BP PRUDHOE BAY ROYALTY TRUST
Form 10-K/A
March 11, 2008

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K/A
(Amendment No. 1)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year ended December 31, 2007

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 1-10243
BP PRUDHOE BAY ROYALTY TRUST
(Exact name of registrant as specified in its charter)

DELAWARE	
State or other jurisdiction of incorporation or organization)	**13-6943724** (I.R.S. Employer Identification No.)

THE BANK OF NEW YORK, TRUSTEE	
101 BARCLAY STREET	
NEW YORK, NEW YORK	**10286**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: (212) 815-6908
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
UNITS OF BENEFICIAL INTEREST	**NEW YORK STOCK EXCHANGE**

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act
Yes o No þ

The aggregate market value of Units held by nonaffiliates (computed by reference to the closing sale price in New York Stock Exchange transactions on June 29, 2007 (the last business day of the registrant s most recently completed second fiscal quarter) was approximately $1,545,508,000.

As of February 28, 2008, 21,400,000 Units of Beneficial Interest were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None

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Explanatory Note

This Amendment No. 1 on Form 10-K/A (this Form 10-K/A) amends the Trust s annual report for the fiscal year ended December 31, 2007, originally filed with the Securities and Exchange Commission (SEC) on February 29, 2008 (the Form 10-K). This Form 10-K/A is being filed as a result of reclassification of certain amounts included in the fees reported to have been received by the Trustee from the Trust during the year ended December 31, 2007 in Part III, Item 11 Executive Compensation in order to make the fees comparable to fees reported for prior periods. No other corrections are being made to the Form 10-K, but for the convenience of the reader this Form 10-K/A amends and restates in its entirety the previously filed Form 10-K.

This Form 10-K/A continues to speak as of the date of the Form 10-K, and no disclosures in the original Form 10-K have been modified or updated except as noted above. Information not affected by the amendment contained in this Form 10-K/A is unchanged and reflects the disclosure made at the time of the filing of the Form 10-K with the SEC. In particular, any forward-looking statements included in this Form 10-K/A represent the Trustee s view as of the filing date of the Form 10-K.

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PART I

ITEM 1. BUSINESS

INTRODUCTION

BP Prudhoe Bay Royalty Trust (the Trust) was created as a Delaware business trust by the BP Prudhoe Bay Royalty Trust Agreement dated February 28, 1989 (the Trust Agreement) among The Standard Oil Company (Standard Oil), BP Exploration (Alaska) Inc. (BP Alaska), The Bank of New York, as trustee (the Trustee), and F. James Hutchinson, co-trustee (BNYM (Delaware), successor co-trustee). BP Alaska and Standard Oil are wholly owned subsidiaries of BP p.l.c. (BP). The Trustee s corporate trust offices are located at 101 Barclay Street, New York, New York 10286 and its telephone number is (212) 815-6908.

The Trust electronically files annual reports on Form 10-K, quarterly reports on Form 10-Q and, when certain events require them, current reports on Form 8-K with the Securities and Exchange Commission (SEC). The public may read and copy any materials filed by the Trust with the SEC at the SEC s Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers (including the Trust) that file electronically with the SEC. The address of the SEC s web site is http://www.sec.gov.

The Trust does not have an Internet web site from which information concerning the Trust may be obtained; however the Trustee will provide paper or electronic copies of the Trust s reports on Form 10-K, Form 10-Q and Form 8-K, and amendments to those reports, free of charge upon request as soon as reasonably practicable after the Trust files them with the SEC. Requests for copies of reports may be made by mail to: The Bank of New York, 101 Barclay Street, New York, NY 10286, Attention: Mr. Remo Reale, Corporate Trust Department; by telephone to: (212) 815-6908; or by e-mail to: remo.reale@bnymellon.com.

The information in this report relating to the Prudhoe Bay Unit, the calculation of royalty payments and certain other matters has been furnished to the Trustee by BP Alaska.

Forward-Looking Statements

Various sections of this report contain forward-looking statements (that is, statements anticipating future events or conditions and not statements of historical fact). Words such as anticipate, expect, believe, intend, plan or proj should, would, could, potentially, possibly or may, and other words that convey uncertainty of future events o outcomes are intended to identify forward-looking statements. Forward-looking statements in this report are subject to a number of risks and uncertainties beyond the control of the Trustee. These risks and uncertainties include such matters as future changes in oil prices, oil production levels, economic activity, domestic and international political events and developments, legislation and regulation, and certain changes in expenses of the Trust.

The actual results, performance and prospects of the Trust could differ materially from those expressed or implied by forward-looking statements. Descriptions of some of the risks that could affect the future performance of the Trust appear in the following Item 1A, RISK FACTORS, and elsewhere in this report. There may be additional risks of which the Trustee is unaware or which are currently deemed immaterial.

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In the light of these risks, uncertainties and assumptions, you should not rely unduly on any forward-looking statements. Forward-looking events and outcomes discussed in this report may not occur or may turn out differently. The Trustee undertakes no obligation to update forward-looking statements after the date of this report, except as required by law, and all such forward-looking statements in this report are qualified in their entirety by the preceding cautionary statements.

THE TRUST

Trust Property

The property of the Trust consists of an overriding royalty interest (the Royalty Interest) and cash and cash equivalents held by the Trustee from time to time. The Royalty Interest entitles the Trust to a royalty on 16.4246% of the lesser of (i) the first 90,000 barrels* of the average actual daily net production of crude oil and condensate per quarter from the working interest of BP Alaska as of February 28, 1989 in the Prudhoe Bay oil field located on the North Slope in Alaska or (ii) the average actual daily net production of crude oil and condensate per quarter from that working interest. The Prudhoe Bay field is one of four contiguous North Slope oil fields that are operated by BP Alaska and are known collectively as the Prudhoe Bay Unit. The Royalty Interest was conveyed to the Trust by an Overriding Royalty Conveyance dated February 27, 1989 from BP Alaska to Standard Oil and a Trust Conveyance dated February 28, 1989 from Standard Oil to the Trust. Copies of the Overriding Royalty Conveyance and the Trust Conveyance are filed with the SEC as exhibits to this report. The Overriding Royalty Conveyance and the Trust Conveyance are referred to collectively as the Conveyance.

