



BP & Hilcorp Transaction

The deal & the State's oversight role

Presented by
Department of Natural Resources Commissioner, Corri Feige
Joint Resource Committee Hearing, Monday, December 16, 2019



AGENDA

Introduction

Who are the parties to this deal?

What assets and liabilities are changing hands?

How does the State review and approve this deal?

When might this deal close?

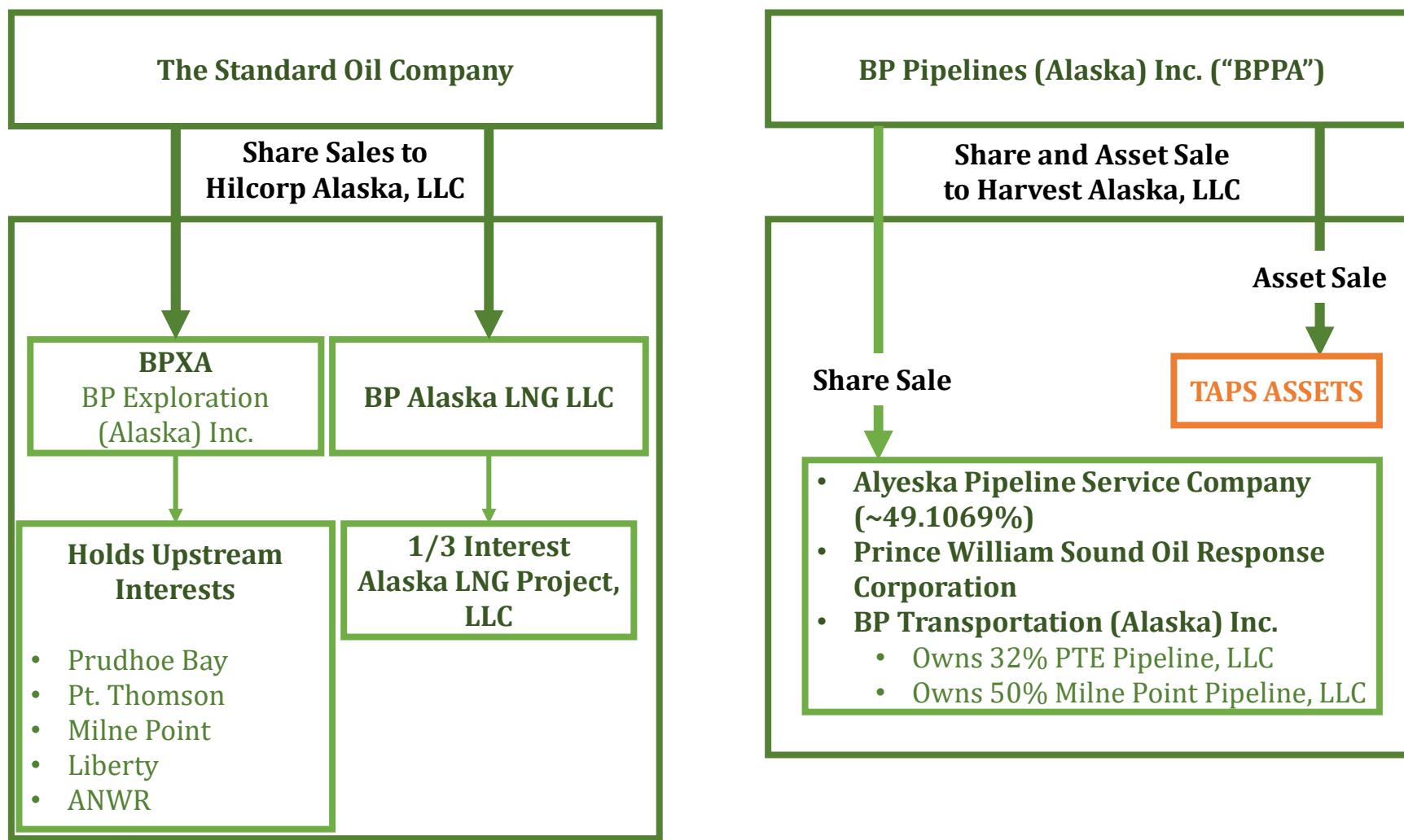
Final Comments

SALE OVERVIEW

- August 27, 2019 - Sale Publicly announced.
- \$5.6 Billion of upstream and midstream interests.
- Purported stock sale of the upstream companies.
- Combined stock and asset sale of the midstream companies and TAPS assets.
- October 11, 2019 – Division of Oil & Gas provided with confidential purchase and sale agreement to assist with its due diligence.



