



BP EXPLORATION
Northstar Project

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

May 17, 2000

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REGIONAL DIRECTOR, ALASKA OCS
Minerals Management Service
ANCHORAGE, ALASKA

Kenneth A. Boyd, Director
Alaska Department of Natural Resources
550 W. 7th Avenue, Suite 800
Anchorage, AK 99501

Jeff Walker, Regional Supervisor - Field Operations
U.S. Minerals Management Service
949 East 36th Avenue, Room 208
Anchorage, AK 99508-4302

**Re: Northstar Unit
Amended 3rd Plan of Development - 2nd Annual Report**

Dear Ken and Jeff:

Enclosed please find the Second Annual Report due under the Amended Third Plan of Development for the Northstar Unit. If you have any questions or concerns that are not addressed in the report, please let me know when we present our update on Northstar on Friday, May 19th.

Also, if you and your staff would like a tour of the module fabrication activities in Anchorage before the July 15th sealift, please contact Dirk Smit at 264-9167.

Sincerely,

Krissell Crandall
for
Pete Flones

Northstar Mgr., Anchorage New Developments

cc: Robert Christianson, AOGCC
Bob Gage, Sr. Landman, Murphy
E. P. Zselecsky, Land Manager, BPXA
Krissell Crandall, Sr. Landman, BPXA

**NORTHSTAR UNIT
THIRD PLAN OF DEVELOPMENT
May 1, 1998 - April 30, 2001**

**Second Annual Report
(May 17, 2000)**

BP Exploration (Alaska) Inc. ("BPXA") submits this Second Annual Report on behalf of BPXA and Murphy Exploration (Alaska), Inc., the Northstar Unit working interest owners, as required by the Amended Third Plan of Development for the Northstar Unit.

The Amended Third Plan of Development sets out a schedule of activities culminating in the production of oil in the 4th quarter of 2001. The current status of each activity as of May 2000 is set out below.

<u>Activity</u>	<u>Anticipated Date</u>
<u>(1) Engineering, Procurement and Fabrication</u>	
Complete island slope protection block fabrication	Complete
Complete island procurement	Complete
Complete detail process facility engineering	2Q/00 (now 98% complete)
Complete pipeline tie-in skid engineering	2Q/00
Complete infrastructure procurement and engineering	2Q/00 (now 90% complete)
Complete infrastructure fabrication in Anchorage	3Q/00 (now 70% complete)
Complete pipeline procurement	Complete
Complete process facility procurement	2Q/01 (now 95% complete)
Complete process facility fabrication in Anchorage	2Q/01 (now 20% complete)
Complete construction support and start up support engineering	4Q/01
Start-up	4Q/01
<u>(2) EIS and Permitting Activities</u>	
Complete EIS activities	Complete
Complete permitting activities	3Q/00
<u>(3) Form a Participating Area</u>	
Transfer data to DNR, MMS, and AOGCC; discuss seismic data and container	Complete
Complete Participating Area review with working interest owners	3Q/00
Complete agency discussions on model descriptions and inputs	3Q/00
Establish container, OOIP and depletion plan (working interest owners, MMS, DNR)	3Q/00
Complete review of reservoir development plan with agencies, reach final agreement for participating area	3Q/00

<u>(4) Island Construction and Pipeline Installation</u>	
Build ice roads for '00 construction season	Complete
Complete island construction	3Q/00
	(now 75% complete)
Complete pipelines (other than tie-ins)	Complete
Build ice roads for '01 construction season	1Q/01
Complete pipeline tie-ins	3Q/01
<u>(5) Transport and Installation</u>	
Complete sealift of infrastructure	3Q/00
Complete installation of infrastructure	4Q/00
Complete sealift of process facility	3Q/01
Complete installation of process facility	4Q/01
<u>(6) Rig Modification and Mobilization</u>	
Complete rig modification	3Q/00
	(now 30% complete)
Complete mobilization of rig	4Q/00
Begin production drilling	1Q/01
Begin first oil production	4Q/01

Status of Activities

Engineering, Procurement and Fabrication

The procurement of materials for the island and the fabrication of island slope protection blocks are both complete.

Veco's engineering and procurement of infrastructure is 90% complete. Veco's fabrication of infrastructure recommenced in January 2000, and is approximately 70% complete. The infrastructure will be barged from Anchorage to the North Slope on July 15, 2000.

