

UQALUGAANICH NEWSLETTER

ARCTIC SLOPE REGIONAL CORPORATION // VOLUME 23 # 6 // FALL 2003

ASRC subsidiary invests in pipeline

An opportunity to own a share of the pipeline that transports crude oil from the Alpine oil field prompted ASRC to form a new subsidiary, ASRC Pipeline Company Inc. (APCI). APCI invested close to \$16 million for nearly a 17-percent ownership interest in Alpine Transportation Company, which owns and operates a 34-mile pipeline that connects the Alpine oil field to the surrounding pipeline infrastructure.

Upon the approval of the Alaska

Regulatory Commission, APCI will be partnered with ConocoPhillips and Anadarko Petroleum Corporation for joint ownership of the Alpine Transportation Company. ConocoPhillips will have a majority interest of more than 65 percent, Anadarko will own 18 percent and APCI will own nearly 17 percent. In their application to the Alaska Regulatory Commission, the partnering companies stated, "ASRC [APCI] had a right, through its agreements, to join

the transportation company as a one-sixth partner," as reported by *Petroleum News*. Another part of the deal would allow Nuiqsut's village corporation, Kuukpik Corporation, the opportunity to acquire a share of APCI's interest in the Alpine Transportation Company. Teresa Imm was appointed to serve as president of APCI; she also serves as Director of Resource Development at ASRC.

Petro Star awarded one-year contract

The U.S. Department of Defense - Defense Energy Support Center (DESC) announced in September that it has awarded fueling contracts to ASRC subsidiary Petro Star Inc. and Williams Petroleum Alaska.

Petro Star received a one-year contract estimated at more than \$61 million and Williams Petroleum Alaska agreed to a \$28 million deal. The scope of the work

will include supplying Eielson Air Force Base, Fort Wainwright, Elemendorf Air Force Base and Fort Greely with fuel. According to the DESC, these contracts are put out to bid each year and the amount of the contracts fluctuates with the price of jet fuel.

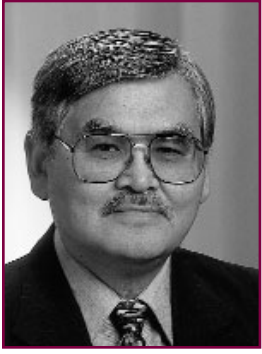
Through Petro Star's refineries, located in North Pole and Valdez, the company is expected to distribute about 53 million gallons of fuel to the military. Company executives at Petro Star acknowledged that this contract is very significant and that it represents about one-third of the company's jet fuel market.

Explaining the ASRC stake in Alpine

The information in this article is a general explanation and example of how resource revenue from the Alpine oil field is allocated. Actual results may differ depending on circumstances not within ASRC's control.

continued on page 3

From the Desk of the President



Jacob Adams

For more than three decades, Anchorage has served as the backdrop to this Native rights convention.

From every corner of the state, our Elders, leaders and youth gather to express their insights, aspirations and stories with one another. It is also a time of sharing traditional culture with those outside our communities.

One issue that you might hear about prior to the convention is a report titled, *Native Corporations - A Legacy of Sharing*, which is endorsed by the Association of ANCSA Presidents & CEOs. The study concentrated on economic data gathered from the 13 ANCSA regional corporations and just 30 of the 168 village corporations.

This study measures to a certain degree the employment and financial influence that Native businesses have within the state economy. It was determined that, in 2001, Alaska Native businesses generated revenues close to \$3 billion and employed 13,000 people, of whom 3,100 were Alaska Natives.

An annual event to look forward to in late fall is the Alaska Federation of Natives

convention, which always proves to be a success.

For more than three decades, Anchorage has served as the backdrop to this Native rights convention.

Another notable factor of the report concludes that, in 2001, Native corporations donated more than \$9 million to charitable organizations and just over \$4 million in educational scholarships to nearly 3,000 students.

The report also explains briefly and clearly the resource sharing requirements of ANCSA: "Section 7(i) of the act simply states in one sentence that 70 percent of all resource revenues received by each region from ANCSA lands will be shared among the 12 regional corporations within Alaska ... Section 7(j) requires regions then share half of the 7(i) funds they receive with village corporations and individual at-large shareholders." The report also states, "The impact of Native non-profit entities has not been fully measured ... also not measured is the impact of the ANCSA sharing requirement," [Sections 7(i) and 7(j)].

