Honorable Drue Pearce  
President of the Senate  
State Capitol, Room 111  
Juneau, Alaska 99801-1182  
MS 3101

The Honorable Gail Phillips  
Speaker of the House  
State Capitol, Room 208  
Juneau, Alaska 99801-1182  
MS 3101

Dear President Pearce and Speaker Phillips:

The Governor recently transmitted a bill to you authorizing, approving, and ratifying the "First amendment to the Northstar Unit oil and gas leases between the State of Alaska and BP Exploration (Alaska) Inc. (BPXA)." The Department of Natural Resources (DNR) is providing you with this briefing paper in the hope that you will find it useful in your consideration of the bill.

This paper gives a brief history of the Northstar Unit and describes some of the changes in circumstances which have occurred since the state issued the Northstar leases and have led the administration to seek legislative approval of certain amendments to the leases, primarily the monetary terms. The Northstar Unit is composed of five state and two federal oil and gas leases located in the Beaufort Sea about six miles from Prudhoe Bay. It is the only joint state/federal unit in Alaska. According to BPXA and others, one of the primary deterrents to development of the unit is the high state net profit share

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The Honorable Gail Phillips, Speaker of the House  
March 29, 1996

(NPS) which is in addition to the 20% royalty share. The state leases currently bear both the highest reserves-weighted royalty, 20%, and NPS, 89%, of any unit in the state. The amendments would remove the NPS terms of the leases and replace them with a supplemental royalty which would vary depending on oil prices. Also, BPXA has guaranteed that the base royalty of 20% would remain unchanged for the life of the field.

During the period from 1979 to 1983 when the state leased the Northstar Unit leases, optimism reigned in the oil industry in general and the North Slope oil industry in particular. Furthermore, the Northstar prospect was one of the state's best with some estimates exceeding a billion barrels of recoverable reserves. During this time frame, both industry and the state Department of Revenue (DOR) were predicting North Slope oil prices escalating to \$70 to \$100 per barrel by now. Adding to the mix was the legislature's authorization in 1978 of several new leasing methods, including using a NPS as a bid variable.

The first North Slope lease sale after the authorization to use a NPS method was the joint state/federal Beaufort Sea lease sale 30 held in December of 1979. The four state leases currently in the Northstar Unit were offered under the following terms: fixed cash bonus, 20% fixed royalty, and the NPS as the bid variable. In keeping with the prevailing optimism, industry bidding was very competitive with the winning NPS bids ranging from 85.26% to 93.2% on the four leases. The two federal leases in the unit were also leased at the joint sale carrying a 16.67 sliding scale royalty. The bonus bids for the two tracts exceeded \$80 million. Sale 30 was the only time that state leases were offered with the NPS as the bid variable.

The fifth state lease in the unit was offered as part of sale 39 held on May 17, 1983. The DOR was still predicting ANS oil prices rising at roughly a 5.9% nominal rate to \$72.32 in fiscal year 1999 (when BPXA is currently stating it will begin Northstar production). The lease was offered with a cash bonus as the bid variable, a 12.5% fixed royalty, and a fixed 40% NPS. The lease received three bids with a winning bid

The Honorable Drue Pearce, President of the Senate  
The Honorable Gail Phillips, Speaker of the House  
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of \$72 thousand. BPXA's analysis of the field currently has no oil reserves within the unit allocated to this lease.<sup>1</sup>

Northstar Explorauon efforts began in 1982. Amerada Hess Corporation (AHC) held the largest working interest in Northstar leases and was the operator. The working interest owners drilled the first exploratory well in 1983 which discovered hydrocarbons in the Ivishak Formation, the same formation that produces the majority of oil in the Prudhoe Bay field. Unfortunately, further exploratory drilling only served to reduce the size of potential reserves.

