

**ALASKA STATE LEGISLATURE
JOINT MEETING
HOUSE RESOURCES STANDING COMMITTEE
SENATE RESOURCES STANDING COMMITTEE**

February 26, 2020

5:03 p.m.

MEMBERS PRESENT

HOUSE RESOURCES STANDING COMMITTEE

Representative Geran Tarr, Co-Chair
Representative Grier Hopkins, Vice Chair
Representative Sara Hannan
Representative Chris Tuck
Representative Ivy Spohnholz
Representative Dave Talerico
Representative George Rauscher
Representative Sara Rasmussen

SENATE RESOURCES STANDING COMMITTEE

Senator Peter Micciche, Chair
Senator John Coghill, Vice Chair
Senator Click Bishop
Senator Cathy Giessel
Senator Joshua Revak
Senator Jesse Kiehl

MEMBERS ABSENT

HOUSE RESOURCES STANDING COMMITTEE

Representative John Lincoln, Co-Chair

SENATE RESOURCES STANDING COMMITTEE

Senator Scott Kawasaki

COMMITTEE CALENDAR

OVERVIEW(S) : BP/HILCORP TRANSACTION

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

CORRI FEIGE, Commissioner
Department of Natural Resources
Anchorage, Alaska

POSITION STATEMENT: Provided a PowerPoint overview, entitled "BP and Hilcorp Transaction" and answered questions.

DAMIEN BILBAO, Vice President, Commercial Ventures
BP Alaska
Anchorage, Alaska

POSITION STATEMENT: Provided comments during the BP/Hilcorp Transaction overview.

DAVID WILKINS, Senior Vice President
Hilcorp Alaska
Anchorage, Alaska

POSITION STATEMENT: Provided comments during the BP/Hilcorp Transaction overview.

DENALI KEMPPPEL, General Counsel
Hilcorp Alaska
Anchorage, Alaska

POSITION STATEMENT: Provided comments during the BP/Hilcorp Transaction overview.

ACTION NARRATIVE

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CHAIR PETER MICCICHE called the joint meeting of the House and Senate Resources Standing Committees to order at 5:03 p.m. Representatives Rauscher, Tuck, Spohnholz, Hannan, Hopkins, Talerico, and Tarr and Senators Coghill, Bishop, Giessel, Revak, Kiehl, and Micciche were present at the call to order. Representative Rasmussen arrived as the meeting was in progress.

OVERVIEW(S): BP/HILCORP TRANSACTION

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CHAIR MICCICHE announced the only order of business would be an overview of the BP/Hilcorp Transaction.

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CORRI FEIGE, Commissioner, Department of Natural Resources (DNR), informed the committee she would provide a brief overview of the details surrounding the BP/Hilcorp transaction and present an update of activities subsequent to the committees' last review on 12/16/19. She directed attention to a PowerPoint presentation, entitled "BP and Hilcorp Transaction," dated 2/26/20, and reviewed the agenda for the overview on slide 2, which was structured in five primary categories: The proposed sale; assets and liabilities that are changing hands; how the state reviews and approves this deal; an update on due diligence since December; and the governor's oversight committee. She provided an overview of the sale on slide 3, which read as follows [original punctuation provided]:

- 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.

COMMISSIONER FEIGE directed attention to slide 4 and reviewed the transfer of upstream assets. She noted that upstream assets represent wells, gathering lines, and processing facilities, while midstream assets are common carrier pipelines, transportation, infrastructure, storage tankers, and so forth. Per upstream assets, she explained that BP Exploration Alaska Inc. (BPXA) holds working interests in a variety of oil and gas leases and operating units on the North Slope, including: Prudhoe Bay Unit, 26.36 percent; Point Thompson Unit, 32 percent; Milne Point Unit, 50 percent; Liberty Unit, 50 percent; and Arctic National Wildlife Refuge, 50 percent. She noted that upon closure of this sale, Hilcorp will assume operatorship of the Prudhoe Bay Unit and will become 100 percent owner and operator of both Liberty Unit and Milne Point Unit, as Hilcorp already owns 50 percent of both units. Additionally, transferring 50 percent of Arctic National Wildlife Refuge (ANWR) leases requires Arctic Slope Regional Corporation (ASRC) approval, as they are not owned by the state of Alaska.

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COMMISSIONER FEIGE reviewed slides 5 and 6, which summarized the transfer of midstream assets as follows [original punctuation provided]:

- 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
- 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.