Native Corporations - A Legacy of Sharing was published to inform the public in hopes that it would enlighten those who are interested in Native businesses. By making this information available, we draw a clear picture of how important Native enterprise is to the State of Alaska and its residents. If you have not read this valuable study, I recommend it. It took a collaborative effort by many people, organizations and businesses to make this report possible and it serves as a testament to the positive trend that is prevalent within the state economy and Alaska Native businesses today.

AFN Convention 2003

Education and Cultural Self
Determination
Egan Convention Center
Anchorage, Alaska

Elders & Youth Conference:
October 20 - 22, 9am to 5pm
Alaska Federation of Natives
Convention:
October 23 - 25, 9am to 5pm

Quyana Alaska
Wednesday October 22, 7pm - 11pm
Thursday October 23, 7pm - 11pm
Tickets go on sale during Elders &
Youth Conference

Job Fair
Wednesday, Oct. 22, 9am - 4:30pm
Egan Convention Center,
Lower Level

Leadership Development Summit
Wednesday, Oct. 22, 9am - 4:30pm
Egan Convention Center,
Lower Level

Native Arts Fair
Thursday, Oct. 23 & Friday, Oct. 24
9am - 5pm
Saturday Oct. 25

AFN Banquet
Saturday Oct. 25, at 6pm
Egan Center
Tickets to this event are for sale,
call AFN Banquet for more info at
(907) 274-3611

ASRC's stake in Alpine *continued from page 1*

The media reports that the Alpine oil field's owners include the Natives of Alaska's Arctic Slope, and that it is the first oil field to produce the subsurface estate owned by Arctic Slope Regional Corporation. But what is commonly left out are the details. Like, for instance, how much of the field does ASRC own? What does that ownership share entitle us to? How much oil is being produced and how much revenue is being received by ASRC? And, how much does ASRC share with others?

The diagram below broadly shows an example of how the owners and operators of the field share the benefits of the production at Alpine. It also shows how joint ownership and the rules of the Alaska Native Claims Settlement Act (ANCSA) have spread the wealth of the oil field.

A typical subsurface owner is entitled to a royalty of about 12 to 16 percent of the production volume for allowing their oil field to be leased and developed for oil. The rest of the production volume goes to the producers.

The amount due to the producers is large, but the producers are also the ones investing the costs of exploration and development.

The average royalty received by subsurface owners for leases in the Alpine oil field is about 16 percent. The subsurface of Alpine is owned by both ASRC and the State of Alaska. The approximate breakdown of subsurface ownership in Alpine is 65 percent belonging to the State, and 35 percent belonging to ASRC.

The State of Alaska and ASRC split the royalty revenue from the Alpine oil field.

However, this is not the end of the story. ASRC and the State only own the royalty oil when it is on the lease: they only get paid for the value of the oil at well head (well head value). Since the published value of North Slope oil is determined after it is shipped to the West Coast of the Lower 48, the value must have the shipping costs subtracted. So, right off the top of both royalty streams to the State and ASRC, the net-back costs can be deducted. The net-back cost can be thought of as the cost to bring Alpine oil down the Trans-Alaska Pipeline and ship it to markets on the West Coast or elsewhere. For ASRC, the net-back payment is equal to about 23 percent of its production share at \$23.00 per barrel oil prices.

After the producers have determined the volume that goes to ASRC and the State, ASRC is then mandated by ANCSA to share its own resource revenue with 12 land-owning Native regional corporations in Alaska.

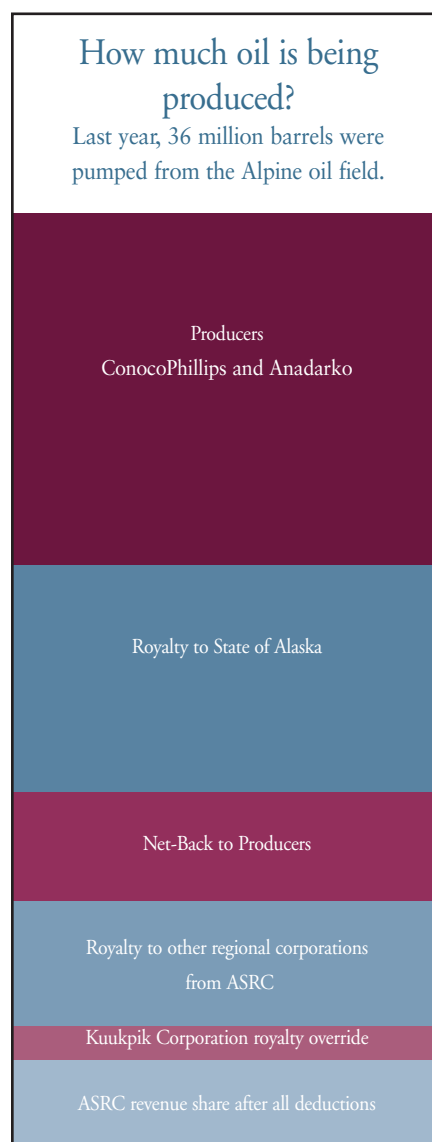
ANCSA requires that about 70 percent of the resource revenue be distributed among all the regional corporations.