By 1993, publicly available data pegged the high side for potential reserves at 300 million barrels. In a 1993 study, the United States Department of Energy (DOE) concluded that Northstar "with the NP[S] in place is not economic for any of the oil price cases." The DOE's economic analysis was based upon capital costs of \$1.4 billion, a "conservative" estimate of 200 million barrels of recoverable reserves, and higher oil prices than those forecasted by the DOR today. The DOE study stated that the "greatest deterrents to the development of [Northstar] are confirmation of reserves and the high net profit [share] applicable to the five state tracts." The study emphasized the deterrent to development caused by the NPS provisions stating they "add a very significant burden to the economic viability of [Northstar]." Even before the DOE study, AHC had approached the Cowper administration about economic relief for Northstar, but was rebuffed.

Despite the increasingly pessimistic picture, AHC and its partners drilled one more well in the Northstar Unit in 1994. The results were not as good as hoped for, and reserve estimates dropped to the current most likely estimate of 130 million barrels. AHC and

---

<sup>1</sup>The next (and last) time the state offered leases with a NPS was the following year in 1984. There are currently 39 active leases on the North Slope with a NPS. Only nine have production allocated to them. None have ever paid a NPS to the state.

The Honorable Druc Pearce, President of the Senate  
The Honorable Gail Phillips, Speaker of the House  
March 29, 1996

its partners elected not to pursue the development of the project. Their decision not to develop was based on the results of the 1994 drilling program, a reservoir analysis, and the project economics.

Following the decision not to develop, AHC and its partners attempted to sell their interests to several prospective purchasers. By the end of 1994, BPXA had acquired 98.08 % interest in the unit with Murphy Oil retaining a 1.92% interest.

Using innovative technical approaches and contractor alliances with Alaskan companies, BPXA has reduced the former estimated capital costs from about \$1.5 billion to only \$350 million. However, the deterrent to development identified by the DOE, the NPS, remained. BPXA has informed the DNR that it "would not develop Northstar under these [NPSL] terms" and maintains that it "cannot risk its reputation for prudent, world class development practices " with late life NPSL problems which have a "high potential for premature field shut-in and revenue cessation ...." BPXA's exposition of its NPSL problems are set forth in its Proposal and will not be repeated.

As a result of BPXA's problems with the lease's NPS provisions, it approached me about modifying the lease terms in the spring of 1995. At that time they generally proposed an alternative which would remove the NPS provisions in exchange for early, certain development and some form of additional payment to the state. I instructed the DNR staff to enter negotiations with BPXA to see if an alternative could be reached which would remove the perceived NPS problem, yet provide more certain, earlier development, yield adequate compensation to the state, and set a goal of more Alaska contracting and hiring. Additionally, I did not want an alternative which resulted in any significant increase to BPXA's own estimate of a rate of return of 21% for the Northstar project.

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March 29, 1996

Given the expected rate of return, I cannot say that the Northstar project is a marginal one. I, however, believe BPXA's assertion that they will not develop the project under the existing NPS terms. You will have to make your own judgment about that.

If you believe that they will not develop the project, I believe that you will determine, as I have, that the amendments negotiated by the DNR and BPXA to the Northstar Unit leases are in the best interests of the people of the State of Alaska. First, I would like to share the DNR's economic evaluation with you. If one assumes that BPXA would develop the field anyway with the NPS in place under the same expedited schedule as BPXA currently proposes with full production starting in early 1999 and compares that assumption with the same scenario but with a supplemental royalty in place, the evaluation shows that BPXA's rate of return remains virtually unchanged while the state receives \$37 million in supplemental royalty compared to \$85 million in NPS.<sup>2</sup> If one assumes that BPXA would not develop the field on an expedited basis, full production would not begin until 2002 at the earliest, as predicted by the DOR, and the NPS would be in place, and compares those assumptions with an assumption of full production in early 1999 with the supplemental royalty in place, the evaluation shows that BPXA's rate of return is slightly lower while the state receives \$37 million in supplemental royalty compared to \$41 million, only a \$4 million difference. Obviously, if one assumes that development would occur, after 2002, the state would receive more under the supplemental royalty method than the NPS method.

