

BP PRUDHOE BAY ROYALTY TRUST

Form 10-Q

August 09, 2010

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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 June 30, 2010**

**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, 919 Congress Ave.,  
Austin, TX

78701

(Address of Principal Executive Offices)

(Zip Code)

Registrant's Telephone Number, Including Area Code: (800) 852-1422

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   
(Do not check if a smaller  
reporting company)

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 August 9, 2010, 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>June 30, 2010</b> (Unaudited)	<b>December 31, 2009</b>
<b>Assets</b>		
Royalty interest, net (Notes 1, 2 and 3)	\$ 1,004	\$ 2,009
Cash and cash equivalents (Note 2)	1,000	30,475
Total assets	\$ 2,004	\$ 32,484
<b>Liabilities and Trust Corpus</b>		
Accrued expenses	\$ 630	\$ 211
Trust corpus (40,000,000 units of beneficial interest authorized, 21,400,000 units issued and outstanding)	1,374	32,273
Total liabilities and trust corpus	\$ 2,004	\$ 32,484

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</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Royalty revenues	\$ 47,136	\$ 21,449	\$ 95,157	\$ 56,729
Litigation expense reimbursement (Note 5)			1,705	
Interest income			1	2
Less: Trust administrative expenses	(330)	(224)	(532)	(493)
Cash earnings	\$ 46,806	\$ 21,225	\$ 96,331	\$ 56,238
Cash distributions (Note 5)	\$ 48,511	\$ 21,225	\$ 125,806	\$ 56,256
Cash distributions per unit	\$ 2.2669	\$ 0.9918	\$ 5.8788	\$ 2.6288
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>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Trust corpus at beginning of period	\$ 3,872	\$ 4,284	\$ 32,273	\$ 4,757
Cash earnings	46,806	21,225	96,331	56,238
Increase in accrued expenses	(291)	(523)	(419)	(476)
Cash distributions	(48,511)	(21,225)	(125,806)	(56,256)
Amortization of royalty interest	(502)	(502)	(1,005)	(1,004)
Trust corpus at end of period	\$ 1,374	\$ 3,259	\$ 1,374	\$ 3,259

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)**  
**June 30, 2010**

**(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 interests as of February 28, 1989 in the Prudhoe Bay Field situated on the North Slope of Alaska (the 1989 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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**June 30, 2010**

- 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 June 30, 2010 and 2009 was \$0.39 and \$0.37, respectively, and for the six months ended June 30, 2010 and 2009 was \$0.38 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 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 quarterly distributions to the Trust Unit holders are based on net cash receipts. These

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**BP Prudhoe Bay Royalty Trust**  
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**(Prepared on a Modified Basis of Cash Receipts and Disbursements)**  
**June 30, 2010**

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 June 30, 2010 and 2009, and the modified cash earning and distributions and changes in Trust corpus for the three-month and six-month periods ended June 30, 2010 and 2009. 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 June 30, 2010 and December 31, 2009, 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, 2009. The cash earnings and distributions for the interim periods 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 June 30, 2010 and December 31, 2009 (in thousands):

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	(Unaudited)	
Royalty Interest (at inception)	\$ 535,000	\$ 535,000
Less: Accumulated amortization	(360,478)	(359,473)
Impairment write-down	(173,518)	(173,518)
Balance, end of period	\$ 1,004	\$ 2,009

**(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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**BP Prudhoe Bay Royalty Trust**  
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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, Global Corporate Trust Corporate Finance, 919 Congress Avenue, Suite 500, Austin, TX 78701, telephone number (800) 852-1422.

**(5) Claims Settlement and Litigation Expense Reimbursement**

In May 2009 the Trustee entered into a settlement agreement with BP Alaska to resolve certain issues related to the temporary shutdown of the Prudhoe Bay field in August 2006 following oil spills and to compromise any claims that the Trust and past, present and future holders of Trust Units might have had 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 paid approximately \$29,469,000 into an interest-bearing escrow account pending final dismissal of certain litigation and court approval of the settlement agreement. In December 2009, the settlement amount and accrued interest, totaling approximately \$29,474,000, was released from escrow and paid to the Trust. This amount, together with BP Alaska's royalty payment with respect to the quarter ended December 31, 2009 was distributed to Unit holders in January 2010.

The Trust incurred legal fees and expenses as a result of litigation and other issues arising out of the shutdown of the Prudhoe Bay field. Under the settlement agreement, BP Alaska agreed to pay the Trustee its reasonable attorneys' fees and expenses, including internal expenses and expert fees, incurred in its investigation of the claims that are the subject of the settlement agreement, in responding to subpoenas, in defending a lawsuit, and in seeking court approval of the settlement agreement. In February 2010, BP Alaska paid the Trustee approximately \$1,705,000 as reimbursement of those expenses. 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.