BP & HILCORP – SALE STRUCTURE



UPSTREAM ASSETS

All issued and outstanding shares of stock of BP Exploration (Alaska) Inc. (“BPXA”)

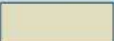
- BPXA owns working interests in oil & gas leases in the following areas:
 - Prudhoe Bay Unit: 26.36%
 - Pt Thomson Unit: ~32%
 - Milne Point Unit: 50%
 - Liberty Unit (Federal unit): 50%
 - ANWR (ASRC leases)**: 50%

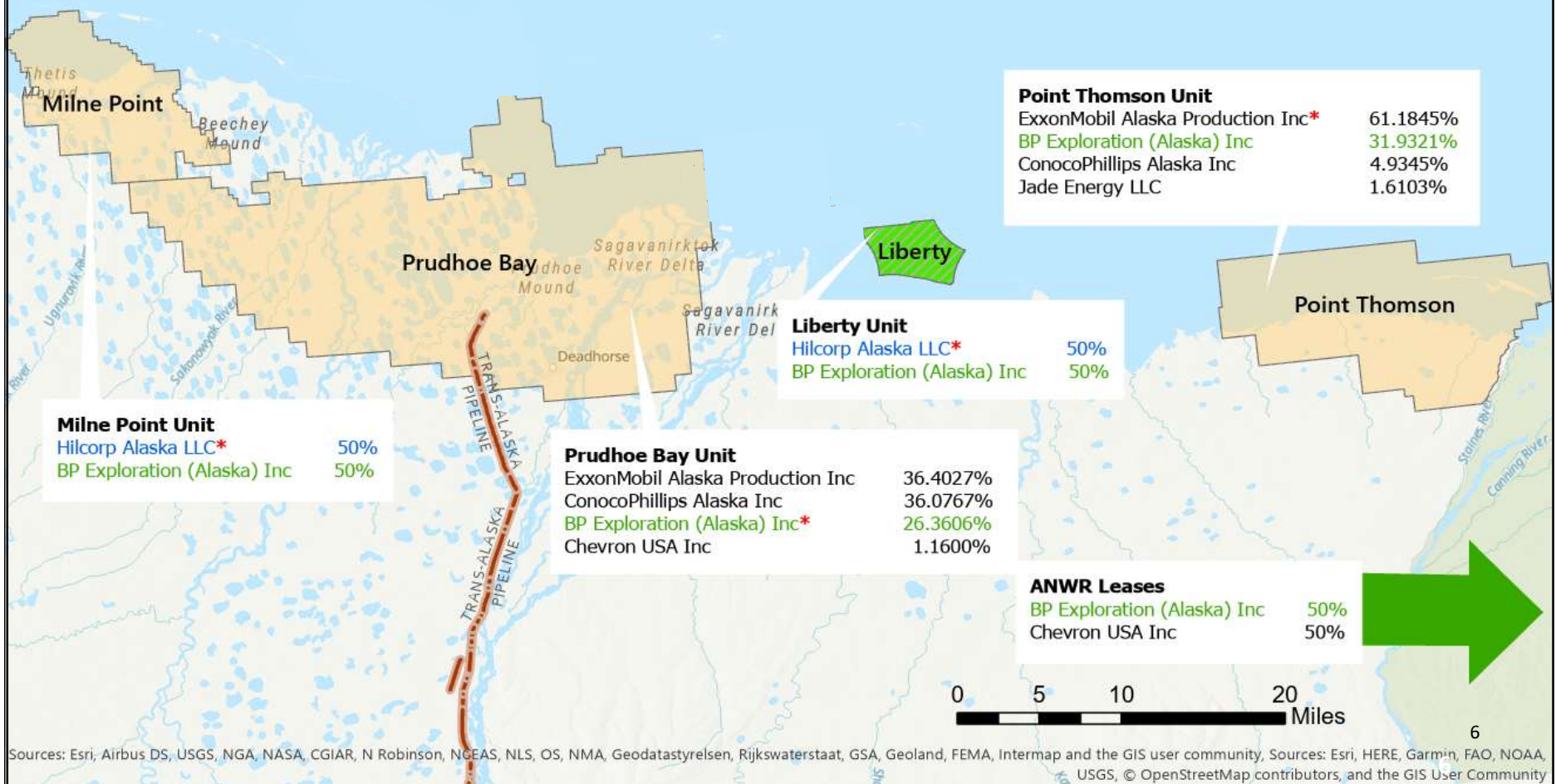
***Arctic National Wildlife Refuge Leases are from the Arctic Slope Regional Corporation, not the State of Alaska.*