Like most conventional lease terms, the lion's share of production revenue remains with the producers, the royalty is split with the other subsurface owners (the State) and then ASRC gives away most of what is left to the other regional corporations through Section 7(i) of ANCSA. Simple mathematics show that ASRC's proportional "takehome" share of the Alpine oil field is actually relatively small.

Although the proportion is small, the dollar amounts are significant. Last year, ASRC distributed about \$22 million of Alpine-

generated revenue to the other ANCSA corporations. After all deductions, ASRC earned \$11 million of net-resource revenue from Alpine in 2002.

The experience gained at Alpine is allowing ASRC to learn the roles of owners and producers. ASRC is now investigating how the corporation can participate as a sole owner or even a producer of other North Slope oilfields, and thereby share in the larger portion of resource revenue shown in the diagram.



Questions and Answers

Q.How much of the Alpine oil field subsurface does ASRC own?

A.About 35%, and the State of Alaska owns the remaining 65%.

Q.What does ASRC's ownership share entitle the corporation to receive?

A.ASRC receives 35% of the royalty stream, which is further reduced by a "net-back" calculation. The net-back amount is deducted from the ASRC royalty share to determine well-head value.

Q.How much revenue is ASRC receiving and how much do we share with others?

A.Last year, as required by ANCSA

Section 7(i), ASRC distributed about \$22 million to the other regional corporations. After all deductions ASRC earned around \$11 million from Alpine.

Q.Why does the State of Alaska own more of the Alpine field than ASRC?

A.The apparent imbalance in ownership is due to a negotiated agreement on ownership of the subsurface estate reached with the State of Alaska in 1991, and the current outline of the producing portion of the Alpine field, called the Participating Area (PA). ASRC ownership percentage increases westward across the delta, so if drilling results are favorable near the west end of the existing PA, then the PA boundary could be expanded to

include this additional part of the reservoir and be developed from the existing Alpine drill sites. This would increase production of oil from subsurface estate that is predominantly owned by ASRC, and would change the ownership split of the Alpine field in ASRC's favor.

Q.What portion of the Alpine oil field is owned by the Kuukpik Corporation, and how are they compensated for development on their lands?

A.A little less than half of the Participating Area of the Alpine oil field rests on Kuukpik Corporation surface lands. Kuukpik receives a negotiated royalty override for any production on leases where Kuukpik is a surface land owner.

Relocation of Stock Department

The ASRC Stock Department is relocating from the second floor to the first at Barrow headquarters. If you are trying to reach the Stock Department and are unable to, please be patient while we work through this process. Should you need any help you can leave a voice mail message at (907) 852-8633 or 1-800-770-2772.

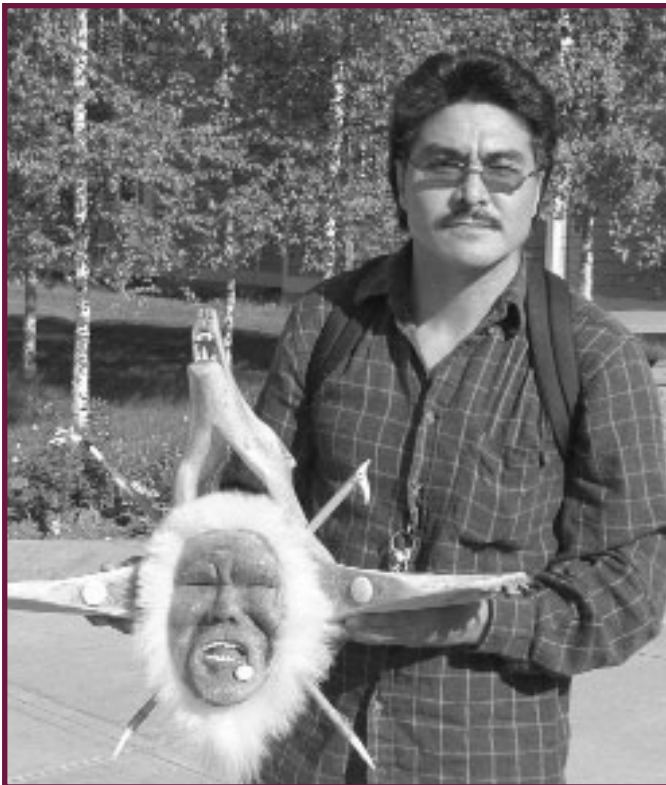


(ABOVE) Whaling crew members work to clear the launch in front of their umiaq this past spring. (RIGHT) Bobby Nashookpuk proudly displays his work of art.

