

**December 23, 2013**  
**Alaska Department of Natural Resources**  
**State Pipeline Coordinator's Office**

**Analysis of Transfer of Interest Request for  
the Badami Oil Pipeline Right-of-Way Lease, ADL 415472, and  
the Badami Utility Pipeline Right-of-Way Lease, ADL 415965,  
from BP Transportation (Alaska), Inc. to Nutaaq Pipeline, LLC**

**I. Nature of the Request:**

BP Transportation Alaska, Inc. ("BPTA") is the Lessee for the Right-of-Way Leases for the Badami Sales Oil Pipeline, ADL 415472, and the Badami Utility Pipeline, ADL 415965 (collectively "Badami Pipelines"). Pursuant to a Purchase and Sale Agreement dated December 9, 2011, BPTA has agreed to sell the Badami Pipelines to Nutaaq Pipeline, LLC ("Nutaaq"). Savant Alaska, LLC ("Savant") holds a 67.5 % interest in Nutaaq. The remaining 32.5% interest is held by Badami Pipeline Holding, LLC, which is owned entirely by Arctic Slope Regional Corporation Exploration, LLC ("ASRC Exploration"). On April 25, 2013, BPTA and Nutaaq submitted a transfer of interest request to the Department of Natural Resources (DNR) for the Badami Pipelines (ADL 415472 and 415965).

AS 38.35.120 requires the DNR Commissioner ("Commissioner") to include in each lease, among other conditions, the requirement that the lessee:

not transfer, assign, or dispose of in any manner, directly or indirectly, or by transfer of control of the carrier corporation, its interest in a right-of-way lease, or any rights under the lease or any pipeline subject to the lease to any person...except to the extent that the commissioner, after consideration of the protection of the public interest (including whether the proposed transferee is fit, willing, and able to perform the transportation or other acts proposed in a manner that will reasonably protect the lives, property, and general welfare of the people of Alaska), authorizes; the commissioner shall not unreasonably withhold consent to the transfer, assignment, or disposal.

Additionally, on October 14, 2013, BPTA submitted a request for partial release of BP Corporation North America's ("BP North America") parent guaranty for the Badami Pipelines. The Current BP North America Guaranty "unconditionally guarantees to the State full performance, fulfillment, and satisfaction of all duties, obligations, and liabilities of BPTA arising under or pursuant to the Lease." The requested partial release is for any liability arising after closing of the transfer to Nutaaq, except for the decommissioning, restoration and remediation ("DR&R") of the Badami Pipelines, including any improvements associated with the Piggable Wye for the Pt. Thomson Export Pipeline. This partial release request is adjudicated under a separate decision.

## **II. Administrative Record:**

The following documents constitute the administrative record for this analysis:

- The Badami Sales Oil Pipeline Lease and associated case file;
- The Badami Utility Pipeline Lease and associated case file; and
- A transfer request from BPTA and Nutaaq dated April 25, 2013, including materials submitted in support of the request.

## **III. Background:**

### Badami Pipelines

The Badami Pipeline Leases were entered into and made effective between the State of Alaska and BPTA on December 15, 1997. The State received unconditional guaranties from Standard Oil Company, as parent for wholly owned subsidiary BPTA, which are attached to each lease as Exhibit C. In September 2003, the Standard Oil Company guaranties were replaced with identical guaranties from BP North America; the State Pipeline Coordinator's Office (SPCO) released the Standard Oil Company guaranties in October 2003. As stated above, the guaranties irrevocably and unconditionally guarantee to the State of Alaska the full performance, fulfillment, and satisfaction of all of the duties, obligations, and liabilities of BPTA arising under the individual leases.

### Nutaaq

Nutaaq is a newly formed limited liability company established with the purpose to own and operate the Badami Pipelines. Nutaaq is owned by Savant (67.5%) and the Badami Pipeline Holding Company, LLC (32.5%).

Savant is a Colorado limited liability company, managed by Savant Resources, LLC. Savant has been working with BP Exploration Alaska, Inc. ("BPXA") since 2008, when the two companies began to develop plans to restart the Badami Unit. BPXA, ASRC Exploration, and Savant joined to revitalize production and the pool was returned to regular production in November 2010. On January 7, 2012, BPXA transferred the Badami Unit to Savant and ASRC Exploration. Since January 2012, personnel from Savant or one of its affiliates has been providing operator services to the Badami Pipelines under a subcontract with BPXA and BPTA.