Pipeline procurement, including the purchase of valves, anodes for cathodic protection, and VSMs, is complete.

Mustang's engineering of the process facility is 90% complete. Mustang will continue to provide engineering support through start-up. Process facility procurement is 95% complete. Process facility fabrication and assembly started in January, 2000 and is approximately 20% complete. Process facility fabrication will continue through 2Q/01.

EIS and Permitting Activities

All permits required for commencement of project construction have been issued. In particular, the State Right-of-Way Leases for the Northstar oil and gas pipelines were issued on October 1, 1999.

BPXA expects to receive a permit for a Class I injection well from EPA in 3Q/00. The permit is required in order to inject drilling wastes. BPXA is also awaiting issuance by the U.S. Fish & Wildlife Service of a Letter of Authorization (LOA) for incidental take of whales and seals under

the Marine Mammal Protection Act. The regulations concerning LOAs expired, and as a result USF&WS has not issued any LOAs. An LOA provides a defense in the event of an incidental take, but is not required in order to commence construction or production.

BPXA is also seeking modifications to its current air permit. BPXA requested that the modifications be approved by August 1, 2000. Any delay in obtaining approval of the air permit modifications could impact the drilling program because BPXA would not be able to operate critical pieces of equipment.

BPXA has also created and is refining a database to track compliance with permit and regulatory requirements. The database contains in excess of 2000 permit and regulatory requirements.

Greenpeace's litigation related to the EIS and permitting activity is discussed in the following sections on State and Federal litigation.

State Litigation

Greenpeace continues to challenge the Northstar project in several lawsuits. Greenpeace has filed four cases concerning Northstar in Alaska Superior Court. On May 8, 2000, Greenpeace filed a motion to consolidate the four cases described below (3AN-99-3350, -3415, -3648 and -5217). On May 15, 2000, BPXA filed a motion opposing consolidation.

Greenpeace v. Division of Governmental Coordination (DGC) and Alaska Coastal Policy Council (ACPC) - 3AN-99-3350 Civ. On March 8, 1999, Greenpeace filed an appeal of: (1) ACPC's dismissal on February 2, 1999 of Greenpeace's petition of the Northstar proposed consistency determination; and (2) DGC's issuance on February 4, 1999 of the Northstar conclusive consistency determination. BPXA intervened. Greenpeace did not file a motion to stay pending appeal. Greenpeace filed its brief on January 31, 2000. Briefs by the State and BPXA are due on May 17, 2000.

Greenpeace v. Alaska Department of Fish & Game (ADFG) and Doe's 1-10 - 3AN 99-5217 Civ. On March 12, 1999, Greenpeace filed a complaint against ADFG challenging its decision to allow BPXA to withdraw water from fish-bearing streams under a fish habitat permit in order to construct ice roads for Northstar, and raising other issues unrelated to the permit. The complaint requested injunctive relief suspending the construction and use of ice roads for Northstar. Greenpeace also filed a motion for a temporary restraining order and a preliminary injunction. The court granted BPXA leave to intervene on March 15, 1999. The court held a hearing on the TRO on March 23, 1999, and denied the motion on March 24, 1999 without ruling on the preliminary injunction. ADFG and BPXA answered the complaint on April 19, 1999 and April 28, 1999, respectively. The Fish Habitat Permit expired in May. There has been no further activity in the case.

Greenpeace v. Department of Natural Resources (DNR) - 3AN-99-3415 Civ. On June 17, 1999, Greenpeace filed an appeal in Superior Court of Commissioner Shively's consolidated final decision which denied Greenpeace's administrative appeals of BPXA's tundra travel permit (LAS19505) and water rights permit (LAS 20589). The Commissioner denied the administrative appeal of the tundra travel permit as moot and denied the administrative appeal of the water rights permit as untimely. BPXA relied upon these permits to build Northstar ice roads in the

1998-1999 winter season. BPXA applied for a new land use permit and a new water rights permit to build Northstar Project ice roads in the 1999-2000 winter season.