The Royalty Interest is a non-operational interest in minerals. The Trust does not have the right to take oil and gas in kind, nor does it have any right to take over operations or to share in any operating decision with respect to BP Alaska s working interest in the Prudhoe Bay field. BP Alaska is not obligated to continue to operate any well or maintain or attempt to maintain in force any portion of its working interest when, in its reasonable and prudent business judgment, the well or interest ceases to produce or is not capable of producing oil or gas in paying quantities.

Employees

The Trust has no employees. All administrative functions of the Trust are performed by the Trustee.

Duties and Powers of the Trustee

The duties of the Trustee are specified in the Trust Agreement and the laws of the State of Delaware. BNYM (Delaware) (successor to The Bank of New York (Delaware)) has been appointed co-trustee in order to satisfy the Delaware Statutory Trust Act s requirement that the Trust have at least one trustee resident in, or which has its principal place of business in, Delaware. However, The Bank of New York alone is able to exercise the rights and powers granted to the Trustee in the Trust Agreement. A copy of the Trust Agreement is filed with the SEC as an exhibit to this report.

The basic function of the Trustee is to collect income from the Royalty Interest, to pay all expenses, charges and obligations of the Trust from the Trust s income and assets, and to pay available cash to Unit holders. Because of the passive nature of the Trust s assets and the restrictions on the power of the Trustee to incur obligations, the only liabilities that the Trust normally incurs in the conduct of its

* The term barrel is a unit of measure of petroleum liquids equal to 42 United States gallons corrected to 60 degrees Fahrenheit temperature.

operations are the Trustee s fees and routine administrative expenses, including accounting, legal and other professional fees.

The Trust Agreement grants the Trustee only the rights and powers necessary to achieve the purposes of the Trust. The Trust Agreement prohibits the Trust from engaging in any business or commercial activity or, with certain exceptions, any investment activity and from using any assets of the Trust to acquire any oil and gas lease, royalty or other mineral interest.

The Trustee is entitled to be indemnified out of the assets of the Trust for any liability or loss incurred by it in the performance of its duties unless the loss results from its negligence, bad faith or fraud or from expenses incurred in carrying out its duties that exceed the compensation and reimbursement to which it is entitled under the Trust Agreement.

Sales of Royalty Interest; Borrowings and Reserves

With certain exceptions, the Trustee may sell all or part of the Royalty Interest or an interest therein only if authorized to do so by vote of the holders of 70% of the Units outstanding if the sale is to be effected on or before December 31, 2010, or holders of 60% of the Units outstanding if the sale is to be effected after 2010. However, if the sale is made in order to pay specific liabilities of the Trust then due and involves a part, but not all or substantially all, of the Trust properties, the sale only needs to be approved by the vote of holders of a majority of the Units. Any sale of Trust properties must be for cash unless otherwise authorized by the Unit holders. The Trustee is obligated to distribute the available net proceeds of any such sale to the Unit holders after establishing reserves for liabilities of the Trust.

The Trustee has the power to borrow on behalf of the Trust or to sell Trust assets to pay liabilities of the Trust and to establish a reserve for the payment of liabilities without the consent of the Unit holders under the following circumstances:

The Trustee may borrow from a lender not affiliated with the Trustee if cash on hand is not sufficient to pay current liabilities and the Trustee has determined that it is not practical to pay such liabilities out of funds anticipated to be available in subsequent quarters and that, without such borrowing, the Trust property is subject to the risk of loss or diminution in value. To secure payment of its borrowings on behalf of the Trust, the Trustee is authorized to encumber the Trust s assets and to carve out and convey production payments. The borrowing must be on terms which (in the opinion of an investment banking firm or commercial banking firm selected by the Trustee) are commercially reasonable when compared to other available alternatives. No distributions to Unit holders may be made until the borrowings by the Trust have been repaid in full.

If the Trustee is unable to borrow to pay Trust liabilities, the Trustee may sell Trust assets if it determines that the failure to pay the liabilities at a later date will be contrary to the best interest of the Unit holders and that it is not practicable to submit the sale to a vote of the Unit holders. The sale must be made for cash at a price which (in the opinion of an investment banking firm or commercial banking firm selected by the Trustee) is at least equal to the fair market value of the interest sold and is made on commercially reasonable terms when compared to other available alternatives.

The Trustee has the right to establish a cash reserve for the payment of material liabilities of the Trust which may become due if it determines that it is not practical to pay such liabilities out of funds anticipated to be available in subsequent quarters and that, in the absence of a

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reserve, the Trust property is subject to the risk of loss or diminution in value or the Trustee is subject to the risk of personal liability for such liabilities.

In order for the Trustee to borrow, sell assets to pay Trust liabilities or establish a reserve for Trust liabilities, the Trustee must receive an unqualified written legal opinion that the contemplated action will not adversely affect the classification of the Trust as a grantor trust for federal income tax purposes or cause the income from the Trust to be treated as unrelated business taxable income for federal income tax purposes. If the Trustee is unable to obtain the required legal opinion, it still may proceed with the borrowing or sale, or establish the reserve, if it determines that the failure to do so will be materially detrimental to the Unit holders considered as a whole.

The Trustee maintains a $1,000,000 cash reserve to provide liquidity to the Trust during any periods in which the Trust does not receive a distribution from BP Alaska. See Item 7 in Part II below.

Irrevocability; Amendment of the Trust Agreement

The Trust Agreement and the Trust are irrevocable. No person has the power to terminate, revoke or change the Trust Agreement except as described in the following paragraph and below under Termination of the Trust.