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**BP Prudhoe Bay Royalty Trust**  
**Notes to Financial Statements (Unaudited)**  
**(Prepared on a Modified Basis of Cash Receipts and Disbursements)**  
**June 30, 2010**

**(6) Royalty Revenue Adjustments**

The royalty payments received by the Trust in January 2010 and 2009 with respect to the quarters ended December 31, 2009 and 2008 were adjusted by BP Alaska to compensate for underpayment of the royalties due with respect to the quarters ended September 30, 2009 and 2008, respectively. Average net production of crude oil and condensate from the proved reserves allocated to the Trust 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. 2010</b>	<b>Jan. 2009</b>
Royalty payment as calculated	\$ 47,862	\$ 34,481
Adjustment for previous quarters underpayment, plus accrued interest	159	799
<b>Total payment received</b>	<b>\$ 48,021</b>	<b>\$ 35,280</b>

**(7) Subsequent Event**

On July 15, 2010 the Trust received a cash distribution of approximately \$45,462,000 from BP Alaska with respect to the quarter ended June 30, 2010. On July 20, 2010, after adding interest received with respect to the cash reserve fund and the expense reimbursement payment received from BP Alaska (see Note 5 above) and deducting Trust administrative expenses, the Trustee distributed approximately \$44,841,000 (approximately \$2.10 per Unit) to Unit holders of record on July 15, 2010.

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, 2009 (the 2009 Annual Report) and in Part II, Item 1A of this 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 2009 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 2009 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 2009 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 2009 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 2009 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 2009 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-month periods ended June 30, 2010 and 2009, respectively, are attributable to BP Alaska's operations during the three-month periods ended March 31, 2010 and 2009, respectively.

The following table summarizes the factors which determined the Per Barrel Royalties used to calculate the payments received by the Trust in January and April 2010 and 2009 (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.

**Table of Contents****Data for Quarter****Based on Data**

<b>Quarter Ended</b>	<b>Average WTI Price</b>	<b>Chargeable Costs</b>	<b>Cost Adjustment Factor</b>	<b>Adjusted Chargeable Costs</b>	<b>Average Production Taxes</b>	<b>Average Royalty</b>
03/31/2010	\$78.59	\$14.50	1.669	\$24.20	\$18.96	\$35.9
12/31/2009	\$75.90	\$13.25	1.666	\$22.07	\$18.64	\$35.9
03/31/2009	\$43.20	\$13.25	1.634	\$21.65	\$5.43	\$16.9
12/31/2008	\$58.03	\$13.00	1.636	\$21.26	\$11.42	\$25.9

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 proved reserves allocated to the Trust. During periods when BP Alaska's average daily net production from those reserves 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. Since 2006, BP Alaska has undertaken a program of field wide infrastructure renewal, pipeline replacement and well mechanical improvements. As a consequence of these activities and the required downtime, and the natural production declines from the Prudhoe Bay field, Royalty Production from the proved reserves of oil and condensate allocated to the Trust was less than 90,000 barrels per day on an annual basis in 2008 and 2009. BP Alaska anticipates that its average net production of oil and condensate from those reserves will be below 90,000 barrels per day on an annual basis in most future years.

BP Alaska estimates Royalty Production from the reserves allocated to the Trust 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 those reserves 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 2010 and 2009 were adjusted by BP Alaska to compensate for underpayment of royalties due to the Trust with respect to the quarters ended December 31, 2009 and 2008, respectively. See Note 6 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 six-month periods ended June 30, 2010 and 2009 reflect the amounts of the adjustments with respect to the earlier fiscal periods.

**Table of Contents***Three Months Ended June 30, 2010 Compared to  
Three Months Ended June 30, 2009*

As explained above, Trust royalty revenues received during the second quarter of the fiscal year are based on Royalty Production during the first quarter of the fiscal year. Royalty revenues received by the Trust in the quarter ended June 30, 2010 increased approximately 120% over the corresponding quarter of 2009, reflecting an 82% period-to-period increase in the Average WTI Price from \$43.20 per barrel during the quarter ended March 31, 2009 to \$78.59 per barrel during the quarter ended March 31, 2010. The average Per Barrel Royalty increased by 120% across the same periods, in spite of an increase in inflation adjusted Chargeable Costs in the first quarter of 2010 over the first quarter of 2009 and a 249% period-to-period increase in average Production Taxes, which increased from \$5.43 per barrel in the quarter ended March 31, 2009 to \$18.96 per barrel in the quarter ended March 31, 2010 because the progressivity feature of the Alaska oil and gas production taxes resulted in higher marginal tax rates during the latter period. Trust administrative expenses increased 47% in the quarter ended June 30, 2010 from the corresponding period in 2009, primarily due to timing differences in the receipt and payment of invoices from various service providers.