Arctic Slope Regional Corporation ("ASRC"), the parent company of Badami Pipeline Holding, LLC and ASRC Exploration, was established pursuant to the Alaska Native Claims Settlement Act of 1971. Incorporated in 1972, ASRC has grown and diversified to the largest Alaskan-owned company, with approximately 10,000 employees worldwide. ASRC is a private, for-profit corporation that is owned by and represents the business interests of its 11,000 Inupiat Eskimo shareholders. ASRC owns title to nearly five million acres of land on Alaska's North Slope, as well as subsurface rights to certain lands, and surface rights to other lands. ASRC has experience as both a royalty and working interest owner in various production, development, and exploration projects across the North Slope. ASRC Exploration participated in drilling and/or working over a number of wells as part of the effort to restart production from the Badami Unit in November 2010.

### BPTA-Savant/ASRC Exploration Purchase and Sale Agreement

Upon completion of the pending transfer, slight management changes will occur in the operation of the Badami Pipelines; Savant has been providing operator services for the Badami Pipelines and will expand these services to take over full operator status. A transition plan has been developed and is roughly outlined in the Purchase and Sale Agreement between BPTA and Savant and ASRC Exploration. Transition services provided by BPTA include consultation regarding: maintenance of the equipment, plant and facilities; compliance with federal, state, and local permitting requirements; meeting federal, state and local reporting requirements, including formats, historical information, and past reports; the identification and scheduling of preventative maintenance; and engineering, planning, finance and other issues.

Under the Purchase and Sale Agreement, BPTA agrees to retain all DR&R responsibilities for the Badami Pipelines, as they currently exist and for any improvements associated with the Piggable Wye for the Pt. Thomson Export Pipeline Project. Work related to the Piggable Wye is currently in the preliminary engineering stages, with construction planned for 2015.

Finally, the Purchase and Sale Agreement contains a provision under which Nutaaq has both an option (any time with 30-days' notice) and obligation (120 days following permanent cessation of hydrocarbon movement through the Badami Sales Oil Pipeline) to sell the Badami Pipeline Leases back to BPTA. Any such transfer would require an additional fit, willing and able analysis and Commissioner approval.

#### **IV. Technical Review**

DNR staff reviewed the technical condition of the Badami pipelines. Two lines of evidence support the conclusion that the pipeline is in relatively good condition.

A list of eight technical questions was developed to investigate the condition of the pipelines. BPTA produced documentation that successfully answered these questions, which covered several subject areas:

1. In-Line Inspection (ILI) information (smart pigging), including spatial geometry pigging to assess the condition of trenched stream crossings
2. Maintenance pigging
3. Needed maintenance and incomplete work orders
4. Wind-Induced Vibration
5. External and internal corrosion
6. The condition of the Vertical Support Members (VSMs)
7. The technical portion of BP's risk analysis
8. ExxonMobil evaluations of the Badami Oil Pipeline

This review was high-level and not intended to be a full engineering analysis. It did not find any significant deficiencies, corrosion problems, settling or other issues that would require a new owner to perform major maintenance or assume inordinate risk. It did

reveal that the buried stream crossings were likely the greatest operating risk. However, this is part of the original construction and a design that BPTA has successfully managed and operated since the beginning of Badami production.<sup>1</sup>

In addition, BPXA's Technical Authority for Pipelines produced a short condition report on the Badami Pipelines. Among other conclusions, the Technical Authority stated, "[b]ased on the information review, the Badami Oil and Gas Pipelines are fit for continued service." He also stated, "[t]he pipelines have been maintained and are in good condition."<sup>2</sup>

## V. Financial Review

The proposed transfer of the Right-of-Way leases will result in the change of ownership of the "Badami Pipelines" from BPTA to Nutaaq Pipeline, LLC. Badami Sales Oil Pipeline transports crude from the Badami Unit to the Endicott Pipeline and is the only way to transport Badami Unit crude for its subsequent shipment through the Trans-Alaska Pipeline System ("TAPS"). Working interest in the Badami Unit leases was transferred from BPTA to Savant Alaska and ASRC Exploration in 2012. As a result of the Unit lease assignments, BPTA is presently the carrier of Savant Alaska's and ASRC Exploration's crude since BPXA no longer owns production from the unit. If the Right-of-Way Lease transfers are approved, working interest in the Badami Unit production will be alighted with ownership of the Nutaaq Pipeline, whereby 67.5% will be owned by Savant Alaska, LLC and 32.5% will be owned indirectly by Arctic Slope Regional Corporation. BPTA does reserve the option to repurchase the Pipeline at an insignificant price until December 31, 2016.