The court granted BPXA's motion to intervene on July 7, 1999. DNR assembled the administrative record, which was supplemented several times. After Greenpeace failed to file a brief, the court issued a notice of dismissal on January 21, 2000 and gave Greenpeace until February 4, 2000 to respond to the notice. On February 4, 2000, Greenpeace filed its brief, a motion to supplement the record and a motion to accept the late filing, which the court granted. DNR's and BPXA's briefs are due on May 17, 2000. On May 5, 2000, Greenpeace filed a motion for a temporary restraining order and preliminary injunction, and requested an immediate oral argument on the water use permits.

Greenpeace v. Department of Natural Resources (ADNR) - 3AN 00-3648 Civ. - DNR approved the issuance of temporary water use permit A00-10 to support construction of the Northstar Project. On January 14, 2000, Greenpeace appealed DNR's decision to the Director, Division of Mining, Land and Water. Greenpeace alleges, among other things, that DNR failed to: conduct a complete assessment of the water usage for the Northstar Project; analyze how this water usage relates to the leasehold; and analyze the cumulative effect of the total permitted use of water withdrawn daily from the Kuparuk River source during winter low flow months.

On January 27, 2000, BPXA filed a motion to intervene and a motion to lift the automatic stay of the permit pending appeal. On January 28, 2000, the Commissioner granted BPXA's motion to intervene, and lifted the automatic stay of DNR's approval of the Permit. On February 7, 2000, Greenpeace filed a request for reconsideration of the Commissioner's decision to lift the stay of the permit and a request for a hearing. The Commissioner denied the request on February 25, 2000, and Greenpeace appealed to the Alaska Superior Court on March 28, 2000.

On March 28, 2000, Greenpeace filed a motion requesting a de-novo review by the court of: (1) whether certain factors preclude or limit temporary and permanent water withdrawals from the Kuparuk River until an adjudication among beneficial uses can be made; (2) whether DNR has improperly permitted gravel mines to be used as water sources; and (3) whether DNR has improperly phased its review of Kuparuk River water use and failed to properly assess the cumulative impacts of such water use. On April 7, 2000, DNR and BPXA opposed Greenpeace's motion for de-novo review. In its opposition, BPXA argued that the three issues identified by Greenpeace have not been decided by DNR, and therefore the court does not have jurisdiction to review them at this time.

On April 14, 2000, Greenpeace filed a motion for stay pending appeal. DNR and BPXA opposed the motion. An April 27, 2000, the court ordered DNR and BPXA to file responses to Greenpeace's motion to stay by May 5, 2000, and set argument for May 18, 2000. On May 4, BPXA notified DNR that it did not require the permit after May 8, 2000. On May 5, DNR informed the court that the Commissioner withdrew his decision to lift the automatic permit stay and had reinstated the automatic permit stay, effective as of May 9, 2000. On May 11, 2000, Greenpeace sent a letter to the Commissioner inquiring as to whether the Commissioner intended to grant Greenpeace a hearing concerning the appeal of the permit.

Trespass. During the 1999-2000 winter construction season, approximately 7 to 15 Greenpeace members camped on the ice approximately 1 ½ miles from the Northstar island, and set up a warming hut near the pipeline right-of-way. The Alaska State Troopers arrested 11 Greenpeace members for trespassing at Northstar.

Federal Litigation

Edwardsen, Greenpeace, et al. v. US Mineral Management Service (MMS) - 99-71397. On October 28, 1999, Greenpeace and six individuals filed a petition for review in the U.S. Circuit Court of Appeals for the 9th Circuit. The petition challenges the Minerals Management Service's (MMS) approval of the Northstar Development and Production Plan. On December 1, 1999, the court allowed the State of Alaska and BPXA to intervene. The petitioners filed a joint brief on March 30, 2000. MMS' brief is due on May 31, 2000. Briefs are due from the State of Alaska and BPXA on June 14, 2000.

Greenpeace also filed a related administrative appeal with the U.S., Department of Interior Board of Land Appeals (IBLA) (Edwardsen, Greenpeace, et al. v. Minerals Management Service (99-71397)). On November 1, 1999, Greenpeace and six individuals (appellants) filed an appeal with the IBLA of MMS' decision to approve the Northstar Development and Production Plan. On the same date, appellants filed a motion for voluntary dismissal asking the IBLA to dismiss the appeal if it agrees that appellants are not required to file an administrative appeal before appealing to the 9th Circuit. On November 4, 1999, appellants requested MMS to vacate or to stay the Development and Production Plan pending appeal of MMS' approval of the DPP to the Ninth Circuit. MMS denied appellants' request to vacate or stay on November 29, 1999. On November 30, 1999, MMS filed a concurrence with appellants' motion for voluntary dismissal. To date there has been no further action in the administrative appeal before IBLA.