Second, I would like to explain some of the other aspects of the amendments which I believe are beneficial to the state. The state is trading more speculative development and revenues for more certain development and revenues. The revenues and economic benefits to the state, which are substantial, will obviously be received sooner. Estimated state revenues are \$435 million. In addition, the North Slope Borough will

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<sup>2</sup>I had earlier reported to you that the NPS figure was \$95 million, leaving a roughly \$60 million difference. Since that report an error in the model relating to the calculation of abandonment costs was fixed and the NPS figure is \$85 million, leaving a roughly \$50 million difference.

The Honorable Drue Pearce, President of the Senate  
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March 29, 1996

receive an estimated \$42 million in ad valorem taxes. The state will be guaranteed the highest royalty rate of any producing field for the life of the field since BPXA has agreed to never seek royalty reduction. Moreover, because of the increased oil volume through TAPS, the per barrel TAPS charge will likely decrease benefiting all North Slope fields and extending the life of TAPS. In addition to state economic benefits, the project will provide substantial revenues to the federal government.

The amendments seek to insure this early development through a "use it or lose it" provision. If BP does not receive project sanction from their Board of Directors within one year after legislative approval, they must return all of the Northstar leases, including the leases containing certified wells. The leases could then be released. Absent this provision, BPXA would be able to hold all of the leases until at least May of 1998 and some for longer.

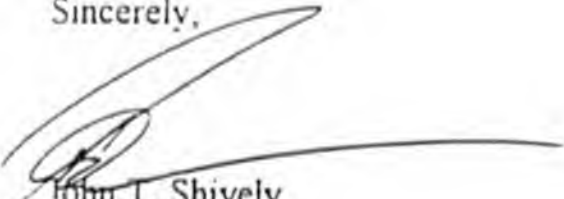
Importantly, this project will result in the employment of the people of our state. The Alaska Institute of Social and Economic Research and BPXA have estimated that the project will create 500 direct construction jobs, approximately the same number of indirect jobs, and up to 100 permanent operation jobs within the state. These jobs would have a statewide benefit. Further, BPXA has committed to the administration and the legislature to fabricate and assemble larger modules in Alaska if facilities are available to build them. The commitment is valued at \$40 to \$50 million. This commitment will help Alaska fabrication firms to expand their operations to accommodate this project as well as other future development. The terms of the agreement call for BPXA to employ Alaska residents or contractors. BPXA also voluntarily agrees to adopt a program to hire Alaska residents including advertising locally and using Alaska job service organizations. Furthermore BPXA has agreed to "use best efforts to contract with Alaska firms and fabricate modules in Alaska, whenever feasible." The project will also have unquantifiable benefits. Northstar will be the first truly offshore Arctic development including the first Arctic subsea oil pipeline. Northstar could be used as a model for other small offshore North Slope field

The Honorable Drue Pearce, President of the Senate  
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March 29, 1996

developments. If it demonstrates feasibility, it could increase the bonus bids at future state lease sales.

In sum, I believe that the amendments will provide the state substantial benefits while requiring that it give up little. I believe that the amendments are in the state's best interests. The administration seeks your help in making the Northstar project a certainty. My authority under current law to grant the relief requested is questionable. The Department of Law has concluded that the prudent course of action is to seek the legislature's approval of the amendments deleting the NPS provisions of the Northstar Unit leases. I welcome a candid and public debate regarding the amendments and urge your favorable consideration. The alternative is delay and uncertainty.