In support of the proposed transfer request, Nutaaq originally submitted draft joint and severable guaranties from Savant Alaska, LLC and ASRC Exploration, LLC. These guaranties contain undertakings by each entity to the State of Alaska for the full performance, fulfillment, and satisfaction of the duties, obligations, and liabilities of Nutaaq under or pursuant to the Badami Pipeline Leases. Subsequently the applicant replaced the joint and severable guaranties with guaranties for only the corresponding interest of each party in Nutaaq, with Savant Alaska guarantying 67.5% and ASRC<sup>3</sup> guarantying 32.5%. As mentioned above, the DR&R responsibility for the Badami Pipelines, as currently constructed and any improvements associated with the Piggable Wye for the Point Thomson Export Pipeline, will be retained by BPTA.

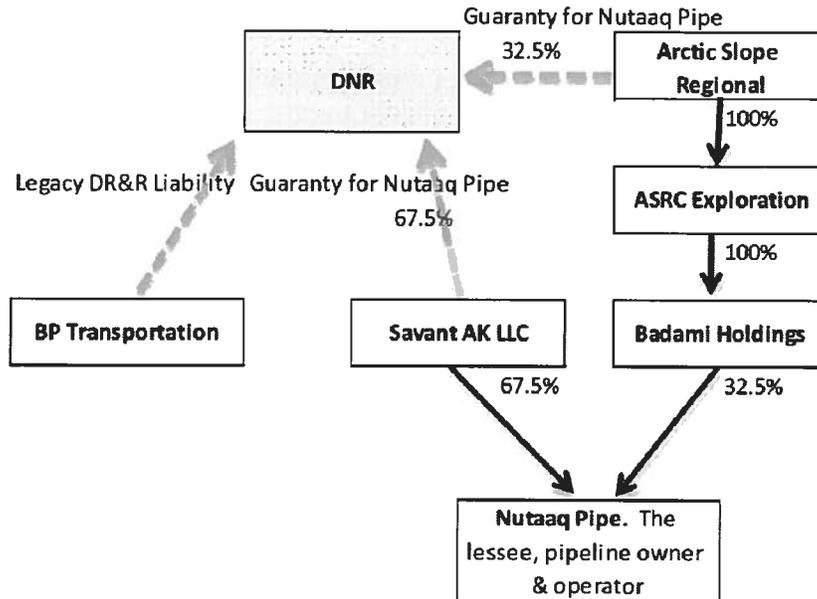
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<sup>1</sup> Memo, Louis Kozisek, PE, to Allison Iversen, BP to Savant Transfer, November 26, 2013.

<sup>2</sup> Correspondence, Glen Pomeroy to Don Turner, Subject: Badami Oil and Gas Pipeline Status, November 8, 2013.

<sup>3</sup> ASRC Exploration's guaranty was upgraded to Arctic Slope Regional Corporation (ASRC), the parent of ASRC Exploration.

The ownership/guarantorship structure of this transaction is:



NOTE: Nutaq Pipeline LLC will maintain an \$85MM insurance policy with DEC

With BPTA retaining liability for DR&R, Nutaq will only be assuming liability for DR&R associated with new additions/modifications to the pipelines (except for the Piggable Wye). The SPCO will have the opportunity to reevaluate the financial package when and if any new additions are proposed. Nutaq will, however, assume operatorship and ownership of the pipeline and therefore will be exposed to risks associated with operating the Badami Pipelines. The financial analysis below will therefore address the operational risk. There is some probability that BPTA will reassume ownership and/or operatorship sometime between now and December 31, 2016, as such an option is provided in the purchase and sale agreement. This possibility to some extent reduces the likelihood of Nutaq's prolonged exposure to operational risks.