COMMISSIONER FEIGE noted that midstream assets for both BP Transportation (BPTA) and BP Pipelines Alaska (BPPA) will transfer to Harvest Alaska, Hilcorp's midstream entity. She continued to slide 7 and explained that the remainder of BP's asset transfers includes one-third of the membership interest in the Alaska Liquefied Natural Gas (LNG) Project, owned by BP Alaska LNG LLC (BPALL), which will transfer to Hilcorp upon closure of the sale. She turned to slide 8, which summarized DNR's role in the BP/Hilcorp transaction. She reminded the committee that according to Alaska law, no transfer of the interest in oil and gas lease shall be binding on the state until it is approved by the DNR commissioner. That authority places DNR in a primary oversight role through which a comprehensive due diligence and review of the transaction is undertaken by the department, specifically within the Division of Oil and Gas (DOG). Slide 8 read as follows [original punctuation provided]:

- State Pipeline Coordinator Office:
 - Fit, willing and able test.
 - AS 38.35.100(a).
- Leasing:

- o Administer and approve change in control of leases.
- o 11 AAC 82.605.
- Units:
 - o Administer change in control of operator of Prudhoe Bay Unit.
 - o 11 AAC 83.331.
- Commercial:
 - o Examine existing financial assurances and determine what amendments will be required.
 - o Analyze financials of Hilcorp and Harvest.
- Permitting:
 - o Administer change in control of permits.
 - o 11 AAC 83.158(e).
 - o 11 AAC 83.346(e).
 - o 11 AAC 96.040(c).
- 11 AAC 82.605 (b):
 - o Paraphrase: No transfer of an interest in a lease is binding upon the state unless approved by the Commissioner.

COMMISSIONER FEIGE explained that the commercial section within DOG is involved in examining existing financial assurances with Hilcorp and BP and determining what amendments are required. Additionally, DOG is working with the Department of Law (DOL) and a third party expert, Northern Economic Research Associates (NERA), to perform financial stress testing on Hilcorp and Harvest, which ensures that both entities could keep oil flowing and restore throughput and TAPS should there be a major upset.

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COMMISSIONER FEIGE reviewed other agency oversight on slide 9, which read as follows [original punctuation provided]:

AOGCC

- Designation of Operator & Ownership filings
- Bonding - Both BP & HC compliant with increased level of bonding implemented by AOGCC in May 2019.

ATTORNEY GENERAL'S OFFICE

- Oil and Gas Section's role

- o Represent decision makers through various regulatory processes.

- o Represent the State of Alaska before the Regulatory Commission of Alaska.

DEC

- Oil Discharge Prevention & Contingency Plan approval
 - BPX Greater Prudhoe Bay is current
- Financial Responsibility for Spills or Possible Spills
 - HC must apply for DEC approval to include newly acquired facilities prior of sale closing.
- Contaminated sites liability & clean-up
 - BP remains responsible for all contamination existing before sale

COMMISSIONER FEIGE directed attention to slide 10 and addressed the Regulatory Commission of Alaska (RCA) process. She explained that the RCA process is unique from DNR and other agencies. The RCA resides underneath the Department of Commerce, Community & Economic Development (DCCED); however, the RCA is a quasi-judicial body and, therefore, independent. The RCA has five commissioners charged with answering questions regarding the BP/Hilcorp midstream asset transfers, in particular Trans-Alaska Pipeline System (TAPS) asset transfers. One such question presented to the RCA is whether the proposed acquisition of midstream assets is in the public interest.

COMMISSIONER FEIGE reviewed slide 11, which highlighted significant activities subsequent to the committees' last review on 12/16/19. Slide 11 read as follows [original punctuation provided]:

- **January 9th** - Governor's Oversight Committee held its first meeting.
- **January 17th** - Hilcorp/Harvest pipeline transfers completed in preparation for working the BP/Harvest transfer applications.
- **January 21st** - "Change in control" form for oil & gas leases provided to Hilcorp.
 - Still finalizing what entities will hold secondary liability.

- **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.**

- **February 4th** - RCA held Public hearing on TAPS transfer application.

- Still awaiting decision on petition for confidentiality of financial documents. Decision due **March 12th.**

- **February 25th** - DNR & 3rd Party experts in Houston at Hilcorp's office to advance financial stress testing.

- Companies have remained very forthcoming in this & other due diligence.

- **DNR has established the "FAQ" webpage for keeping the public informed.**

- DNR Home Page banner -- Can register to get email alerts as new information is posted.

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COMMISSIONER FEIGE addressed the Governor's Oversight Committee (GOC) on slide 12. She explained that the GOC was formed at the end of December 2019 by Governor Mike Dunleavy to oversee the transaction due diligence and ensure that the interests of Alaskans are thoroughly discussed and protected. The body is comprised of commissioners from DNR, the Department of Environmental Conservation (DEC), the Alaska Department of Fish & Game (ADF&G), the Department of Labor & Workforce Development (DLWD), DCCED, and the Department of Revenue (DOR), representatives from the Office of the Attorney General and DOL's Oil & Gas Section, and a senior staff member from the Office of the Governor. She said the GOC was intended for the exchange of information. She added that the GOC ensures that all agencies are receiving requested information and discusses all aspects of the deal as it pertains to each agency's oversight and areas of interest. She noted that the GOC has no bearing on the function of DNR's oversight role. She announced that the GOC will have a public meeting in the second half of March to update the public on the transaction review and due diligence and share any new information that becomes available. In closing, Commissioner Feige said since the committees' last review in December, progress has been made on the review and vetting of the transaction. She applauded the progress made by DNR at this point.