Sincerely,

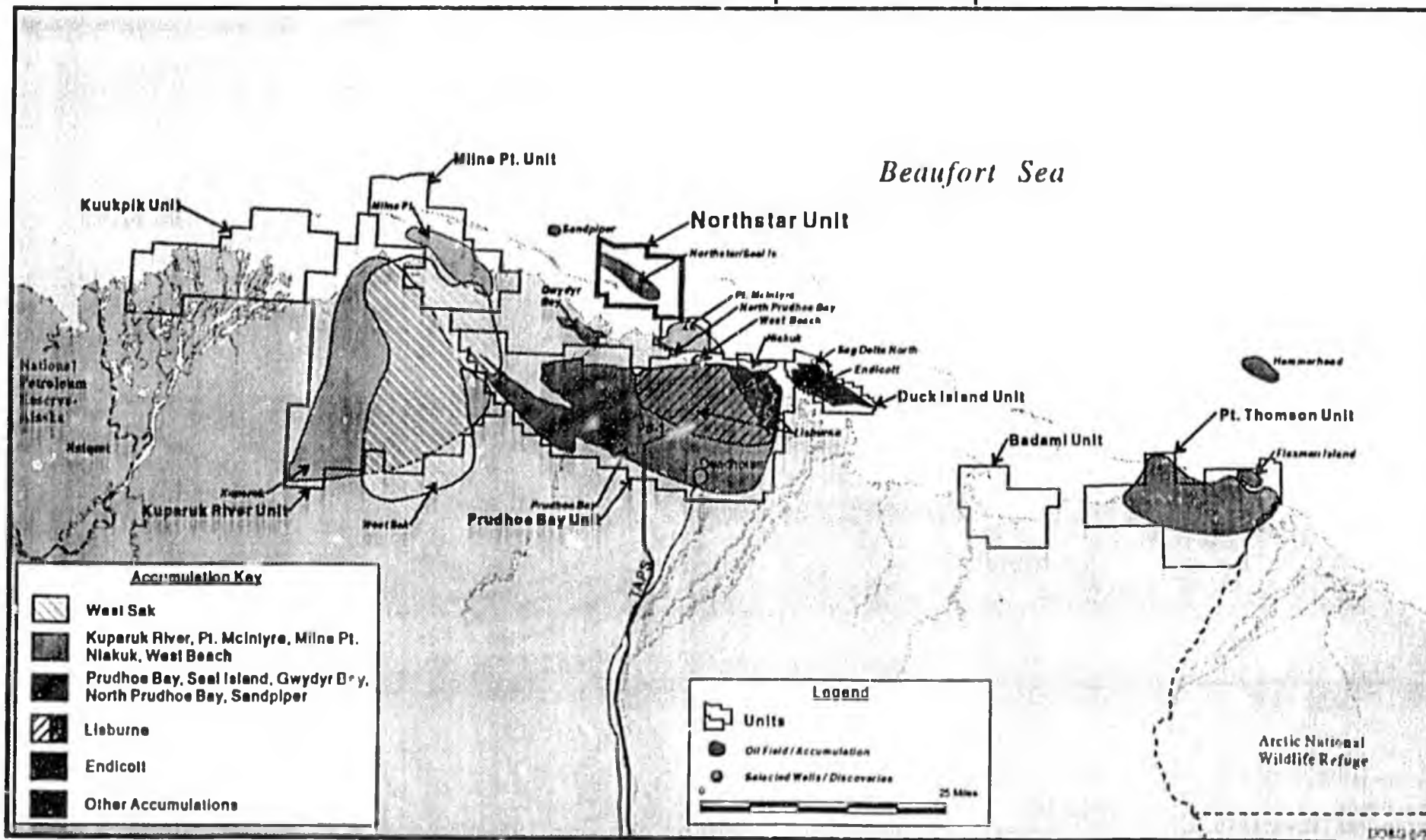


John T. Shively  
Commissioner

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# Central North Slope Unit Map



DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL AND GAS

3601 C STREET, SUITE 1380  
ANCHORAGE, ALASKA 99503-5948  
PHONE: (907) 762-2549

History of the Northstar Unit

The Northstar Unit (NSU) includes five State of Alaska oil and gas leases covering approximately 23,343 acres and two federal outer continental shelf oil and gas leases covering approximately 7494 acres. The leases are located approximately 8 miles from shore and 23 miles from Pump Station No. 1 in water 40 feet deep. The NSU is the first unit in Alaska's Beaufort Sea to be jointly managed by the State of Alaska, Department of Natural Resources (DNR) and the federal Minerals Management Service (MMS). All of the NSU leases were issued as a result of either the Joint State/Federal Beaufort Sea Lease Sale held on December 12, 1979, or the state Lease Sale No. 39, Beaufort Sea, held on May 17, 1983.