The Commissioner reviewed the financial statements and balance sheets of Savant Alaska, LLC for the last three years (2009-2012) and the consolidated financial statements of Arctic Slope Regional Corporation and Subsidiaries for five recent years (2007-2011). The financial statements were prepared in accordance with generally-accepted accounting and auditing principles and certified by a firm of reputable and independent certified public accountants. The DNR looked specifically at Revenue, Earnings before Interest, Tax, Depreciation, and Amortization (EBITDA), Debt, Equity, Cash from Operations, Cash and Cash Equivalents, EBITDA/Revenue, Net Debt/EBITDA, EBITDA/Net Interest Expense.

ASRC is a well-diversified corporation with subsidiaries in the energy services, petroleum refining and marketing, engineering and construction, government services, resourced development, commercial lending, and tourism. ASRC's financial statements reflect stable and improving performance as reflected in the increased revenue and cash

from operations over the past several years. The company has maintained a substantial amount of cash and equivalents and a relatively low leverage, as can be seen from Net Debt to EBITDA which has stayed below two for at least the past two years. The company is financially fit and able to mitigate risks associated with their share of the guaranty for the Badami Pipelines.

Savant Alaska is the main working interest owner and operator of the Badami Unit. The company is not diversified; furthermore risks associated with Badami Pipelines are inseparable from those of Savant Alaska since the Badami Pipelines support production from the Badami Unit. The company is relatively small and, although its revenue has increased between 2011 and 2012, its cash from operations has declined. The company has maintained a steady amount of cash and cash equivalents which exceeded its debt obligations. Savant Alaska's guaranty provides limited value due to company's size and the joint risk between the company and Nutaaq. Nutaaq will, however, maintain reasonable insurance coverage to mitigate the shortfalls in the size and the joint risk associated with Savant Alaska as the guarantor.

Nutaaq will be covered by the following insurance policies to reasonably addresses AS 38.35.100 criteria:

Spill Risk Insurance- Nutaaq will be covered by an \$85MM insurance policy with a \$1 million deductible for each incident. However, it will be the responsibility of the insurance carrier to collect the deductible; in the event that the lessee is unable to pay the deductible, the carrier will still be liable to make incident related payments.

The policy covers the following expenses:

**Remediation Expenses** - exclusively for remediation of pollutants that are on or under a covered property, provided the remediation expenses arise from Onsite Pollution.

**Emergency Response** - emergency response expenses as a result of pollution incident and incurred in response to an imminent and substantial threat to human health or environment

**Third-Party Claims** - bodily injury or property damage

**Transportation**- bodily injury, property damage, or remediation claims which arise from transportation

**Waste Disposal Activities** - bodily injury, property damage or remediation from a pollution incident resulting from waste disposal

**Business Interruption** - insured's business interruption expenses

Other insurance - Nutaaq will also be covered by the general liability, excess liability, and pipeline property coverage to include 3<sup>rd</sup> party bodily injury and property damage over and in excess of that covered by the risk spill insurance.

Nutaaq will be required to:

- 1) List the SPCO as the additional insured on the policies described above.
- 2) Provide updated copies of the insurance policy to the SPCO and maintain that policy during the duration of the Right-of-Way Leases.
- 3) Provide ASRC's and Savant's guaranties to cover Nutaaq, listing the SPCO as the beneficiary.

**VI. Fit, Willing and Able Analysis of Transfer Request:**

The Badami Sales Oil Pipeline Lease, ADL 415472 and the Badami Utility Pipeline Lease, ADL 415965, provide:

8. Covenants of Lessee

(i) Lessee will not transfer, assign, or dispose of in any manner, directly or indirectly, or by transfer of control of the carrier corporation, its interest in this lease, or any rights under this lease or any Pipeline System subject to this lease to any person other than another owner of the Pipeline System (including subsidiaries, parents and affiliates of the owners), except to the extent that the Commissioner, after consideration of the protection of the public interest (including whether the proposed transferee is fit, willing and able to perform the transportation or other acts proposed in a manner that will reasonably protect the lives, property and general welfare of the people of Alaska), authorizes; the Commissioner shall not unreasonably withhold consent to the transfer, assignment, or disposal.

