

BP PRUDHOE BAY ROYALTY TRUST

Form 10-Q

November 09, 2009

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**SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2009**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 1-10243**

**BP PRUDHOE BAY ROYALTY TRUST**

(Exact Name of Registrant as Specified in Its Charter)

Delaware

13-6943724

(State or Other Jurisdiction of Incorporation or  
Organization)

(I.R.S. Employer

Identification No.)

The Bank of New York Mellon, 101 Barclay Street,  
New York, NY

10286

(Address of Principal Executive Offices)

(Zip Code)

Registrant's Telephone Number, Including Area Code: (212) 815-6908

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (17 CFR § 232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☐ No ☐

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 ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐  
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes ☐ No ☒

As of November 9, 2009, 21,400,000 Units of Beneficial Interest were outstanding.



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**PART I**  
**FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**BP Prudhoe Bay Royalty Trust**  
**Statement of Assets, Liabilities and Trust Corpus**  
**(Prepared on a modified basis of cash receipts and disbursements)**  
**(In thousands, except unit data)**

|  | <b>September<br/>30,<br/>2009<br/>(Unaudited)</b> | <b>December<br/>31,<br/>2008</b> |
|--|---|----------------------------------|
| <b>Assets</b>  |   |                                  |
| Royalty interest, net (Notes 1, 2 and 3)   | \$ 2,511  | \$ 4,017                         |
| Cash and cash equivalents (Note 2)   | 1,001   | 1,018                            |
| Total assets   | \$ 3,512  | \$ 5,035                         |
| <b>Liabilities and Trust Corpus</b>  |   |                                  |
| Accrued expenses   | \$ 229  | \$ 278                           |
| Trust corpus (40,000,000 units of beneficial interest authorized, 21,400,000 units issued and outstanding) | 3,283   | 4,757                            |
| Total liabilities and trust corpus   | \$ 3,512  | \$ 5,035                         |

See accompanying notes to financial statements (unaudited).

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**BP Prudhoe Bay Royalty Trust**  
**Statements of Cash Earnings and Distributions**  
**(Prepared on a modified basis of cash receipts and disbursements)**  
**(Unaudited)**  
**(In thousands, except unit data)**

|                                     | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|-------------------------------------|---|-------------|--|-------------|
|                                     | <b>2009</b>                                 | <b>2008</b> | <b>2009</b>                                | <b>2008</b> |
| Royalty revenues                    | \$ 36,051                                   | \$ 66,030   | \$ 92,780                                  | \$ 189,237  |
| Interest income                     | 1   | 3           | 3  | 29          |
| Less: Trust administrative expenses | (746)                                       | (689)       | (1,239)                                    | (1,611)     |
| Cash earnings                       | \$ 35,306                                   | \$ 65,344   | \$ 91,544                                  | \$ 187,655  |
| Cash distributions                  | \$ 35,305                                   | \$ 65,344   | \$ 91,561                                  | \$ 187,663  |
| Cash distributions per unit         | \$ 1.6498                                   | \$ 3.0535   | \$ 4.2786                                  | \$ 8.7693   |
| Units outstanding                   | 21,400,000                                  | 21,400,000  | 21,400,000                                 | 21,400,000  |

See accompanying notes to financial statements (unaudited).

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**BP Prudhoe Bay Royalty Trust**  
**Statements of Changes in Trust Corpus**  
**(Prepared on a modified basis of cash receipts and disbursements)**  
**(Unaudited)**  
**(In thousands)**

|   | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|---|---------------------------|-------------|--------------------------|-------------|
|   | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|   | <b>2009</b>               | <b>2008</b> | <b>2009</b>              | <b>2008</b> |
| Trust corpus at beginning of period     | \$ 3,259                  | \$ 5,313    | \$ 4,757                 | \$ 6,592    |
| Cash earnings                           | 35,306                    | 65,344      | 91,544                   | 187,655     |
| (Increase) decrease in accrued expenses | 525                       | 486         | 49                       | 219         |
| Cash distributions                      | (35,305)                  | (65,344)    | (91,561)                 | (187,663)   |
| Amortization of royalty interest        | (502)                     | (503)       | (1,506)                  | (1,507)     |
| Trust corpus at end of period           | \$ 3,283                  | \$ 5,296    | \$ 3,283                 | \$ 5,296    |

See accompanying notes to financial statements (unaudited).