60 Day Notice of Intent to File Suit - On February 19, 1999, Greenpeace gave a 60-day notice of intent to sue to the U.S. Department of the Interior (DOI) regarding alleged Outer Continental Shelf Lands Act (OCSLA) violations arising out of MMS' approval of the Northstar spill plan and Development and Production Plan. On February 19, 1999, Greenpeace also gave a 60-day notice of intent to sue to the U.S. Department of the Interior (DOI) regarding alleged Endangered Species Act violations arising out of MMS' approval of the Northstar spill plan and Development and Production Plan. The 60 days have expired and no suits have been filed based on these letters.

Greenpeace v. U.S. Department of the Army Corps of Engineers - A99-0513 Civ. On August 24, 1999, Greenpeace filed a complaint in Alaska federal district court in Anchorage challenging the U.S. Dept. of Defense, Corps of Engineers (COE) for failure to respond to Greenpeace's Freedom of Information Act (FOIA) requests for records relating to approval of the Northstar project. Greenpeace requested the court to declare COE's failure to respond to the FOIA requests is unlawful and order COE to provide the requested records.

On February 25, 2000, Greenpeace filed a motion for partial summary judgment. The court allowed all parties until March 30, 2000 to file a motion for summary judgment. On March 31, 2000, Greenpeace and COE requested that the court allow an additional 30 day extension of all deadlines in the case. On April 3, 2000, the court granted the motion for the 30 day extension.

Formation of Participating Area

BPXA and Murphy Exploration & Production reviewed and reached a common understanding of the technical subsurface issues at a partner meeting held in June 1998. BPXA is keeping Murphy apprised of discussions with the agencies concerning participating area issues, and will meet with Murphy on those issues before submitting an application for a participating area.

BPXA held technical meetings with DNR, MMS and AOGCC throughout 1998 and 1999, and the parties have reached a common understanding of the seismic data, seismic interpretations, container, and reservoir modeling inputs and descriptions.

BPXA proposed a method of tract allocation in November 1998, and awaits unified input from DNR and MMS concerning its proposal. After the agencies have jointly identified the constraints of an acceptable method of tract allocation, BPXA and Murphy will submit an application for formation of a participating area. BPXA will review the reservoir depletion plan with DNR, MMS and AOGCC as needed prior to submitting an application for formation of a participating area. During 3Q/00, BPXA will finalize well locations and submit a participating area application.

Island Construction and Pipeline Installation

BPXA constructed an ice road in the winter of 1998-1999 in anticipation of commencing island construction in March 1999. However, BPXA was unable to start construction and abandoned the ice road due to permitting delays.

BPXA built ice roads in 4Q/99 to support construction of the island and pipeline. The oil and gas pipelines have been completed, hydrotested, geo pigged and purged with nitrogen. The pipelines will be tied in to Northstar Island, the CCP and Pump Station No. 1 in 3Q/01. The island is approximately 75% complete, and 85% of the island sheetpiling has been driven.

Transport and Installation

Infrastructure, such as utility and tank skids, pipe racks, and living quarters, will be sealifted from Anchorage in 3Q/00 and installed in 4Q/00. The process facility and remaining infrastructure will be sealifted from Anchorage in 3Q/01 and commissioned in 4Q/01. Veco is fabricating the utility and tank skids and living quarters at its shop at the Port of Anchorage. Alaska Petroleum Contractors is constructing the pipe racks at its Anchorage shop.

Rig Modification and Mobilization

Modifications to the Nabors 33E rig are 30% complete. The rig will be mobilized to the island via barge in 4Q/00 (instead of by ice road in 1Q/01). The grind and inject module for the rig is being fabricated in Fairbanks by HC Price. The grind and inject module will be trucked to Deadhorse and barged to Northstar Island in 3Q/00. Production drilling will commence in 1Q/01, and first oil production is anticipated in 4Q/01.