22. Transfers of Interest

(b) In compliance with section 8(i) herein, the lessee may assign, sublease, or transfer this lease, or any interest in or rights under this lease only upon a written finding by the Commissioner that the transferee meets the requirements of AS 38.35.100(a). In assigning, subleasing, or transferring interests under this lease, the lessee may transfer less than its entire undivided interest, in, to or under this lease if such transfer covers all lands subject to this lease but the lessee may not transfer any interest in, to, or under this lease that covers less than all of the lands subject to this lease. Upon application for approval of a transfer of interests under this lease to more than one lessee or which results in there being more than one lessee, the Commissioner will in the Commissioner's discretion establish the limit of the obligations and liabilities of each lessee arising under this lease. If the Commissioner does not establish the limit of the obligations and liabilities of each lessee, the obligations and liabilities will be joint and several.

AS 38.35.100 requires the Commissioner determine whether the transferee, Nutaaq, is "fit, willing, and able to perform the transportation or other acts proposed in a manner that will be required by the present or future public interest." In making this determination, the Commissioner must address the following questions:

1. Does the proposed use of the right-of-way unreasonably conflict with existing uses of the land involving a superior public interest?
2. Does the applicant have the technical and financial capability to protect State and private property interests?
3. Does the applicant have the technical and financial capability to take action to the extent reasonably practical to prevent any significant adverse environmental impact, including but not limited to, erosion of the surface of the land and damage to fish and wildlife and their habitat?
4. Does the applicant have the technical and financial capability to take action to the extent reasonably practical to undertake any necessary restoration or revegetation?
5. Does the applicant have the technical and financial capability to take action to the extent reasonably practical to protect the interests of individuals living in the general area of the right-of-way who rely on the fish, wildlife, and biotic resources of the area for subsistence purposes?
6. Does the applicant have the financial capabilities to pay reasonably foreseeable damages for which they may become liable or claims arising from the construction, operation, maintenance or termination of the pipeline?

To begin, the requested transfer of interest does not include changes in the current use or additional use of the Badami Pipeline Rights-of-Way. The Badami Pipeline Right-of-Way Leases were crafted to protect the State's interest and contain numerous provisions specific to protection of fish and wildlife, restoration of the rights-of-way, and prudent operation of the pipeline, among other things. According to the application, Savant will continue to operate the Badami Pipelines and Nutaaq has agreed to be bound by the terms and conditions of the Badami Pipeline Right-of-Way Leases.

With regard to the applicant's technical capabilities, the Commissioner has considered Savant's operational history in the oil and gas industry. As discussed in the Background and Technical Sections, Savant and ASRC Exploration have significant combined experience in exploration, production and transportation of resources on Alaska's North Slope. Additionally, Savant personnel have been contracted to perform operational duties on the Badami Pipelines since January 2012.

According to their Technical Authority, BPXA field personnel and engineers have provided and are still providing advice and support to Savant on the operation of the pipelines and the processing facility. In addition, Savant has hired several ex-BP and contractor employees familiar with Badami. BPTA and BPXA have amassed extensive documentation on the design and operation of the pipeline; this documentation will be available to Savant. All of these steps should aid in the transition of ownership.

Savant Resources, LLC is a privately held independent oil company with their own oil and gas staff. The parent company supports oil and gas drilling and operations in several states. In addition, Savant Alaska, LLC has many of the same contractors on staff as

BPXA had. Much of the knowledge base and capabilities of the oil industry lies in the skill and experience of the support contractors.

Savant's partner, Arctic Slope Regional Corporation, is a Native Corporation with a long history in the North Slope oilfields as a support contractor. ASRC Energy Services provide personnel and expertise to oilfield, drilling, and pipeline projects. They provide support services in maintenance, drilling, construction, repairs, regulatory compliance, and many other activities. ASRC's engineering is one of Alaska's largest oil and gas technical services companies. ASRC also has joint ventures with companies with this type of expertise, such as Houston Contracting. The corporation has been on the Federal government's "Top 100" contractor list for several years (no. 80 in the last year reported, 2012).<sup>4</sup> All of these are indicators that the corporation can draw on considerable resources and experience.