The Trust Agreement may be amended without a vote of the Unit holders to cure an ambiguity, to correct or supplement any provision of the Trust Agreement that may be inconsistent with any other provision or to make any other provision with respect to matters arising under the Trust Agreement that does not adversely affect the Unit holders. The Trust Agreement also may be amended with the approval of holders of a majority of the outstanding Units. However, no such amendment may alter the relative rights of Unit holders unless approved by the affirmative vote of holders of 100% of the outstanding Units, nor may any amendment reduce or delay the distributions to the Unit holders, alter the voting rights of Unit holders or the number of Units in the Trust, or make certain other changes, unless approved by the affirmative vote of holders of at least 80% of the outstanding Units and by the Trustee. The Trustee is required to consent to any amendment approved by the requisite vote of Unit holders unless the amendment affects the Trustee s rights, duties and immunities under the Trust Agreement. No amendment will be effective until the Trustee has received a ruling from the Internal Revenue Service or an opinion of counsel to the effect that such modification will not adversely affect the classification of the Trust as a grantor trust for federal income tax purposes or cause the income from the Trust to be treated as unrelated business taxable income for federal income tax purposes.

Termination of the Trust

The Trust will terminate: (i) on or before December 31, 2010 if holders of at least 70% of the outstanding Units vote to terminate the Trust, or (ii) after December 31, 2010 if either (a) holders of at least 60% of the outstanding Units vote to terminate the Trust or (b) the net revenues from the Royalty Interest for two successive years commencing after 2010 are less than $1,000,000 per year (unless the net revenues during the two-year period have been materially and adversely affected by certain extraordinary events).

Upon termination of the Trust, BP Alaska will have an option to purchase the Royalty Interest at a price equal to the greater of (i) the fair market value of the Trust property as set forth in an opinion of an investment banking firm, commercial banking firm or other entity qualified to give an opinion as to the fair market value of the assets of the Trust, or (ii) the number of outstanding Units multiplied by (a) the closing price of Units on the day of termination of the Trust on the stock exchange on which the Units are listed, or (b) if the Units are not listed on any stock exchange but are traded in the over-the-counter market, the closing bid price on the day of termination of the Trust as quoted on the NASDAQ National Market System. The purchase must be for cash unless holders of 70% of the Units outstanding (60% if the decision to terminate the Trust is made after December 31, 2010) authorize the sale for non-cash consideration and the Trustee has received a ruling from the Internal Revenue Service or an opinion of counsel to the effect that such non-cash sale will not adversely affect the classification of the Trust as a grantor trust for federal income tax purposes or cause the income from the Trust to be treated as unrelated business taxable income for federal income tax purposes.

If BP Alaska does not exercise its option, the Trustee will sell the Trust property on terms and conditions approved by the vote of holders of 70% of the outstanding Units (60% if the sale is made after December 31, 2010), unless the Trustee determines that it is not practicable to submit the matter to a vote of the Unit holders and the sale is made at a price at least equal to the fair market value of the Trust property as set forth in the opinion of the investment banking firm, commercial banking firm or other entity mentioned above and on terms and conditions deemed commercially reasonable by that firm.

The Trustee will distribute all available proceeds to the Unit holders after satisfying all existing liabilities of the Trust and establishing adequate reserves for the payment of contingent liabilities.

Unit holders do not have the right under the Trust Agreement to seek or secure any partition or distribution of the Royalty Interest or any other asset of the Trust or any accounting during the term of the Trust or during any period of liquidation and winding up.

Resignation or Removal of Trustee

The Trustee may resign at any time or be removed with or without cause by vote of the holders of a majority of the outstanding Units at a meeting called and held in accordance with the Trust Agreement. A successor trustee may be appointed by BP Alaska or, if the Trustee has been removed at a meeting of the Unit holders, the successor trustee may be appointed by the Unit holders at the meeting. Any successor trustee must be a corporation organized, doing business and authorized to exercise trust powers under the laws of the United States, any state thereof or the District of Columbia, or a national banking association domiciled in the United States, in either case having a combined capital, surplus and undivided profits of at least $50,000,000 and subject to supervision or examination by federal or state authorities. Unless the Trust already has a trustee that is a resident of or has a principal office in Delaware, any successor trustee must be a resident of Delaware or have a principal office in Delaware. No resignation or removal of the Trustee will become effective until a successor trustee has accepted appointment.

Voting Rights of Unit Holders

Unit holders possess certain voting rights, but their voting rights are not comparable to those of shareholders of a corporation. For example, there is no requirement for annual meetings of Unit holders or for periodic reelection of the Trustee.

A meeting of the Unit holders may be called at any time to act with respect to any matter as to which the Trust Agreement authorizes the Unit holders to act. Any such meeting may be called by the Trustee in its discretion and will be called by the Trustee (i) as soon as practicable after receipt of a written request by BP Alaska or a written request that sets forth in reasonable detail the action proposed to be taken at the meeting and is signed by holders of at least 25% of the outstanding Units or (ii) when required by applicable laws or regulations or the New York Stock Exchange. The Trustee will give written notice of any meeting stating the time and place of the meeting and the matters to be acted on not more than 60 days nor fewer than 10 days before the meeting to all Unit holders of record on a date not more than 60 days before the meeting at their addresses shown on the records of the Trust. All meetings of Unit holders are required to be held in Manhattan, New York City. Unit holders are entitled to cast one vote on all matters coming before a meeting, in person or by proxy, for each Unit held on the record date for the meeting.