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**BP Prudhoe Bay Royalty Trust**  
**Notes to Financial Statements (Unaudited)**  
**(Prepared on a Modified Basis of Cash Receipts and Disbursements)**  
**September 30, 2009**

**(1) Formation of the Trust and Organization**

BP Prudhoe Bay Royalty Trust (the Trust), a grantor trust, was created as a Delaware business trust pursuant to a 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 Mellon (the Trustee) and BNY Mellon Trust of Delaware (successor to The Bank of New York (Delaware)), as co-trustee. Standard Oil and BP Alaska are indirect wholly-owned subsidiaries of BP p.l.c. (BP).

On February 28, 1989, Standard Oil conveyed an overriding royalty interest (the Royalty Interest) to the Trust. The Trust was formed for the sole purpose of owning and administering the Royalty Interest. The Royalty Interest represents the right to receive a per barrel royalty (the Per Barrel Royalty) of 16.4246% on the lesser of (a) the first 90,000 barrels of the average actual daily net production of oil and condensate per quarter or (b) the average actual daily net production of oil and condensate per quarter from BP Alaska's working interest as of February 28, 1989 in the Prudhoe Bay Field situated on the North Slope of Alaska (the BP Working Interests). Trust Unit holders are subject to the risk that production will be interrupted or discontinued or fall, on average, below 90,000 barrels per day in any quarter. BP has guaranteed the performance of BP Alaska of its payment obligations with respect to the Royalty Interest.

The trustees of the Trust are The Bank of New York Mellon, a New York banking corporation, and BNY Mellon Trust of Delaware, a Delaware banking corporation. BNY Mellon Trust of Delaware serves as co-trustee in order to satisfy certain requirements of the Delaware Statutory Trust Act. The Bank of New York Mellon alone is able to exercise the rights and powers granted to the Trustee in the Trust Agreement.

The Per Barrel Royalty in effect for any day is equal to the price of West Texas Intermediate crude oil (the WTI Price) for that day less scheduled Chargeable Costs (adjusted for inflation) and Production Taxes (based on statutory rates then in effect).

The Trust is passive, with the Trustee having only such powers as are necessary for the collection and distribution of revenues, the payment of Trust liabilities, and the protection of the Royalty Interest. The Trustee, subject to certain conditions, is obligated to establish cash reserves and borrow funds to pay liabilities of the Trust when they become due. The Trustee may sell Trust properties only (a) as authorized by a vote of the Trust Unit holders, (b) when necessary to provide for the payment of specific liabilities of the Trust then due (subject to certain conditions) or (c) upon termination of the Trust. Each Trust Unit issued and outstanding represents an equal undivided share of beneficial interest in the Trust. Royalty payments are received by the Trust and distributed to Trust Unit holders, net of Trust expenses, in the month succeeding the end of each calendar quarter. The Trust will terminate upon the first to occur of the following events:



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- a. On or prior to December 31, 2010: upon a vote of holders of not less than 70% of the outstanding Trust Units.
- b. After December 31, 2010: (i) upon a vote of holders of not less than 60% of the outstanding Trust Units, or (ii) at such time 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 such period are materially and adversely affected by certain *force majeure* events).

In order to ensure that the Trust has the ability to pay future expenses, the Trust established a cash reserve account, which the Trustee believes is sufficient to pay approximately one year's current and expected liabilities and expenses of the Trust.

**(2) Basis of Accounting**

The financial statements of the Trust are prepared on a modified cash basis and reflect the Trust's assets, liabilities, corpus, earnings, and distributions, as follows:

- a. Revenues are recorded when received (generally within 15 days of the end of the preceding quarter) and distributions to Trust Unit holders are recorded when paid.
- b. Trust expenses (which include accounting, engineering, legal, and other professional fees, trustees' fees, and out-of-pocket expenses) are recorded on an accrual basis.
- c. Cash reserves may be established by the Trustee for certain contingencies that would not be recorded under generally accepted accounting principles.
- d. Amortization of the Royalty Interest is calculated based on the units of production method. Such amortization is charged directly to the Trust corpus, and does not affect cash earnings. The daily rate for amortization per net equivalent barrel of oil for the three months ended September 30, 2009 and 2008 was \$0.42 and \$0.40, respectively, and for the nine months ended September 30, 2009 and 2008 was \$0.39 and \$0.38, respectively. The Trust evaluates impairment of the Royalty Interest by comparing the undiscounted cash flows expected to be realized from the Royalty Interest to the carrying value, pursuant to the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 360, *Property, Plant, and Equipment*. If the expected future undiscounted cash flows are less than the carrying value, the Trust recognizes an impairment loss for the difference between the carrying value and the estimated fair value of the Royalty Interest.