Four of the five state leases were issued on state lease form DMEM-1-79A (Net Profit Share). The four leases acquired in the joint state/federal sale, were BF-46 (ADL 312798), BF-47 (ADL 312799), BF-56 (ADL 312800), and BF-57 (ADL 312809). They were offered under the following lease sale terms: fixed \$875/acre bonus, 20% royalty, and a variable NPS (the bid variable). The remaining State lease was issued on State of Alaska lease form DMEM-4-83 (Net Profit Share). The fifth state lease, 39-01 (ADL 355001), was offered under the following terms: bonus (bid variable), \$10/acre minimum bid, 12.5% royalty, and a 40% NPS. All of the NSU state leases involved include a net profit share as well as a royalty share.

The NSU outline is shown in Attachment 1. The original working interest owners (WIOs) in the NSU were the Amerada Hess Corp. (AHC), Enterprise Oil, Murphy Oil USA, and Shell Oil (SWEPI). In 1990, AHC acquired Enterprise Oil's interest in the unit for \$2 million. The participating interest is shown in Attachment 2.

A joint exploratory agreement among the original WIOs resulted in the construction of an offshore gravel island, Seal Island, on ADL 312799 in 1982. From Seal Island, in 1983, the WIOs drilled BF-47 #1 (Seal #1), which discovered hydrocarbons in the Ivishak Formation, the same formation as the primary producing horizon in the Prudhoe Bay field. A confirmation well, OCS-Y-181 #1 (Seal #2), was drilled in 1984 and was followed by another confirmation well, BF-57 #1 (Seal #3), which was completed in 1985. In that same year, however, OCS-Y-180 #1 (Seal #4) drilled on Amoco's federal lease, was a dry hole.

In 1985-1986, Amerada Hess constructed another gravel island in the unit area, Northstar Island on ADL 312798, and drilled a stepout well, BF-46 #1 (Northstar #1), to the northwest. BF-46 #2 (Northstar #2) was also drilled in 1986, but was abandoned due to downhole mechanical problems. To date, a total of six wells have been drilled into the Ivishak Formation within and adjacent to the NSU. Attachment 3 shows the unit area with the Ivishak wells within the NSU.

The NSU Agreement was approved with a five year plan of development that required specific work commitments throughout the initial five-year term of the unit (see Attachment #4 and #5). The initial term of the unit coincided with the five year plan of development (POD); that is, January 24, 1990 through January 23, 1995. As part of receiving State approval of the NSU, the State lessees were permitted to make progressively larger annual payments to the State in lieu of drilling a well during the initial POD. The extension fee payments were to be paid by the State lessees to the State, unless the fee obligation was extinguished by the drilling of a well within the unit area. The payment schedule was: (1) January 31, 1991 - \$1 million; (2) January 31, 1992 - \$2 million; (3) January 31, 1993 - \$2 million; (4) January 31, 1994 - \$3 million; and (5) January 31, 1995 - \$4 million. Since AHC did not drill the Northstar #3 well until early 1994, their total extension fee payment amounted to \$5 million.