NORTH SLOPE UPSTREAM ASSETS BEFORE

As of December 2019

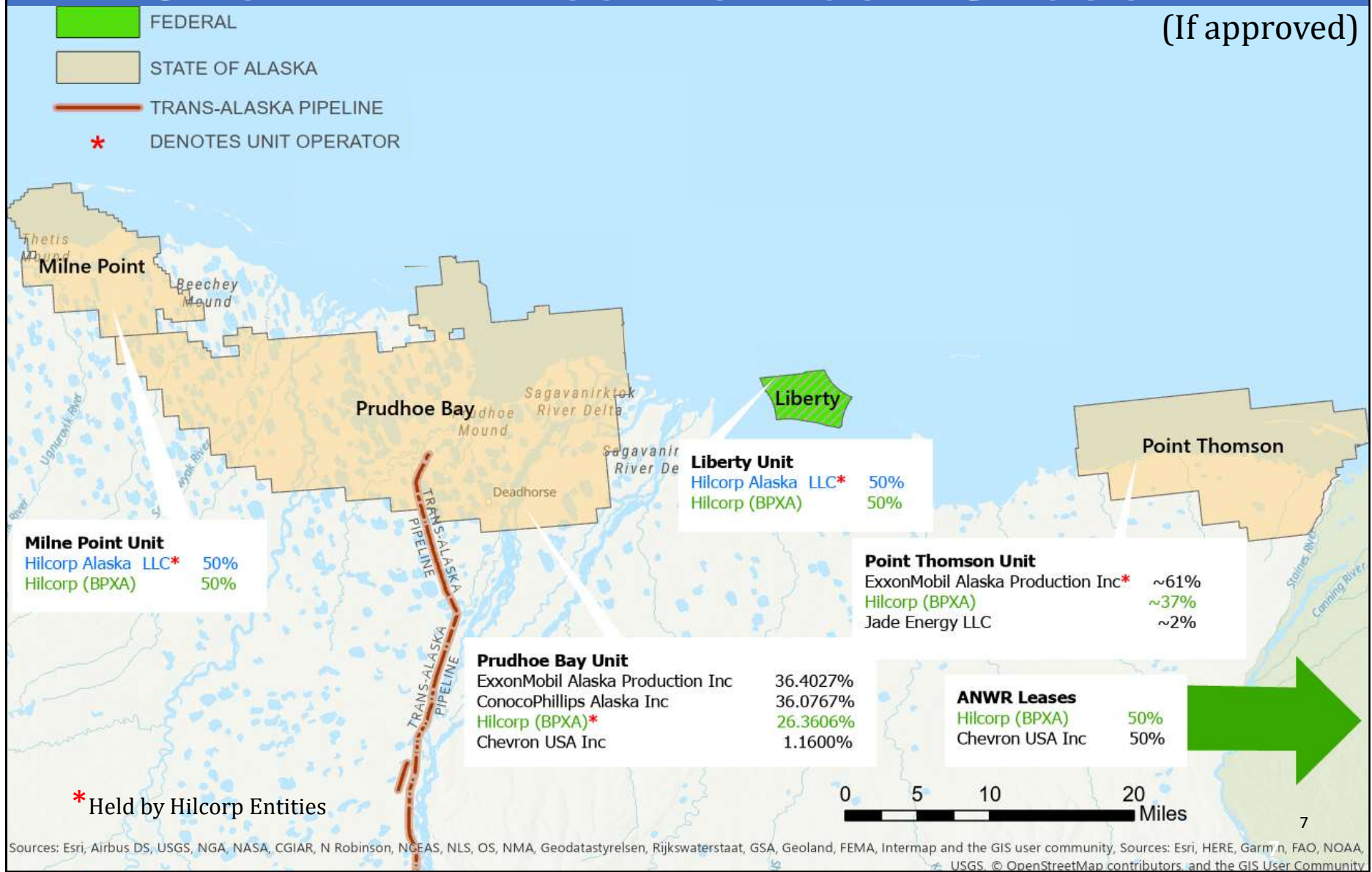
-  FEDERAL
-  STATE OF ALASKA
-  TRANS-ALASKA PIPELINE
-  DENOTES UNIT OPERATOR



Sources: Esri, Airbus DS, USGS, NGA, NASA, CGIAR, N Robinson, NCEAS, NLS, OS, NMA, Geodatastyrelsen, Rijkswaterstaat, GSA, Geoland, FEMA, Intermap and the GIS user community, Sources: Esri, HERE, Garmin, FAO, NOAA, USGS, © OpenStreetMap