While these statements differ from financial statements prepared in accordance with accounting principles generally accepted in the United States of America, the modified cash basis of reporting revenues and distributions is considered to be the most meaningful because

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**(Prepared on a Modified Basis of Cash Receipts and Disbursements)**  
**September 30, 2009**

quarterly distributions to the Trust Unit holders are based on net cash receipts. These modified cash basis financial statements are unaudited but, in the opinion of the Trustee, include all adjustments necessary to present fairly the assets, liabilities and corpus of the Trust as of September 30, 2009 and 2008, and the modified cash earning and distributions and changes in Trust corpus for the three-month and nine-month periods ended September 30, 2009 and 2008. The adjustments are of a normal recurring nature and are, in the opinion of the Trustee, necessary to fairly present the results of operations.

As of September 30, 2009 and December 31, 2008, cash equivalents which represent the cash reserve consist of U.S. Treasury bills with an initial term of less than three months.

Estimates and assumptions are required to be made regarding assets, liabilities and changes in Trust corpus resulting from operations when financial statements are prepared. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ, and the differences could be material.

These unaudited financial statements should be read in conjunction with the financial statements and related notes in the Trust's Annual Report on Form 10-K for the fiscal year ended December 31, 2008. The cash earnings and distributions for the interim period presented are not necessarily indicative of the results to be expected for the full year.

**(3) Royalty Interest**

The Royalty Interest is comprised of the following at September 30, 2009 and December 31, 2008 (in thousands):

|                                 | <b>September<br/>30,<br/>2009</b> | <b>December<br/>31,<br/>2008</b> |
|---------------------------------|-----------------------------------|----------------------------------|
|                                 | (Unaudited)                       |                                  |
| Royalty Interest (at inception) | \$ 535,000                        | \$ 535,000                       |
| Less: Accumulated amortization  | (358,971)                         | (357,465)                        |
| Impairment write-down           | (173,518)                         | (173,518)                        |
| <br>Balance, end of period      | <br>\$ 2,511                      | <br>\$ 4,017                     |

**(4) Income Taxes**

The Trust files its federal tax return as a grantor trust subject to the provisions of subpart E of Part I of Subchapter J of the Internal Revenue Code of 1986, as amended, rather than as an association taxable as a corporation. The Trust Unit holders are treated as the owners of Trust income and corpus, and the entire taxable income of the Trust will be reported by the Trust Unit holders on their respective tax returns.

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If the Trust were determined to be an association taxable as a corporation, it would be treated as an entity taxable as a corporation on the taxable income from the Royalty Interest, the Trust Unit holders would be treated as shareholders, and distributions to Trust Unit holders would not be deductible in computing the Trust's tax liability as an association. The Trustee assumes that some Trust Units are held by a middleman, as such term is broadly defined in the U.S. Treasury Regulations (which includes custodians, nominees, certain joint owners, and brokers holding an interest for a custodian in street name). Therefore, the Trustee considers the Trust to be a widely held fixed investment trust ( WHFIT ) for U.S. Federal income tax purposes. The Bank of New York Mellon is the representative of the Trust that will provide tax information in accordance with applicable U.S. Treasury Regulations governing the information reporting requirements of the Trust as a WHFIT. For information contact The Bank of New York Mellon, Corporate Trust Trustee Administration, 101 Barclay Street, New York, NY 10286, telephone number (212) 815-6908.

**(5) Legal Expense Contingency**

The Trust continues to incur legal fees and expenses as a result of litigation and other issues arising out of the August 2006 shutdown of the Prudhoe Bay field. Except for potential continuing legal fees and expenses, the Trustee does not anticipate any other loss contingency resulting from the shutdown of the Prudhoe Bay field.