THE ROYALTY INTEREST

The Royalty Interest is a property right under Alaska law which burdens production, but there is no other security interest in the reserves or production revenues assigned to it. The royalty payable to the Trust for each calendar quarter is the sum of the amounts obtained by multiplying Royalty Production for each day in the calendar quarter by the Per Barrel Royalty for that day. The payment under the Royalty Interest for any calendar quarter may not be less than zero nor more than the aggregate value of the total production of oil and condensate from BP Alaska s working interest in the Prudhoe Bay Unit for the quarter, net of the State of Alaska royalty and less the value of any applicable payments made to affiliates of BP Alaska.

Royalty Production

The Royalty Production for each day in a calendar quarter is 16.4246% of the lesser of (i) the first 90,000 barrels of the actual average daily net production of crude oil and condensate for the quarter from the Prudhoe Bay (Permo-Triassic) Reservoir and saved and allocated to the oil and gas leases owned by BP Alaska in the Prudhoe Bay field as of February 28, 1989 (the BP Working Interests), or (ii) the actual average daily net production of crude oil and condensate for the quarter from the BP Working Interests. The Royalty Production is based on oil produced from the oil rim and condensate produced from the gas cap, but not on gas production or natural gas liquids production. The actual average daily net production of oil and condensate from the BP Working Interests for any calendar quarter is the total production of oil and condensate for the quarter, net of the State of Alaska royalty, divided by the number of days in the quarter.

Per Barrel Royalty

The Per Barrel Royalty for any day is the WTI Price for the day less the sum of (i) Chargeable Costs multiplied by the Cost Adjustment Factor and (ii) Production Taxes.

WTI Price

The WTI Price for any trading day is (i) the price (in dollars per barrel) for West Texas intermediate crude oil of standard quality having a specific gravity of 40 API degrees for delivery at Cushing, Oklahoma (West Texas Intermediate) quoted for that trading day by whichever of The Wall Street Journal, Reuters, or Platts Oilgram Price Report, in that order, publishes West Texas Intermediate price quotations for the trading day, or (ii) if the price of West Texas Intermediate is not published by one of those publications, the WTI Price will be the simple average of the daily mean prices (in dollars per barrel) quoted for West Texas Intermediate by one major oil company, one petroleum broker and one petroleum trading company designated by BP Alaska, in each case unaffiliated with BP and having substantial U.S. operations, until published price quotations are again available. If prices for West Texas Intermediate are not quoted so as to permit the calculation of the WTI Price, the price of West Texas Intermediate, for the purposes of calculating the WTI Price will be the price of another light sweet domestic crude oil of standard quality designated by BP Alaska and approved by the Trustee, with appropriate allowance for transportation costs to the Gulf coast (or another appropriate location) to equilibrate its price to the WTI Price. The WTI Price for any day which is not a trading day is the WTI Price for the preceding trading day.

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Chargeable Costs

The Chargeable Costs per barrel of Royalty Production for each calendar year are fixed amounts specified in the Conveyance and do not necessarily represent BP Alaska s actual costs of production. Chargeable Costs per barrel were $11.75 during 2003, $12.00 during 2004, $12.25 during 2005, $12.50 during 2006 and $12.75 during 2007. Chargeable Costs for 2008 and subsequent years are shown in the following table:

Calendar year	Chargeable Costs per barrel	Calendar year	Chargeable Costs per barrel
2008	$13.00	2015	$17.00
2009	13.25	2016	17.10
2010	14.50	2017	17.20
2011	16.60	2018	20.00
2012	16.70	2019	23.75
2013	16.80	2020	26.50
2014	16.90		

After 2020, Chargeable Costs increase at a uniform rate of $2.75 per barrel per year.

Cost Adjustment Factor

The Cost Adjustment Factor for a quarter is the ratio of the Consumer Price Index published for the most recently past February, May, August or November to 121.1 (the Consumer Price Index for January 1989). The Consumer Price Index is the U.S. Consumer Price Index, all items and all urban consumers, U.S. city average (1982-84 equals 100), as first published, without seasonal adjustment, by the Bureau of Labor Statistics, Department of Labor, without regard to subsequent revisions or corrections. If the average WTI Price for any calendar quarter falls to $18.00 or less, the Cost Adjustment Factor for that quarter will be the Cost Adjustment Factor for the immediately preceding quarter. If the average WTI Price returns to more than $18.00 for a later quarter, adjustments to the Cost Adjustment Factor resume, but with an adjustment to the formula that excludes changes in the Consumer Price Index during the period that adjustments to the Cost Adjustment Factor were suspended.

Production Taxes

Production Taxes are the sum of any severance taxes, excise taxes (including windfall profit tax, if any), sales taxes, value added taxes or other similar or direct taxes imposed upon the reserves or production, delivery or sale of Royalty Production, computed at defined statutory rates.

Until August 2006, the Production Taxes payable with respect to the Royalty Production were (i) the Alaska Oil Production Tax (the Old Tax), which was levied at the flat rate of 15% of the gross value of oil at the point of production (the wellhead or field value) and which, as required by the Conveyance, was applied for the purpose of determining the Royalty Interest without regard to the economic limit factor (a formula designed to result in low tax rates for smaller low productive fields and higher tax rates for larger highly productive fields), and (ii) a surcharge of $0.03 per barrel of Royalty Production. The Conveyance provides that, in the case of taxes based upon wellhead or field value, the WTI Price less the product of $4.50 multiplied by the Cost Adjustment Factor is deemed to be the wellhead or field value.

Alaska adopted a new oil and gas production tax on August 20, 2006 (Chapter 2, Third Special Session Laws of Alaska 2006) (the 2006 Tax) which amended the Alaska oil and gas production tax statutes, AS 43.55.10 et seq. (the Production Tax Statutes) and replaced the Old Tax. Under the 2006 Tax, producers were taxed on the production tax value of taxable oil (gross value at the point of production for the calendar year less the producer s direct costs of exploring for, developing, or producing oil or gas deposits located within the producer s leases or properties in Alaska (Lease Expenditures) for the year) at a rate equal to the sum of 22.5% plus a progressivity rate determined by the average monthly production tax value of the oil produced. The progressivity portion of the 2006 Tax was equal to 0.25% times the amount by which the simple average for each calendar month of the daily production tax values per barrel of the oil produced during the month exceeded $40 per barrel. In addition, the 2006 Tax increased the surcharge on oil produced from leases or properties in Alaska from $0.03 to $0.04 per barrel.