contributors, and the GIS User Community

NORTH SLOPE UPSTREAM ASSETS POST CLOSURE

(If approved)



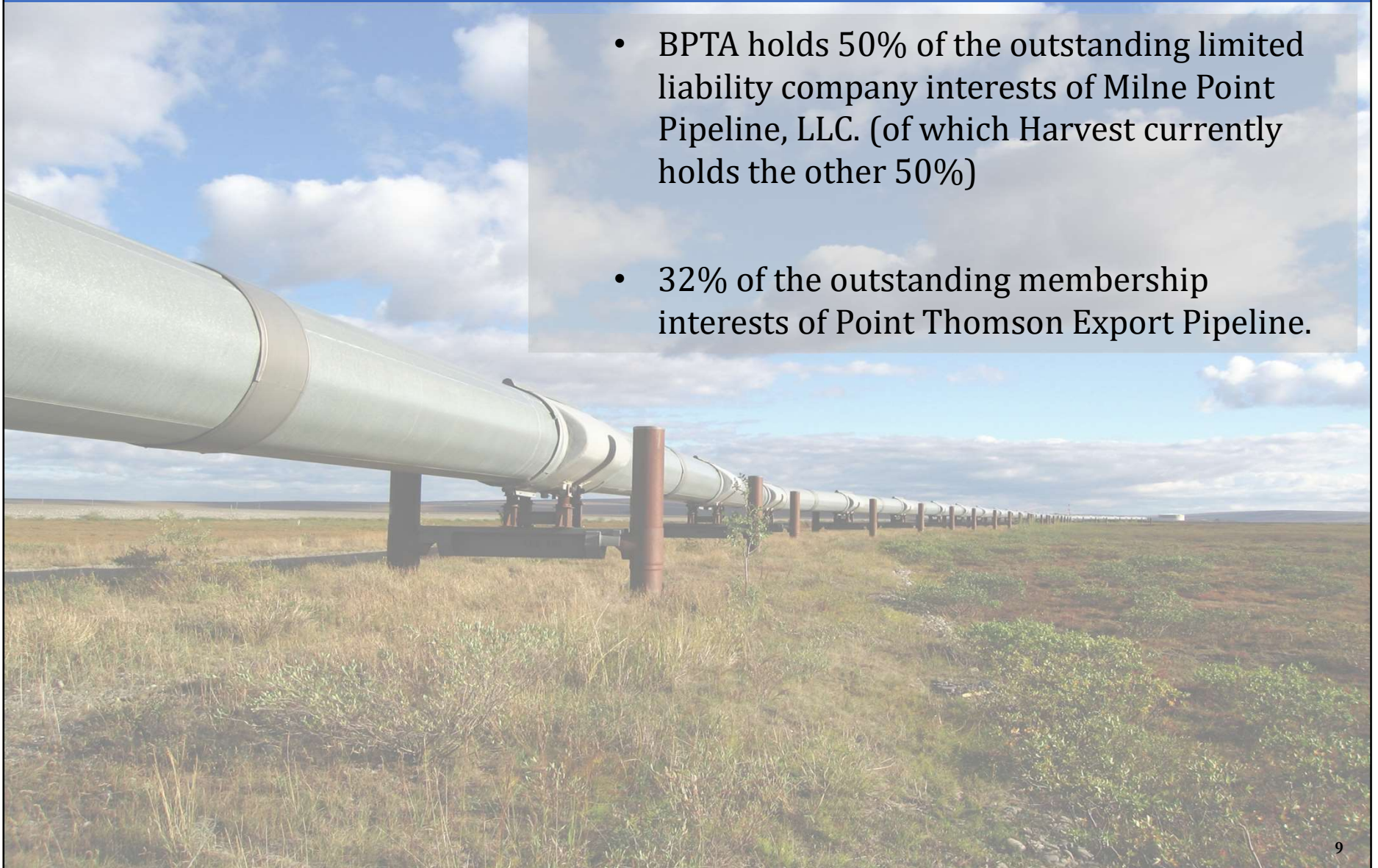
ADDITIONAL ASSET TRANSFERS

- All issued and outstanding limited liability company membership interests of BP Alaska LNG LLC (“BPALL”).
- BPALL owns 1/3 of outstanding limited liability company interest in Alaska LNG Project, LLC.