**(6) Prospective Settlement Payment**

The Trust has entered into a settlement agreement with BP Alaska to resolve certain issues related to the temporary shutdown of the Prudhoe Bay field Following oil spills on March 2, 2006 and August 6, 2006 and to compromise any claims that the Trust and past, present, and future holders of Trust Units may have relating to conduct by BP Alaska that may have resulted in a reduction of the royalty payments received by the Trust in 2006, 2007 and 2008. Under the settlement agreement, BP Alaska has paid \$29,469,081 into an interest-bearing escrow account with The Bank of New York Mellon, as escrow agent. The settlement payment, plus the interest that accrues on it while it is held by the escrow agent, will be released by the escrow agent and paid to the Trust when (i) the Delaware Chancery Court enters an order approving the settlement agreement and such order becomes final and (ii) the order of the United States District Court for the Southern District of New York dismissing certain litigation brought in that court against BP Alaska and other parties becomes final after appeal or upon the expiration of time for any further appellate proceedings, or is resolved by settlement.

The order of the District Court dismissing the litigation against BP Alaska and the other defendants has been affirmed by the United States Court of Appeals for the Second Circuit, and the time for any further appeal from that judgment has expired. On October 21, 2009, the Delaware Chancery Court entered an order and final judgment approving the settlement,

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**September 30, 2009**

which will become final if it has not been appealed within 30 days from the date of entry. If there is no appeal from the Chancery Court order, the Trustee anticipates that the settlement fund and accrued interest will be released from escrow and paid to the Trust during the fourth quarter of 2009.

**(7) Royalty Revenue Adjustments**

The royalty payments received by the Trust in January 2009 and 2008 with respect to the quarters ended December 31, 2008 and 2007 were adjusted by BP Alaska to compensate for underpayment of the royalties due with respect to the quarters ended September 30, 2008 and 2007, respectively. Average net production of crude oil and condensate was less than 90,000 barrels per day during those quarters and royalty payments by BP Alaska with respect to those quarters were based on estimates by BP Alaska of production levels because actual data were not available by the dates on which payments were required to be made to the Trust. Subsequent recalculation by BP Alaska of royalty payments due based on actual production data resulted in the payment adjustments shown in the table below (in thousands):

|   | <b>Payment Received</b> |                  |
|---|-------------------------|------------------|
|   | <b>Jan. 2009</b>        | <b>Jan. 2008</b> |
| Royalty payment as calculated   | \$34,481                | \$65,284         |
| Adjustment for previous quarter's underpayment, plus accrued interest | 799                     | 64               |
| Net payment received  | \$35,280                | \$65,348         |

No adjustments to the royalty payments received by the Trust in April and July 2009 and 2008 were required.

**(8) Subsequent Event**

On October 15, 2009 the Trust received a cash distribution of approximately \$37,233,939 from BP Alaska with respect to the quarter ended September 30, 2009. On October 20, 2009, after deducting Trust administrative expenses, the Trustee distributed approximately \$37,014,424 (approximately \$1.73 per Unit) to Unit holders of record on October 15, 2009.

Subsequent events have been evaluated through the date of the quarterly report on Form 10-Q in which these financial statements are included.

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**Item 2. Trustee's Discussion and Analysis of Financial Condition and Results of Operations.**

*Cautionary Statement*

This report contains 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 project, and should could, potentially, possibly or may, and other words that convey uncertainty of future events or 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 Item 1A, Risk Factors, of the Trust's Annual Report on Form 10-K for the fiscal year ended December 31, 2008 (the 2008 Annual Report). There may be additional risks of which the Trustee is unaware or which are currently deemed immaterial.

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 the 2008 Annual Report and in this report may not occur or may transpire 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.

*Liquidity and Capital Resources*

The Trust is a passive entity. The Trustee's activities are limited to collecting and distributing the revenues from the Royalty Interest and paying liabilities and expenses of the Trust. Generally, the Trust has no source of liquidity and no capital resources other than the revenue attributable to the Royalty Interest that it receives from time to time. (See the discussion under THE ROYALTY INTEREST in Part I, Item 1 of the 2008 Annual Report for a description of the calculation of the Per Barrel Royalty, and the discussion under THE PRUDHOE BAY UNIT AND FIELD - Reserve Estimates and INDEPENDENT OIL AND GAS CONSULTANTS REPORT in Part I, Item 1 of the 2008 Annual Report for information concerning the estimated future net revenues of the Trust.) However, the Trustee has a limited power to borrow, establish a cash reserve, or dispose of all or part of the Trust Estate, under limited circumstances pursuant to the terms of the Trust Agreement. See the discussion under THE TRUST in Part I, Item 1 of the 2008 Annual Report.