In addition, the SPCO, as manager of the Badami Pipeline Leases, will ensure lease provisions and requirements continue to be met and will work with Nutaaq as Lessee and Savant as operator, to develop any additional required plans and programs that need to be implemented. Specifically, the Badami Pipeline Leases require an approved quality assurance program (Section 14a and Stipulation 1.4), an approved surveillance and monitoring program (Section 14c and Stipulation 1.6), along with required Lessee and operator contact information. The SPCO will begin surveillance activities, similar to those undertaken with BPXA throughout the life of the leases to date, with Nutaaq upon completion of the transfer process.

Accordingly, Nutaaq has demonstrated the technical capability to protect State and private property interests, prevent significant adverse environmental impact, undertake necessary restoration, and protect individuals living in the general area of the Rights-of-Way and their subsistence resources.

With regard to the applicant's financial capabilities, the Badami Pipeline Leases require:

11. Guaranty

(a) This lease is contingent upon the Standard Oil Company (a wholly owned subsidiary of BP America Inc. and ultimately of The British Petroleum Company) unconditionally guaranteeing, and remaining capable of guaranteeing the performance of all of BP Transportation (Alaska) Inc.'s duties and obligations under and by virtue of this lease.

(b) The Standard Oil Company's unconditional guaranty is attached to this lease as Exhibit C.

(c) If the Commissioner determines at any time that The Standard Oil Company's guaranty is insufficient, the Commissioner may require the substitution and delivery of a new form of guaranty with any provisions the Commissioner finds necessary.

12. State as Additional Insured

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<sup>4</sup> [https://www.fpds.gov/fpdsng\\_cms/index.php/en/reports](https://www.fpds.gov/fpdsng_cms/index.php/en/reports)

If the Lessee, at its option, obtains commercially available insurance coverage for the Leasehold and the lessee's activities in, on or related to the Leasehold, the lessee shall name the State as an additional insured on all such insurance policies obtained and maintained by the lessee if such addition is available at commercially reasonable rates, except that such insurance coverage shall not cover or apply where the sole proximate cause of the injury or damage is the negligence or willful misconduct by the state or anyone acting on behalf of the state. Any commercially available insurance purchased by lessee under this section will not be construed to limit in any way the lessee's liabilities or responsibilities under this lease.

Additionally, AS 38.35.120(a)(14) states that a lessee:

will procure and furnish liability and property damage insurance from a company licensed to do business in the state or furnish other security or undertaking upon the terms and conditions the commissioner considers necessary if the commissioner finds that the net assets of the lessee are insufficient to protect the public from damage for which the lessee may be liable arising out of the construction or operation of the pipeline.

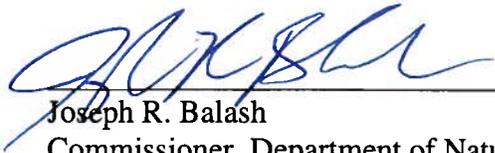
As discussed more thoroughly in the Financial Section, the Commissioner has determined that Nutaaq's net assets and Draft Guaranties are insufficient to protect the public from damage for which Nutaaq may be liable. Accordingly, the Commissioner is requiring Nutaaq to:

- 1) List the SPCO as the additional insured on the policies described in the financial section.
- 2) Provide updated copies of the insurance policies to the SPCO and maintaining that policies during the duration of the Right-of-Way Leases.
- 3) Provide ASRC's and Savant's guaranties to cover Nutaaq, listing the SPCO as the beneficiary.

If the Commissioner determines at any time that the Guaranties of Savant Alaska, LLC and ASRC are insufficient to guarantee performance of Nutaaq's duties, obligations, and liabilities under the Badami Pipeline Leases, the Commissioner may require Nutaaq to procure and furnish additional liability and property damage insurance or other financial assurance package, as the Commissioner determines necessary. If and when another pipeline connects to the Badami Pipelines, including, but not limited to, the Point Thomson Export Pipeline, the Commissioner will re-examine Nutaaq's financial assurance requirements.

**VII. Conclusion.**

The requirements for the transfer of interest have been met and the applicable statutes have been satisfied. Therefore, the transfer of BPTA's interest in the Badami Pipeline Leases to Nutaaq Pipeline, LLC is approved.

  
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Joseph R. Balash  
Commissioner, Department of Natural Resources

12/24/13  
Date