HARVEST ALASKA, LLC MIDSTREAM

- BPTA holds 50% of the outstanding limited liability company interests of Milne Point Pipeline, LLC. (of which Harvest currently holds the other 50%)
- 32% of the outstanding membership interests of Point Thomson Export Pipeline.



HARVEST ALASKA, LLC MIDSTREAM

- Acquiring from BP Pipelines (Alaska) Inc. (“BPPA”):
 - BPPA’s approximately 48.4% interest in the Trans Alaskan Pipeline System (“TAPS”) and approximate 47.6% interest in TAPS terminal tankage in Valdez.
 - Approximately 49.1069% of issued and outstanding shares of Alyeska Pipeline Service Company.
 - Approximately 25% share in Prince William Sound Spill Response Corporation.

QUESTIONS?



CONTRAST TO BP-ARCO TRANSACTION

MERGER VS. STRAIGHT PURCHASE

BP /Arco Merger (2000)

- Federal Securities and Exchange Commission Oversight.
- Anticompetitive / antitrust issues to consider.
- Merger of two major producers in Alaska.
- Approx. 70% of combined production at time.

Proposed Hilcorp Acquisition (2020)

- Federal Trade Commission conclusions.
 - Hart-Scott-Rodino Act analysis.
 - No antitrust or competitiveness concerns.
- Hilcorp increasing barrel of oil equivalent production share in the State from 12% pre-deal to 28% post-deal.

DNR: DIVISION OF OIL & GAS

State Pipeline Coordinator Office

- Fit, willing and able test
- AS 38.35.100(a).

Leasing

- Administer and approve change in control of leases.
- 11 AAC 82.605.

Units

- Administer change in control of operator of Prudhoe Bay Unit.
- 11 AAC 83.331.

Commercial

- Examine existing financial assurances and determine what amendments will be required.
- Analyze financials of Hilcorp and Harvest.

Permitting

- Administer change in control of permits.
- 11 AAC 83.158(e).
- 11 AAC 83.346(e).
- 11 AAC 96.040(c).

11 AAC 82.605 (b) No transfer of an interest in a lease, ... , is binding upon the state unless approved by the Commissioner.

FINANCIAL ANALYSIS



Independent 3rd party review of the financial risk associated with the transaction.

- National Economic Research Associates, Inc. (NERA)
- NERA's energy practice has:
 - Over half a century of energy sector practice.
 - Prior experience assisting the State of Alaska in complex economic matters.
 - Proprietary modeling and analytic techniques.
 - Multiple Ph.D.-level economists with extensive experience modeling and analyzing risk in the energy sector.

FINANCIAL ASSURANCES

- Ensure that the Hilcorp corporate family has the financial capacity to fulfill its obligations to the State, including those not realized for many years.
- Existing financial assurances framework.
 - Initial financial assurance agreement entered into in 2011.
 - 6th Amended and Restated Financial Assurances Agreement in 2019.
- Regular reporting of highly confidential information.
 - Annual audited financial statements.
 - Quarterly unaudited financial statements.
 - 3rd party estimate of DR&R obligation submitted every three years.
 - Reserve reporting requirements.
 - Insurance covering assets.

FINANCIAL ASSURANCES

- Periodic reassessment of financial position.
 - Net worth ratio test and Altman's Z-score tests.
 - Automatic triggers to protect the State should there be material change in financial health.
 - Surety bonding requirements that shift with the lessee's financial health.
- Financial assurances framework will be renegotiated using the results from the financial analysis to protect the State's interests.



FINANCIAL ASSURANCES

- **BP represents to the State that it will remain secondarily liable for the upstream DR&R obligations of BPXA as they exist at the time of the transfer.**
- BPPA retaining obligations related to dismantling, removing, and restoring (“DR&R”) TAPS and is leaving all parent company guarantees from BP Corporation North America Inc. in place regarding that obligation.