Since 1999, the Trustee has maintained a \$1,000,000 cash reserve to provide liquidity to the Trust during any future periods in which the Trust does not receive a distribution. The Trustee will draw funds from the cash reserve account during any quarter in which the quarterly distribution received by the Trust does not exceed the liabilities and expenses of the Trust, and

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will replenish the reserve from future quarterly distributions, if any. The Trustee anticipates that it will keep this cash reserve program in place until termination of the Trust.

Amounts set aside for the cash reserve are invested by the Trustee in U.S. government or agency securities secured by the full faith and credit of the United States. Interest income received by the Trust from the investment of the reserve fund is added to the distributions received from BP Alaska and paid to the holders of Units with each quarterly distribution.

As discussed under **CERTAIN TAX CONSIDERATIONS** in Part I, Item 1 of the 2008 Annual Report, amounts received by the Trust as quarterly distributions are income to the holders of the Units, (as are any earnings on investment of the cash reserve) and must be reported by the holders of the Units, even if such amounts are used by the Trustee to repay borrowings or replenish the cash reserve and are not received by the holders of the Units.

### *Results of Operations*

Relatively modest changes in oil prices significantly affect the Trust's revenues and results of operations. Crude oil prices are subject to significant changes in response to fluctuations in the domestic and world supply and demand and other market conditions as well as the world political situation as it affects the members of OPEC and other producing countries. The effect of changing economic and political conditions on the demand for and supply of energy throughout the world and future prices of oil cannot be accurately projected.

Under the terms of the Conveyance of the Royalty Interest to the Trust, 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. The narrative under the captions **THE TRUST Trust Property** and **THE ROYALTY INTEREST** in the 2008 Annual Report explains the meanings of the terms **Conveyance**, **Royalty Interest**, **Per Barrel Royalty**, **WTI Price**, **Chargeable Costs** and **Cost Adjustment Factor** and should be read in conjunction with this report.

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 (the **Quarterly Record Date**). The Trustee, to the extent possible, pays all accrued expenses of the Trust on each Quarterly Record Date from the royalty payment received. Revenues and Trust expenses presented in the statement of cash earnings and distributions are recorded on a modified cash basis and, as a result, royalty revenues and distributions shown in such statements for the three and nine-month periods ended September 30, 2009 and 2008, respectively, are attributable to BP Alaska's operations during the three and nine-month periods ended June 30, 2009 and 2008, respectively.

The following table summarizes the factors which determined the Per Barrel Royalties used to calculate the payments received by the Trust in January, April and July 2009 and 2008 (see Note 1 of Notes to Financial Statements (Unaudited) in Part I, Item 1). The information in the table has been furnished by BP Alaska.

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| Royalty Payment in | Is Based on Data for | Data for Quarter  |                  |                   |                           |                          |                            |
|--------------------|----------------------|-------------------|------------------|-------------------|---------------------------|--------------------------|----------------------------|
|                    |                      | Average WTI Price | Chargeable Costs | Adjustment Factor | Adjusted Chargeable Costs | Average Production Taxes | Average Per Barrel Royalty |
| Jul. 2009          | 06/30/2009           | \$ 59.74          | \$13.25          | 1.647             | \$21.82                   | \$11.03                  | \$26.89                    |
| Apr. 2009          | 03/31/2009           | \$ 43.20          | \$13.25          | 1.634             | \$21.65                   | \$ 5.43                  | \$16.13                    |
| Jan. 2009          | 12/31/2008           | \$ 58.03          | \$13.00          | 1.636             | \$21.26                   | \$11.42                  | \$25.35                    |
| Jul. 2008          | 06/30/2008           | \$124.34          | \$13.00          | 1.668             | \$21.68                   | \$52.37                  | \$50.29                    |
| Apr. 2008          | 03/31/2008           | \$ 97.78          | \$13.00          | 1.630             | \$21.19                   | \$33.58                  | \$43.01                    |
| Jan. 2008          | 12/31/2007           | \$ 90.93          | \$12.75          | 1.618             | \$20.63                   | \$22.29                  | \$48.01                    |

Royalty Production for each day in a calendar quarter is 16.4246% of the first 90,000 barrels of the actual average daily net production of oil and condensate for the quarter from the BP Working Interests. So long as BP Alaska's average daily net production from the BP Working Interests exceeds 90,000 barrels, the principal factors affecting the Trust's revenues and distributions to Unit holders are changes in WTI Prices, scheduled annual increases in Chargeable Costs, changes in the Consumer Price Index and changes in Production Taxes. Average daily net production of oil and condensate from the BP Working Interests has been below 90,000 barrels per day during certain quarterly periods since 2006, due to a BP Alaska program of field wide infrastructure renewal, pipeline replacement and well mechanical improvements.