On December 19, 2007, Alaska Governor Sarah Palin signed into law a bill (Chapter 1, Second Special Session Laws of Alaska 2007) (the 2007 Tax) which took effect on December 20, 2007 and further amended the Production Tax Statutes in certain respects. The 2007 Tax changes the basic tax rate from 22.5% to 25% and increases the progressivity rate. If the producer s average monthly production tax value per barrel is greater than $30 but not more than $92.50, the new progressivity tax rate is 0.4% times the amount by which the average monthly production tax value exceeds $30 per barrel. If the producer s average monthly production tax value per barrel is greater than $92.50, the progressivity tax rate is the sum of 25% and the product of 0.1% multiplied by the difference between the average monthly production tax value per barrel and $92.50, except that the sum may not exceed 50%.

In order to resolve uncertainties in the interpretation of the Conveyance resulting from adoption of the 2006 Tax, in October 2006 the Trustee entered into a letter agreement with BP Alaska (the 2006 Letter Agreement), a copy of which is incorporated by reference as Exhibit 4.5 to this report. The 2006 Letter Agreement sets forth principles agreed to by BP Alaska and the Trustee to resolve how the amount of tax chargeable against the Royalty Interest was to be determined under the Conveyance and the extent to which the retroactivity of the tax legislation was to be recognized for purposes of the Conveyance (the Consensus Principles). In December 2007, BP Alaska notified the Trustee that the adoption of the 2007 Tax made it necessary to modify the Consensus Principles to give effect to the new tax rates. After determining that the proposed changes to the Consensus Principles were consistent with the changes in tax rates effected by the 2007 Tax, on January 11, 2008 the Trustee executed a letter agreement dated December 21, 2007 with BP Alaska (the 2008 Letter Agreement) which supplements and amends the 2006 Letter Agreement and which is incorporated by reference as Exhibit 4.6.to this report.

Determination of Production Taxes

The following paragraphs describe how the Consensus Principles provide for the amount of Production Taxes (other than the $0.04 per barrel surcharge) to be determined under the 2006 Tax (from August 20, 2006 through December 19, 2007) and under the 2007 Tax (from December 20, 2007 and thereafter):

(a) The production tax value per barrel of oil for each day is determined by taking the WTI Price for that day and subtracting the product of the amount of the Chargeable Costs then in effect multiplied by the applicable Cost Adjustment Factor.

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(b) The tax rate for the progressivity portion of the tax equals:

2006 Tax	2007 Tax
(i) zero, if the simple average of the daily taxable values per barrel under (a) above for a calendar month is not greater than $40 per barrel; or	(i) zero, if the simple average of the daily taxable values per barrel under (a) above for a calendar month is not greater than $30 per barrel;
(ii) 0.25% times the amount by which the simple average for each calendar month of the daily production tax values per barrel of oil under (a) above, exceeds $40 per barrel.	(ii) 0.4% times the amount by which the simple average of the taxable values per barrel under (a) above for a calendar month exceeds $30 per barrel if that average is not greater than $92.50 per barrel; or
	(iii) the sum of 25% plus 0.1% times the amount by which the simple average of the taxable values per barrel under (a) above for a calendar month exceeds $92.50, except that such sum may not exceed 50%.

(c) The amount of Production Tax chargeable against the Royalty Interest equals the taxable value per barrel under (a) above times the Royalty Production under the Conveyance, times a rate equal to the sum of the progressivity rate determined under (b) above plus the following percentage:

2006 Tax	2007 Tax
22.5%	25%

Retroactivity of Tax

Although both the 2006 Tax and the 2007 Tax are retroactive (to April 1, 2006, in the case of the 2006 Tax; to July 1, 2007, in the case of the 2007 Tax), in the Consensus Principles the parties agreed that the 2006 Tax and 2007 Tax would not be applied retroactively to payments by BP Alaska with respect to the Royalty Interest. Production Taxes charged against the Royalty Interest were the amount of Old Tax as calculated under the Conveyance for oil production during the period from April 1 to August 19, 2006, inclusive. For oil produced on August 20, 2006 through December 19, 2007, the Production Taxes charged against the Royalty Interest were the amount of 2006 Tax, determined as described above, for that production, and for oil produced on December 20, 2007 and thereafter the Production Taxes charged against the Royalty Interest are the amount of 2007 Tax, determined as described above.

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Use of Inflation Adjusted Chargeable Costs under Consensus Principles

The 2006 Letter Agreement contains a discussion of the rationale for using inflation adjusted Chargeable Costs as a proxy for BP Alaska s actual Lease Expenditures for purposes of determining Production Taxes chargeable against the Royalty Interest. The 2006 Letter Agreement explains that under the 2006 Tax BP Alaska is required to use estimates of Lease Expenditures for purposes of its monthly reporting to the State of Alaska, and that actual Lease Expenditures are determined and reconciled to monthly estimates up to three months after the close of each fiscal year. The use of BP Alaska s estimated Lease Expenditures for purposes of calculating the Production Taxes applied to quarterly payments of the Royalty Interest could require regular adjustments to future royalty payments to compensate for over or under charges of Production Taxes to past royalty payments once actual Lease Expenditures were determined. These adjustments could create unfair benefits for certain Unit holders and unfair detriment to others. BP Alaska stated that inflation adjusted Chargeable Costs were expected to provide a reasonable, although not an exact, approximation of BP Alaska s Leasehold Expenditures and provide certainty to investors in the Trust Units. BP Alaska cautioned, however, that to the extent actual Lease Expenditures for a particular year are higher than adjusted Chargeable Costs for the year, the Trust Units may bear Production Taxes at a higher rate than the rate of tax applicable to BP Alaska s production for the year; conversely, if BP Alaska s Lease Expenditures for a year are less than adjusted Chargeable Costs for that year, Production Taxes charged against the Royalty Interest may be charged at a lower rate than the rate of tax applicable to BP Alaska s production.