ATTORNEY GENERAL'S OFFICE ROLE



- John Ptacin, Chief Assistant Attorney General, Oil and Gas Section. Former Chief of the Regulatory Affairs and Public Advocacy Section.
- Morrison & Foerster LLP and National Economic Research Associates.
- Department of Law – Oil and Gas Section's role.
 - Represent decision makers through various regulatory processes.
 - Represent the State of Alaska before the Regulatory Commission of Alaska.

RCA PROCESS

(Alaska Statute 48.06.305)

- RCA Proceedings in general.
 - Quasi-judicial.
 - Five commissioners.
 - Resides under Department of Commerce (DCCED).
- RCA Pipeline Acquisition Dockets
 - Administrative process.
 - Court-like discovery.
 - Likely hearing.
- Questions answered in an RCA pipeline docket
 - Is the acquiring pipeline operator fit and able?
 - Is the proposed acquisition in the public interest?



AOGCC ROLE

- Designation of Operator
 - Owner submits for approval a designation of new operator form.
 - New operator agrees to accept obligations.
 - Furnish surety or personal bond, amount depends on number of wells.
 - BPXA expected to remain operator of record as wholly-owned subsidiary of Hilcorp.
 - Bonding from both Hilcorp and BPXA expected to remain in place
 - 20 AAC 25.020.
- Designation of Ownership
 - Within 15 days of new ownership of a property, Notice of Ownership must be filed w/ AOGCC.
 - 20 AAC 25.022.
- Bonding
 - New requirements took effect May 2019, with optional phase-in over 4 years.
 - Both BP and Hilcorp are currently compliant with level of bonding and the commission will work with the applicants to determine if a variance is required post deal closure.
 - 20 AAC 25.025.

DEC: OIL DISCHARGE PREVENTION & RESPONSE

(AS 46.04.030, 18 AAC 75.400-496)

Facilities that produce, store, or transport oil must have an oil discharge prevention and contingency plan approved by the Department.

Hilcorp has two options:

- Change of Owner Amendment
 - As a major amendment there is a **30 day public comment period**.
 - Potential for quicker approval since it builds off previously approved BP plan.
- New Plan
 - Pre-application meeting required at least 60 days before submitting an application (held 11/20/19).
 - Application due at least 180 days before start of operations.
 - **30-45 day public comment period**.
- Current BP Plans:
 - BPX Greater Prudhoe Bay, North Slope.

DEC: FINANCIAL RESPONSIBILITY SPILLS & THREATENED SPILLS

(AS 46.04.040, 18 AAC 75.205-290)

- Operators that produce, store, or transport oil must demonstrate proof of financial responsibility to respond to events/spills.
- Requires annual Department approval.
- Amount is based on the company's single facility with the highest financial responsibility requirement (each facility isn't required to have separate financial responsibility).
- Maximum proof required for any facility except tankers is \$93.5m.



DEC: FINANCIAL RESPONSIBILITY SPILLS & THREATENED SPILLS

(AS 46.04.040, 18 AAC 75.205-290)

- BP proof of financial responsibility cannot be transferred.
- Hilcorp already has demonstrated proof of financial responsibility for the maximum \$93.5m for its current assets, using commercial insurance policies.
- **Hilcorp must apply for Department approval to include the newly acquired facilities, prior to sale closing.**



DEC: CONTAMINATED SITES

LIABILITY AND CLEANUP

(AS 46.03.822; 18 AAC 75.325-.390)

For contamination existing at the time of sale, Alaska law holds both BP and Hilcorp responsible for contamination after the sale (joint and several liability).

While BP is a Responsible Party and will continue to be responsible for contamination existing prior to sale, Hilcorp will conduct activities relating to cleanup actions, long term monitoring, and implementation of Institutional Controls.

There are both:

- Active contaminated sites (actions still necessary)
- “Cleanup Complete with Institutional Controls” contaminated sites (contamination remains in place)

Moving forward from the sale, Hilcorp will be liable for contamination it causes or contributes to.

QUESTIONS?



TIMELINE

The goal of BP and Hilcorp:
Closure in second Quarter of 2020.

Under Alaska law the State of Alaska does not
have a timeline for review.

THANK YOU!