BP Alaska estimates Royalty Production from the BP Working Interests for purposes of calculating quarterly royalty payments to the Trust because complete actual field production data for the preceding calendar quarter generally is not available by the Quarterly Record Date. To the extent that average net production from the BP Working Interests is below 90,000 barrels per day in any quarter, recalculation by BP Alaska of actual Royalty Production data may result in revisions of prior Royalty Production estimates. Revisions by BP Alaska of its Royalty Production calculations cause BP Alaska to adjust its quarterly royalty payments to the Trust to compensate for overpayments or underpayments of royalties with respect to prior quarters. Such adjustments, if material, may adversely affect certain Unit holders who buy or sell Units between the Quarterly Record Dates for the Quarterly Distributions affected. The Quarterly Distributions received by the Trust from BP Alaska in January 2009 and 2008, were adjusted by BP Alaska to compensate for underpayment of royalties due to the Trust with respect to the quarters ended December 31, 2008 and 2007, respectively. See Note 7 of Notes to Financial Statements (Unaudited) in Item 1. Because the statements of cash earnings and distributions of the Trust are prepared on a modified cash basis, royalty revenues for the three-month periods ended March 31, 2009 and 2008 reflect the amounts of the adjustments with respect to the earlier fiscal periods.

The Trustee anticipates that the Trust will receive a lump sum payment during the fourth quarter of 2009, consisting of \$29,469,081 plus accrued interest from an escrow account established in connection with a settlement agreement between BP Alaska and the Trustee, if an order and final judgment entered on October 21, 2009 by the Delaware Chancery Court approving the settlement

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agreement has not been appealed within 30 days from the entry of the order. For additional information, see Note 6 of Notes to Financial Statements (Unaudited) in Item 1, the Trust's Current Report on Form 8-K dated May 8, 2009 and the Settlement Agreement dated May 8, 2009, which is filed as Exhibit 10.1 to this report. If the escrowed settlement funds are received by the Trust on or before the date on which the Trustee receives the quarterly royalty distribution scheduled to be made by BP Alaska in January 2010, the Trustee intends to add such funds to the distribution received from BP Alaska and distribute the total amount to holders of Units on the Quarterly Record Date for such distribution.

### *Three Months Ended September 30, 2009 Compared to*

### *Three Months Ended September 30, 2008*

As explained above, Trust royalty revenues received during the third quarter of the fiscal year are based on Royalty Production during the second quarter of the fiscal year. Royalty revenues received by the Trust in the quarter ended September 30, 2009 decreased approximately 45% from the corresponding quarter of 2008, reflecting a 52% period-to-period decrease in the Average WTI Price from \$124.34 per barrel during the quarter ended June 30, 2008 to \$59.74 per barrel during the quarter ended June 30, 2009. The average Per Barrel Royalty, however, decreased by only 47%, principally due to a 79% period-to-period decrease in average Production Taxes which fell from \$52.37 per barrel in the quarter ended June 30, 2008 to \$11.03 per barrel in the quarter ended June 30, 2009 as a consequence of lower tax rates on production resulting from the progressivity feature of the Alaska oil and gas production tax statutes.

### *Nine Months Ended September 30, 2009 Compared to*

### *Nine Months Ended September 30, 2008*

Trust royalty revenues decreased 51% in the nine months ended September 30, 2009 from the corresponding period of 2008, reflecting the cumulative effect of a 49% decrease in Average WTI Price during the nine-month period ended June 30, 2009 from the nine-month period ended June 30, 2008. The average Per Barrel Royalty payable with respect to the nine months ended June 30, 2009 reflected a corresponding decrease of 52% from the nine-month period ended June 30, 2008. Average Production Taxes chargeable with respect to the nine-month period ended June 30, 2009 decreased 74% from average Production Taxes chargeable with respect to the nine months ended June 30, 2008, as a result of the lower WTI Prices during the latter period and lower tax rates applicable to production during the period under the progressivity provisions of the Alaska oil and gas production tax statutes. Trust administrative expenses fell 23% during the nine months ended September 30, 2009 from the corresponding period in 2008, primarily due to decreases in on-going legal fees and expenses related to issues arising from the August 2006 shutdown of the Prudhoe Bay field.