In addition to changes in the rates of tax applicable to oil and gas production introduced by the 2007 Tax, the legislation authorizes the Alaska Department of Revenue (DOR) to interpret and apply the amendments to the Production Tax Statutes. The 2007 Tax allows DOR to limit deductible transportation costs for transportation by a regulated pipeline to something less than the tariff actually paid. Other amendments allow DOR to exclude by regulation certain categories of otherwise deductible lease expenditures, or a fixed percentage of them, from being deductible in determining the production tax value of taxable oil. In the 2008 Letter Agreement, BP Alaska indicated that, depending on what the new regulations provide, it may wish to amend the Consensus Principles so that something less than the full amount of Chargeable Costs is to be deducted under the Conveyance in determining the taxable value per barrel. Any such amendment would require the consent of the Trustee. If any such amendment should be proposed, the Trustee will evaluate the proposal to determine whether such amendment is consistent with the Conveyance and the interests of the Unit holders of the Trust and will make its decision accordingly.

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Per Barrel Royalty Calculations

The following table shows how the above-described factors interacted during the past five years to produce the average Per Barrel Royalty paid during the calendar years indicated. Royalty revenues are generally received on the fifteenth day of the month following the end of the calendar quarter in which the related Royalty Production occurred. Revenues and expenses presented in the statement of cash earnings and distributions presented in Part II, Item 8 below are recorded on a modified cash basis and, as a result, royalty revenues and distributions shown in such statements for any calendar year are attributable to BP Alaska s operations during the twelve-month period ended September 30 of that year.

	Average WTI Price	Chargeable Costs	Cost Adjustment Factor	Adjusted Chargeable Costs	Production Taxes(1)	Average Per Barrel Royalty(2)
Calendar 2003:						
4th Qtr 2002	$28.25	$11.25	1.396	$15.70	$ 3.33	$ 9.22
1st Qtr 2003	34.08	11.75	1.410	16.57	4.19	13.32
2nd Qtr 2003	29.07	11.75	1.413	16.60	3.44	9.03
3rd Qtr 2003	30.30	11.75	1.421	16.70	3.62	9.98
Calendar 2004:						
4th Qtr 2003	31.23	11.75	1.421	16.69	3.76	10.78
1st Qtr 2004	35.18	12.00	1.434	17.20	4.34	13.64
2nd Qtr 2004	38.31	12.00	1.456	17.47	4.79	16.05
3rd Qtr 2004	43.78	12.00	1.459	17.51	5.61	20.66
Calendar 2005:						
4th Qtr 2004	48.35	12.00	1.471	17.65	6.29	24.41
1st Qtr 2005	49.70	12.25	1.477	18.09	6.49	25.12
2nd Qtr 2005	53.09	12.25	1.497	18.34	6.98	27.77
3rd Qtr 2005	63.03	12.25	1.512	18.53	8.46	36.04
Calendar 2006:						
4th Qtr 2005	60.01	12.25	1.521	18.63	8.01	33.37
1st Qtr 2006	63.36	12.50	1.530	19.13	8.50	35.73
2nd Qtr 2006	70.53	12.50	1.559	19.49	9.56	41.48
3rd Qtr 2006	70.64	12.50	1.570	19.63	10.68	40.34
Calendar 2007:						
4th Qtr 2006	60.17	12.50	1.552	19.39	9.31	31.46
1st Qtr 2007	58.17	12.75	1.567	19.98	8.66	29.54
2nd Qtr 2007	65.00	12.75	1.601	20.42	10.59	34.00
3rd Qtr 2007	75.29	12.75	1.601	20.42	14.45	40.42

(1) Production Taxes for the third quarter of 2006 and subsequent

quarters reflect the effect of the 2006 Alaska oil and gas production tax and the application of the Consensus Principles described above. The 2007 Tax commenced affecting the royalty payment with respect to the fourth quarter of 2007 which the Trust received in January 2008.

(2) Average per barrel royalty is calculated on the basis of the following preliminary estimates of average daily net production of oil and condensate from the BP Working Interests: 62,087 barrels in the third

quarter of 2006, 87,221 barrels in the fourth quarter of 2006, 86,917 barrels in the second quarter of 2007 and 81,259 barrels in the third quarter of 2007; average per barrel royalty for all other periods is calculated on the basis of 90,000 barrels of average daily net production. See THE PRUDHOE BAY UNIT AND FIELD Collection and Transportation of Prudhoe Bay Oil and Note 8 of Notes to Financial Statements in Part II, Item 8 below for additional information.

(3) Dollar amounts in the table have been rounded to two decimal places for presentation and do not reflect the precision of the actual calculations.

THE UNITS

Units

Each Unit represents an equal undivided share of beneficial interest in the Trust. The Units do not represent an interest in or an obligation of BP Alaska, Standard Oil or any of their respective affiliates. Units are evidenced by transferable certificates issued by the Trustee. Each Unit entitles its holder to the same rights as the holder of any other Unit. The Trust has no other authorized or outstanding class of securities.

Distributions of Income

BP Alaska makes quarterly payments to the Trust of the amounts due with respect to the Trust s Royalty Interest on the fifteenth day following the end of each calendar quarter or, if the fifteenth is not a business day, on the next succeeding business day (the Quarterly Record Date). The Trustee pays all expenses of the Trust for each quarter on the Quarterly Record Date to the extent possible, then distributes the excess, if any, of the cash received by the Trust over the Trust s expenses, net of any additions to or subtractions from the cash reserve established for the payments of estimated liabilities (the Quarterly Distribution), to the persons in whose names the Units were registered at the close of business on the Quarterly Record Date.