Including the state leases in the NSU agreement effectively extended the five state leases past their primary term. See ADL 312799, paragraph 5(b) and ADL 355001, paragraph 4(b). Absent inclusion in a unit, the two leases without certified wells on them would automatically terminate on February 1, 1990 for ADL 312799, and on August 1, 1993 for ADL 355001. See ADL 312799,

paragraphs 3, 4 and 5; and ADL 355001, paragraphs 3 and 4. The leases with certified wells would continue in effect unless the state ordered the WIOs to produce them and the WIOs did not do so within a reasonable time which could not be less than six months. See ADL 312799, paragraph 5(d) and ADL 355001, paragraph 4(d). Following a reasonable period of time, the state would have to institute a legal proceeding to terminate those leases. See ADL 312799, paragraph 28, and ADL 355001, paragraph 20. The state leases with wells certified capable of production in paying quantities are ADL 312798 (Northstar #1), ADL 312799 (Seal #1), and ADL 312809 (Seal #3). So long as the WIOs complied with the NSU Agreement, including its POD, none of the leases would terminate.

In early 1994, AHC drilled an Upper Kuparuk "C" Sand prospect within the NSU. This well, Northstar #3, was plugged and abandoned. This was the only well drilled within the NSU since the Northstar #1 and # 2 wells in 1986. During initial unit term, AHC always complied with the NSU POD. The work commitments were performed on time and the results of the petrological/petrophysical, production facilities design, and reservoir engineering studies were provided to the agencies.

After drilling the Northstar #3 well, AHC and its partners elected not to pursue the development of the NSU. Their decision not to develop was based on the results of the 1994 drilling program, an analysis of the reservoir, and the project economics. In June of 1994, AHC briefed the DNR and the MMS on its decision. See correspondence. As both islands, Northstar and Seal, experienced severe damage during the 1993-1994 winter, they decided to abandon the islands. The abandonment of the islands took place in July-August 1994.

Following the decision not to develop the NSU, AHC and Shell Frontier Oil & Gas Inc. (SFOGI) attempted to sell their interests to several prospective purchasers. Correspondence. Also in late 1994, DNR sent AHC a notice of default. Correspondence. Also in late 1994, BP Exploration (Alaska) (BPXA) entered into discussions with AHC and SFOGI for acquisition of a working interest and operatorship of the NSU. By the end of February 1995, agreements were reached with

AHC for their 80.85% interest and SFOGI's 17.23 % interest in the NSU. Correspondence. The current working interest ownership in the NSU is BPXA 98.08% and Murphy Oil 1.92%.

On January 13, 1995, BPXA requested the DNR and MMS approve a ninety-day extension to the notice of default, Attachment 14. Effective January 19, 1995, the DNR approved assignments of the state leases from AHC to BPXA. Correspondence. On January 20, 1995, both the DNR and MMS approved BPXA as successor to AHC as unit operator. Correspondence. On January 24, 1995, the DNR and MMS approved the request for an extension. Correspondence.

On January 23, 1995, the day the NSU was to expire, BPXA, as the new NSU operator, submitted a proposed two-year POD for the NSU. BPXA stated that with more time it could submit a more detailed and decisive plan. BPXA's request for an extension to file another POD was approved by both the DNR and the MMS until April 30, 1995, to allow BPXA additional time to conclude its acquisition of SFOGI's and Murphy's interest ( Murphy did not sell its interest ) in the NSU and to formulate a new POD. The DNR's approval was conditioned on BPXA making its technical staff available to DNR's representatives and working with the DNR and the MMS to find an acceptable NSU POD during the extension period. Correspondence.

On March 30, 1995, BPXA submitted the revised POD and a request to extend the NSU Agreement for a three-year term coincident with the POD term. Correspondence. The revised POD and extension until April 30, 1998 was approved by the MMS on May 1, 1995 and conditionally approved by the DNR on June 2, 1995. Correspondence. As part of the conditional approval, BPXA was required to submit annual program reports and a final report to the agencies that synthesizes the data and studies performed by BPXA during the extension period and BPXA's conclusions and recommendations regarding the development of the NSU. Correspondence. The POD does not require BPXA to start production during the three-year term. Assuming BPXA complies with all of the conditions of the second POD, the unit will not expire until April 30, 1998.

#### Attachments

032896 pc

Field History  
Attachments

**AMERADA HESS CORPORATION  
UNITED STATES EXPLORATION AND PRODUCTION  
NORTHSTAR UNIT**