## **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

The Trust is a passive entity and except for the Trust's ability to borrow money as necessary to pay liabilities of the Trust that cannot be paid out of cash on hand, the Trust is prohibited from engaging in borrowing transactions. The Trust periodically holds short-term investments acquired with funds held by the Trust pending distribution to Unit holders and funds held in reserve for the payment of Trust expenses and liabilities. Because of the short-term nature of these investments and limitations on the types of investments which may be held by the Trust, the Trust is not subject to any material interest rate risk. The Trust does not engage in



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transactions in foreign currencies which could expose the Trust or Unit holders to any foreign currency related market risk or invest in derivative financial instruments. It has no foreign operations and holds no long-term debt instruments.

**Item 4. Controls and Procedures.**

*Disclosure Controls and Procedures*

The Trustee has disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed by the Trust in the reports that it files or submits under the Securities Exchange Act of 1934, as amended (the Exchange Act) is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. These controls and procedures include but are not limited to controls and procedures designed to ensure that information required to be disclosed by the Trust in the reports that it files or submits under the Exchange Act is accumulated and communicated to the responsible trust officers of the Trustee to allow timely decisions regarding required disclosure.

Under the terms of the Trust Agreement and the Conveyance, BP Alaska has significant disclosure and reporting obligations to the Trust. BP Alaska is required to provide the Trust such information concerning the Royalty Interest as the Trustee may need and to which BP Alaska has access to permit the Trust to comply with any reporting or disclosure obligations of the Trust pursuant to applicable law and the requirements of any stock exchange on which the Units are listed. These reporting obligations include furnishing the Trust a report by February 28 of each year containing all information of a nature, of a standard and in a form consistent with the requirements of the SEC respecting the inclusion of reserve and reserve valuation information in filings under the Exchange Act and with applicable accounting rules. The report is required to set forth, among other things, BP Alaska's estimates of future net cash flows from proved reserves attributable to the Royalty Interest, the discounted present value of such proved reserves, the assumptions utilized in arriving at the estimates contained in the report, and the estimate of the quantities of proved reserves (including reductions of proved reserves as a result of modification of BP Alaska's estimates of proved reserves from prior years) added during the preceding year to the total proved reserves allocated to the BP Working Interests as of December 31, 1987.

In addition, the Conveyance gives the Trust and its independent accountants certain rights to inspect the books and records of BP Alaska and discuss the affairs, finances and accounts of BP Alaska relating to the BP Working Interests with representatives of BP Alaska; it also requires BP Alaska to provide the Trust with such other information as the Trustee may reasonably request from time to time and to which BP Alaska has access.

The Trustee's disclosure controls and procedures include ensuring that the Trust receives the information and reports that BP Alaska is required to furnish to the Trust on a timely basis, that the appropriate responsible personnel of the Trustee examine such information and reports, and that information requested from and provided by BP Alaska is included in the reports that the Trust files or submits under the Exchange Act.

As of the end of the period covered by this report, the trust officers of the Trustee responsible for the administration of the Trust conducted an evaluation of the Trust's disclosure controls and

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procedures. Their evaluation considered, among other things, that the Trust Agreement and the Conveyance impose enforceable legal obligations on BP Alaska, and that BP Alaska has provided the information required by those agreements and other information requested by the Trustee from time to time on a timely basis. The officers concluded that the Trust's disclosure controls and procedures are effective.

*Internal Control Over Financial Reporting*

There has not been any change in the Trust's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 under the Exchange Act that occurred during the Trust's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Trust's internal control over financial reporting.

**Item 4T. Controls and Procedures.**

Not applicable.

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**PART II  
OTHER INFORMATION**

**Item 1. Legal Proceedings.**

None.

**Item 1A. Risk Factors**

Not applicable.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

None.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Submission of Matters to a Vote of Security Holders.**

None.