The Trust Agreement requires the Trustee to pay the Quarterly Distribution to Unit holders on the fifth day after the Trustee s receipt of the amount paid by BP Alaska. Cash balances held by the Trustee for distribution to Unit holders are required to be invested in United States government or agency obligations secured by the full faith and credit of the United States (Government Obligations) or, if Government Obligations that mature on the date of the distribution to Unit holders are not available, in repurchase agreements secured by Government Obligations with banks having capital, surplus and undivided profits of $100,000,000 or more (which may include The Bank of New York). If time does not permit the Trustee to invest collected funds in Government Obligations or repurchase agreements, the Trustee may invest funds overnight in a time deposit with a bank meeting the foregoing capital requirement (including The Bank of New York).

Reports to Unit Holders

After the end of each calendar year, the Trustee mails a report to the persons who held Units of record during the year containing information to enable them to make the calculations necessary for federal and Alaska income tax purposes, including the calculation of any depletion or other deduction which may be available to them for the calendar year. In addition, after the end of each calendar year the Trustee mails Unit holders an annual report containing a copy of this Form 10-K and certain other information required by the Trust Agreement.

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Limited Liability of Unit Holders

The Trust Agreement provides that the Unit holders are, to the full extent permitted by Delaware law, entitled to the same limitation of personal liability extended to stockholders of private corporations for profit under Delaware law.

Possible Divestiture of Units

The Trust Agreement imposes no restrictions on nationality or other status of the persons eligible to hold Units. However, it provides that if at any time the Trust or the Trustee is named a party in any judicial or administrative proceeding seeking the cancellation or forfeiture of any property in which the Trust has an interest because of the nationality, or any other status, of any one or more Unit holders, the Trustee may require each holder whose nationality or other status is an issue in the proceeding to dispose of his Units to a party not of the nationality or other status at issue in the proceeding. If any holder fails to dispose of his Units within 30 days after receipt of notice from the Trustee to do so, the Trustee will redeem any Units not so transferred within 90 days after the end of the 30-day period specified in the notice for a cash price equal to the fair market value of the Units. Units redeemed by the Trustee will be cancelled.

The Trustee may cause the Trust to borrow any amount required to redeem the Units. If the purchase of Units from an ineligible holder by the Trustee would result in a non-exempt prohibited transaction under the Employee Retirement Income Security Act of 1970, or under the Internal Revenue Code of 1986, the Units subject to the Trustee s right of redemption will be purchased by BP Alaska or a designee of BP Alaska.

Issuance of Additional Units

The Trust Agreement provides that BP Alaska or an affiliate from time to time may assign to the Trust additional royalty interests meeting certain conditions and, upon satisfaction of various other conditions, the Trust may issue up to an additional 18,600,000 Units. BP Alaska has not conveyed any additional royalty interests to the Trust, and the Trust has not issued any additional Units.

THE BP SUPPORT AGREEMENT

BP agreed to provide financial support to BP Alaska in meeting its payment obligations to the Trust in a Support Agreement dated February 28, 1989 among BP, BP Alaska, Standard Oil and the Trust (the Support Agreement). Within 30 days after BP receives notice from the Trustee that the royalty payable with respect to the Royalty Interest or any other amount payable by BP Alaska or Standard Oil has not been paid to the Trustee, BP will cause BP Alaska and Standard Oil to satisfy their respective payment obligations to the Trust and the Trustee under the Trust Agreement and the Conveyance, including contributing to BP Alaska the funds necessary to make such payments. BP is required to make available to BP Alaska and Standard Oil such financial support as BP Alaska, Standard Oil or the Trustee may request in writing. Any Unit holder has the unconditional right to institute suit against BP to enforce BP s obligations under the Support Agreement.

Neither BP nor BP Alaska may transfer or assign its rights or obligations under the Support Agreement without the prior written consent of the Trustee, except that BP can arrange for its obligations to be performed by any its affiliates so long as BP remains responsible for ensuring that its obligations are performed in a timely manner.

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BP Alaska may sell or transfer all or part of its working interest in the Prudhoe Bay Unit, although such a transfer will not relieve BP of its responsibility to ensure that BP Alaska s payment obligations with respect to the Royalty Interest and under the Trust Agreement and the Conveyance are performed.

BP will be released from its obligation under the Support Agreement upon the sale or transfer of all or substantially all of BP Alaska s working interest in the Prudhoe Bay Unit if the transferee agrees in writing to assume and be bound by BP s obligation under the Support Agreement. The transferee s agreement to assume BP s obligations must be reasonably satisfactory to the Trustee and the transferee must be an entity having a rating of its unsecured, unsupported long-term debt of at least A3 from Moody s Investors Service, Inc., a rating of at least A- from Standard & Poor s, or an equivalent rating from at least one nationally-recognized statistical rating organization (after giving effect to the sale or transfer and the assumption of all of BP Alaska s obligations under the Conveyance and all of BP s obligations under the Support Agreement).

THE PRUDHOE BAY UNIT AND FIELD

Prudhoe Bay Unit Operation and Ownership

Since several oil companies besides BP Alaska hold acreage within the Prudhoe Bay field, as well as several contiguous oil fields, the Prudhoe Bay Unit was established to optimize field development. Other owners of these fields include affiliates of Exxon Mobil Corporation, ConocoPhillips and ChevronTexaco Corporation. The Trust s Royalty Interest pertains only to production from the BP Working Interests in the Prudhoe Bay field and does not include production from the other oil fields included in the Prudhoe Bay Unit.