*Six Months Ended June 30, 2010 Compared to  
Six Months Ended June 30, 2009*

As explained above, Trust royalty revenues received during the first half of the fiscal year are based on Royalty Production during the first quarter of the fiscal year and the fourth quarter of the preceding fiscal year. Trust royalty revenues increased 68% in the six months ended June 30, 2010 from the corresponding period of 2009, reflecting the effect of a 53% increase in the Average WTI Price during the six-month period ended March 31, 2010 from the six-month period ended March 31, 2009. However, cash distributions in the six-month period ended June 30, 2010 were 124% higher than in the six months ended June 30, 2009 due to the distribution to Unit holders during the later period of funds received from BP Alaska in settlement of claims related to the August 2006 oil spills (see Note 5 of Notes to Financial Statements (Unaudited) in Item 1). The average Per Barrel Royalty payable with respect to the six months ended March 31, 2010 increased 70% over the average Per Barrel Royalty payable with respect to the corresponding period of 2009. Average Production Taxes chargeable with respect to the six-month period ended March 31, 2010 increased 123% from the average Production Taxes chargeable with respect to the six months ended March 31, 2009, because the progressivity feature of the Alaska oil and gas production taxes resulted in higher marginal tax rates during the latter period.

**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 transactions in foreign currencies which could expose the Trust or Unit holders to any foreign



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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 1989 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 1989 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 procedures. Their evaluation considered, among other things, that the Trust Agreement and the

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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.

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**PART II  
OTHER INFORMATION**

**Item 1. Legal Proceedings.**

None.

**Item 1A. Risk Factors**

Item 1A (Risk Factors) to Part I of the 2009 Annual Report is supplemented by the addition of the following text:

*A possible sale by BP of part or all of its interest in the Prudhoe Bay field could have an unpredictable effect on the Trust*

On July 27, 2010, BP announced that it plans to sell assets for up to \$30 billion over the next 18 months, primarily in the upstream business, to help meet the costs and charges involved in meeting BP's commitments in responding to the Gulf of Mexico oil spill. The announcement revived speculation in the press that BP may sell part or all of its ownership stake in the Prudhoe Bay field, and that the most likely buyers are Exxon Mobil, ConocoPhillips and/or Chevron Corporation, BP's partners in the ownership of the field. Negotiations to sell half of BP's interest in the Prudhoe Bay field to Apache Corp. are reported to have broken off earlier in July. The Trustee has received no indication that a sale of any part of BP's interest in the Prudhoe Bay field remains under consideration or is likely to occur.

The Trustee believes that a sale by BP Alaska of all or part of its interest in the Prudhoe Bay field, should it occur, will not affect the Trust's Royalty Interest. The Overriding Royalty Conveyance and the Trust Conveyance (collectively, the Conveyance) are recorded interests that burden the leases that constituted BP's working interest in the Prudhoe Bay field as of February 28, 1989 (the 1989 Working Interests). BP Alaska has the right to sell or assign any part of the 1989 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 Royalty Interest was not affected by decreases in BP Alaska's ownership interest in the oil rim participating area and increases in BP Alaska's ownership interest in the gas cap participating area subsequent to February 1989 (see the footnotes to the table in the section captioned THE PRUDHOE BAY UNIT AND FIELD Prudhoe Bay Unit Operation and Ownership in Item 1 of Part I of the 2009 Annual Report), and will not be affected by any future divestiture by BP Alaska of its current interests in those areas. While a sale by BP Alaska of part or all of its interest in the Prudhoe Bay field will not affect the Trust's legal entitlement to the Royalty Interest and the benefits of the Conveyance, such a sale could result in changes in the management and operation of the Prudhoe Bay field. The nature of such changes, if any, and their possible effect on the Trust cannot be predicted at the time of the filing of the Trust's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010.

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

None.

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

None.

**Item 5. Other Information.**

(a) Reference is made to Note 7 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.
- 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.
- 101 *Explanatory note:* An Interactive Data File is not submitted with this filing pursuant to Item 601(101) of Regulation S-K, because the Trust does not prepare its financial statements in accordance with generally accepted accounting principles as used in the United States. See Note 2 of Notes to Financial Statements (Unaudited) in Part I, Item 1.

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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/ Mike Ulrich  
Mike Ulrich  
Vice President

Date: August 9, 2010

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 No.</b>	<b>Exhibit 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.