ASRC Snapshots 2003



(ABOVE) Eric Brower and Justice Kippi play by blocks of frozen ice used for drinking water.



ASRC Energy Services work study

ASRC Energy Services (AES) invites any shareholder or shareholder-spouse student interested in part-time work to apply for a position in the AES part-time study program. These are a variety of part-time (no more than 20 hours per week) positions available in Barrow, and one or two positions available in each of the other North Slope villages and several positions available in Anchorage and Fairbanks. The AES part-time work study program will last approximately 12 weeks. Start dates and schedules may be flexible. The pay range is between \$8-\$12 per hour, depending on experience.

Applicant must be:

- An ASRC shareholder or shareholder spouse*
- At least 16 years of age
- Dependable with a strong work ethic
- Able to pass a drug test

* High school and college students preferred, but other applicants will be considered.

To apply, please contact:

Anchorage: Tom Leavitt (907) 339-6347
tom.leavitt@asrcenergy.com

Fairbanks: Andrea Kippi(907) 451-0331 ext. 112
andrea.kippi@alyeska-pipeline.com

Anaktuvuk Pass: Karen Russell
Atkasuk (907) 852-9426
Barrow karen.russell@asrcenergy.com
Kaktovik
Nuiqsut
Point Hope
Point Lay
Wainwright

“If we can get young shareholders into our programs and initiated into our company, we have a much better chance at getting them to look at AES as a long-term career opportunity. Because our shareholder base is still on the North Slope, we really want to develop a program where we can reach out and touch these kids at home and early in their career decision-making process.”

-Rodney Pederson, AES Executive Vice President

Where are you?

Anyone with knowledge of the whereabouts of anyone on this list, please contact the ASRC Stock Departments at 1-800-770-2772

Ahvakana, Ronald James
 Atoruk, Mary Inez
 Bachmann, Kevin Troy
 Bahr, Gerald Allen
 Balangue, Richie L.
 Bartel, Beverly Jean
 Biden, Gloria L.
 Blaste, Charles Dennis
 Canfield, James Benjamin
 Canfield, Melissa Avalon
 Collard, Darrel Eugene
 Darling, Howard V. II
 Diemert, Stephen M.
 Doyle, Teresa E.
 Ekak, Dwayne
 Emmit, William David
 Gangwer, Joshua K.

Gangwer, Warren T.
 Granthem, Faye Jeannette
 Harding, Joseph
 Heik, Veronica E.
 Horman, William Dale
 Hurst, Ian
 Hurst, William
 Jackson, Amy Williams
 Kanayurak, Lilly Faye
 Kanayurak, Patrick Martin
 Katlak, Charlotte
 Kikoak, Martha
 Kimiksana, Elizabeth
 Lane, Jennifer Ann
 Lane, Lennie III
 Leavitt, Dick William
 Lemen, Lucy Mae
 Lincoln, Elvina Rose
 Long, Janet
 McCleer, Elizabeth Ann
 Meyook, Irish
 Moore, Mary Carol
 Moore, Violet G.

Nashookpuk, Carl James
 Negovanna, Bob Burrell
 Okomailak, Shirley Jane
 Perry, Lori Ann
 Pimental, Kawika M.
 Rexford, William Jr.
 Rowe, Adriana Margaret
 Rychart, Fredrick Sam
 Selamio, William R.
 Sharp, Homer Richard
 Smith, Jeremiah C.
 Smith, Marilyn Ruth
 Somaduroff, Michael
 Stone, Thomas
 Tagarook, Manning M.
 Taylor, Paul Michael
 Thum, Jedediah Mathias
 Toorak, Eunice Ellen
 Twedt, John Melvin
 Wherry, Cheryl
 Williams, David
 Wilson, Gerald E.

Our Language Uqaluvut

Ikayuglakpiñ
i-ka-yug-lak-piñ
 "Let me help you."



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