**Item 5. Other Information.**

(a) Reference is made to Note 8 of Notes to Financial Statements (Unaudited) in Part I, Item 1 (Form 8-K, Item 8.01).

(b) Not applicable.

**Item 6. Exhibits.**

- 4.1 BP Prudhoe Bay Royalty Trust Agreement dated February 28, 1989 among The Standard Oil Company, BP Exploration (Alaska) Inc., The Bank of New York, Trustee, and F. James Hutchinson, Co-Trustee.
- 4.2 Overriding Royalty Conveyance dated February 27, 1989 between BP Exploration (Alaska) Inc. and The Standard Oil Company.
- 4.3 Trust Conveyance dated February 28, 1989 between The Standard Oil Company and BP Prudhoe Bay Royalty Trust.
- 4.4 Support Agreement dated as of February 28, 1989 among The British Petroleum Company p.l.c., BP Exploration (Alaska) Inc., The Standard Oil Company and BP Prudhoe Bay Royalty Trust.
- 4.5 Letter agreement executed October 13, 2006 between BP Exploration (Alaska) Inc. and The Bank of New York, as Trustee.

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- 4.6 Letter agreement executed January 11, 2008 between BP Exploration (Alaska) Inc. and The Bank of New York, as Trustee.
- 10.1 Settlement Agreement, dated May 8, 2009, among BP Exploration (Alaska) Inc., The Bank of New York Mellon, as Trustee, and BNY Mellon Trust Company of Delaware, as Co-Trustee.
- 31 Rule 13a-14(a)/15d-14(a) Certification.
- 32 Section 1350 Certification.

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**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BP PRUDHOE BAY ROYALTY TRUST

By: THE BANK OF NEW YORK MELLON,  
as Trustee

By: /s/ Rafael E. Miranda

Rafael E. Miranda  
Vice President

Date: November 9, 2009

The registrant is a trust and has no officers or persons performing similar functions. No additional signatures are available and none have been provided.

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**INDEX TO EXHIBITS**

| <b>Exhibit<br/>No.</b> | <b>Exhibit<br/>Description</b>  |
|------------------------|---|
| 4.1                    | BP Prudhoe Bay Royalty Trust Agreement dated February 28, 1989 among The Standard Oil Company, BP Exploration (Alaska) Inc., The Bank of New York, Trustee, and F. James Hutchinson, Co-Trustee. Incorporated by reference to the correspondingly numbered exhibit to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 (File No. 1-10243). |
| 4.2                    | Overriding Royalty Conveyance dated February 27, 1989 between BP Exploration (Alaska) Inc. and The Standard Oil Company. Incorporated by reference to the correspondingly numbered exhibit to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 (File No. 1-10243).   |
| 4.3                    | Trust Conveyance dated February 28, 1989 between The Standard Oil Company and BP Prudhoe Bay Royalty Trust. Incorporated by reference to the correspondingly numbered exhibit to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 (File No. 1-10243).  |
| 4.4                    | Support Agreement dated as of February 28, 1989 among The British Petroleum Company p.l.c., BP Exploration (Alaska) Inc., The Standard Oil Company and BP Prudhoe Bay Royalty Trust. Incorporated by reference to the correspondingly numbered exhibit to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 (File No. 1-10243).             |
| 4.5                    | Letter agreement executed October 13, 2006 between BP Exploration (Alaska) Inc. and The Bank of New York, as Trustee. Incorporated by reference to the correspondingly numbered exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 (File No. 1-10243).  |
| 4.6                    | Letter agreement executed January 11, 2008 between BP Exploration (Alaska) Inc. and The Bank of New York, as Trustee. Incorporated by reference to the correspondingly numbered exhibit to the Registrant's Current Report on Form 8-K dated January 11, 2008 (File No. 1-10243).   |
| 10.1                   | Settlement Agreement, dated May 8, 2009, among BP Exploration (Alaska) Inc., The Bank of New York Mellon, as Trustee, and BNY Mellon Trust Company of Delaware, as Co-Trustee. Incorporated by reference to the correspondingly numbered exhibit to the Registrant's Current Report on Form 8-K dated May 8, 2009 (File No. 1-10243).   |
| 31*                    | Rule 13a-14(a) certification.   |
| 32*                    | Section 1350 certification.   |

\* Filed herewith.