The operations of BP Alaska and the other working interest owners in the Prudhoe Bay Unit are governed by an agreement dated April 1, 1977 among the State of Alaska and the working interest owners establishing the Prudhoe Bay Unit (the Prudhoe Bay Unit Agreement) and an agreement dated April 1, 1977 among the working interest owners governing Prudhoe Bay Unit operations (the Prudhoe Bay Unit Operating Agreement).

The Prudhoe Bay Unit Operating Agreement specifies the allocation of production and costs to the working interest owners. It also defines operator responsibilities and voting requirements and is unusual in its establishment of separate participating areas for the gas cap and oil rim. Since July 1, 2000, BP Alaska has been the sole operator of the Prudhoe Bay Unit.

The ownership of the Prudhoe Bay Unit by participating area as of December 31, 2007 is shown in the following table:

	Oil rim	**Gas cap**
BP Alaska	26.36%(a)	26.36%(b)
Exxon Mobil	36.40	36.40
ConocoPhillips	36.08	36.08
ChevronTexaco	1.16	1.16
Total	100.00%	100.00%

(a) The Trust s share of oil production is computed based on BP Alaska s ownership interest in the oil rim participating area of 50.68%

as of
February 28,
1989.
Subsequent
decreases in BP

Alaska s participation in oil rim ownership do not affect calculation of Royalty Production from the BP Working Interests and have not decreased the Trust s Royalty Interest.

(b) The Trust s share of condensate production is computed based on BP Alaska s ownership interest in the gas cap participating area of 13.84% as of February 28, 1989. Subsequent increases in BP Alaska s gas cap ownership do not affect calculation of Royalty Production from the BP Working Interests and have not increased the Trust s Royalty Interest.

If BP Alaska fails to pay any costs and expenses chargeable to BP Alaska under the Prudhoe Bay Unit Operating Agreement and the production of oil and condensate is insufficient to pay such costs and expenses, the Royalty Interest is chargeable with a pro rata portion of such costs and expenses and is subject to the enforcement against it of liens granted to the operators of the Prudhoe Bay Unit. However, in the Conveyance BP Alaska agreed to pay all costs and expenses chargeable to it and to ensure that no such costs and expenses will be chargeable against the Royalty Interest. The Trust is not liable for any loss or liability incurred by BP Alaska or others attributable to BP Alaska s working interest in the Prudhoe Bay Unit or to the oil produced from it and BP Alaska has agreed to indemnify the

Trust and hold it harmless against any such impositions.

BP Alaska has the right to amend or terminate the Prudhoe Bay Unit Agreement, the Prudhoe Bay Unit Operating Agreement and any leases or conveyances with respect to the BP Working Interests in the exercise of its reasonable and prudent business judgment without liability to the Trust. BP Alaska also has the right to sell or assign all or any part of the BP Working Interests, so long as the sale or assignment is expressly made subject to the Royalty Interest and the terms and provisions of the Conveyance.

The Prudhoe Bay Field

The Prudhoe Bay field is located on the North Slope of Alaska, 250 miles north of the Arctic Circle and 650 miles north of Anchorage. The Prudhoe Bay field extends approximately 12 miles by 27 miles and contains nearly 150,000 productive acres. The Prudhoe Bay field, which was discovered in 1968 by BP and others, has been in production since 1977 and is the largest producing oil field in North America. As of December 31, 2007, approximately 11 billion barrels of oil and condensate had been produced from the Prudhoe Bay field.

Field Geology

The principal hydrocarbon accumulations at Prudhoe Bay are in the Ivishak sandstone of the Sadlerochit Group at a depth of approximately 8,700 feet below sea level. The Ivishak is overlain by four minor reservoirs of varying extent which are designated the Put River, Eileen, Sag River and Shublik (PESS) formations. Underlying the Sadlerochit Group are the oil-bearing Lisburne and Endicott formations. The net production allocated to the Royalty Interest pertains only to the Ivishak and PESS formations, collectively known as the Prudhoe Bay (Permo-Triassic) Reservoir, and does not pertain to the Lisburne and Endicott formations.

The Ivishak sandstone was deposited, commencing some 250 million years ago, during the Permian and Triassic geologic periods. The sediments in the Ivishak are composed of sandstone, conglomerate and shale which were deposited by a massive braided river and delta system that flowed from an ancient mountain system to the north. Oil was trapped in the Ivishak by a combination of structural and stratigraphic trapping mechanisms.

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Gross reservoir thickness is 550 feet, with a maximum oil column thickness of 425 feet. The original oil column is bounded on the top by a gas-oil contact, originally at 8,575 feet below sea level across the main field, and on the bottom by an oil-water contact at approximately 9,000 feet below sea level. A layer of heavy oil and tar overlays the oil-water contact in the main field and has an average thickness of around 40 feet.

Oil Characteristics

The oil produced from the Prudhoe Bay (Permo-Triassic) Reservoir is a medium grade, low sulfur crude with an average specific gravity of 27 API degrees. The gas cap composition is such that, upon surfacing, a liquid hydrocarbon phase, known as condensate, is formed.

The Royalty Interest is based upon oil produced from the oil rim and condensate produced from the gas cap, but not upon gas production (which is currently uneconomic on a large scale) or natural gas liquids production stripped from gas produced.

Historical Production

Production from the Prudhoe Bay field began on June 19, 1977, with the completion of the Trans-Alaska Pipeline System (TAPS). As of December 31, 2007 there were about 1,126 active producing oil wells, 34 gas reinjection wells, 86 water injection wells and 133 water and miscible gas injection wells in the Prudhoe Bay field. Production from the Prudhoe Bay field reached a peak in 1988 and has declined steadily since then. The average well production rate was about 350 barrels per day in 2003, 317 barrels per day in 2004, 293 barrels per day in 2005, 223 barrels per day in 2006 and 232 barrels per day in 2007. There was a temporary impact on production from the east side of the Prudhoe Bay Unit as a result of the August 2006 partial shutdown, as