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SENATOR BISHOP questioned whether Commissioner Feige anticipates any "extra innings."

COMMISSIONER FEIGE answered no.

CO-CHAIR TARR asked about the terminal assets factor of dismantlement, removal, and restoration (DR&R), in terms of responsibility.

COMMISSIONER FEIGE asked whether Co-chair Tarr was referring to the Valdez Marine Terminal.

CO-CHAIR TARR said yes.

COMMISSIONER FEIGE explained that the portion of the Valdez Marine Terminal included in the deal includes only the storage tanks that BPTA currently holds and will be covered by the midstream liability. She added that DR&R responsibility for ownership in Alyeska Pipeline Service Company will follow the transfer of assets to Harvest Alaska.

REPRESENTATIVE RASMUSSEN returned attention to slide 9 and asked whether the other agencies' determinations regarding the transaction would be reconciled in the final approval.

COMMISSIONER FEIGE answered no. She explained that each agency undertakes its jurisdictional reviews independently; however, Hilcorp will need approval from each agency individually, prior to or at an appropriate time after closing.

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CHAIR MICCICHE questioned whether there is adequate capacity and talent within the commercial team. He also asked whether DNR is transparently receiving the required financial information to complete the financial stress testing and allow the transaction to proceed.

COMMISSIONER FEIGE offered her belief that the expert capability needed to successfully complete the due diligence review is inhouse. She relayed that the internal commercial team is headed by Dr. Matt Snodgrass and supported by DOG's commercial team, many of whom have decades of experience working with the division. Additionally, there are several PhD-level petroleum

economists working on the project. Externally, she explained that NERA, which specializes in financial analysis and stress testing, has been brought in as a third-party expert in addition to support from John Ptacin, the head of DOL's Oil & Gas Section, who has extensive experience with the TAPS tariff litigation. She later added that the commercial team will continue to ask questions and negotiate to settle any discomfort that may arise. She commended Hilcorp for being forthcoming about sensitive information.

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REPRESENTATIVE SPOHNHOLZ remarked that one of the big concerns is regarding DR&R of liabilities on the North Slope. She reflected that Commissioner Feige had described that BP is going to maintain a secondary liability. She asked Commissioner Feige to describe what the structures are for guaranteeing that and for a guaranteeing that a company like Hilcorp assumes its responsibility. She further asked Commissioner Feige to describe the transition and existing options.

COMMISSIONER FEIGE responded that both entities [BP and Hilcorp] have existing financial assurance agreements in place with the state. She explained that where this particular transaction is concerned, the secondary liability will be a binding contractual arrangement with a BP entity, such that if Hilcorp should falter on the satisfaction of DR&R for Prudhoe Bay, that BP entity would be responsible to step in and cover DR&R on all the assets as they existed at the time of the transfer. She added that each DR&R contract and financial assurance agreement varies and is specific to the nature of the transaction and to the facility and assets being covered. She said she is not at liberty to discuss the commercial details because they are currently being negotiated; however, a broader framework would be provided once they are in place.

REPRESENTATIVE SPOHNHOLZ asked when that information will be available.

COMMISSIONER FEIGE answered there is no set timeline. She said, "We will get there when the state is satisfied that we have the financial assurances that we need to protect the interest of the state and the interest of Alaskans."

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DAMIEN BILBAO, Vice President, Commercial Ventures, BP Alaska, noted that BP opened its first office in Anchorage in 1959 and has been a member of the Alaska community for over 60 years. Consequently, he related the personal difficulties that accompany BP's departure from Alaska. Additionally, he addressed the reason for the company's departure. He explained that this is a time of limited capital investment in the oil and gas industry; therefore, BP made a \$10 billion acquisition of oil producing assets from a company named BHP that will allow BP's Lower 48 business to be more competitive for growth investment. He said BP decided to pay for that acquisition through the sale of its assets in Alaska because the state's high cost of production, distance from market, and tax risk have made investing for growth a challenge. Furthermore, he conveyed that the uncertainty surrounding the ongoing oil tax debate influenced the evaluation of BP Alaska within the company's portfolio. He stated that there is no shortage of resource opportunity in Alaska; however, he questioned how the cost and uncertainty of development compares to other global options. He further explained that Alaska became a solid divestment candidate once Hilcorp expressed interest in acquiring BP's business in the state. He praised Hilcorp's performance and production at Milne Point and said BP looks forward to "passing the torch" and watching Hilcorp produce for the next 50-plus years.

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MR. BILBAO turned attention to the transition process. The process of transferring BP's business to Hilcorp began September 2019 and is expected to continue until the late second quarter of 2020. He listed four primary aspects of the transition: operate Prudhoe Bay safely and responsibly; treat employees with respect; support federal and state regulatory processes; and prepare to position Hilcorp for success on day one. He said as the transition process advances, BP has informed the other owners of Prudhoe Bay and TAPS, Exxon Mobile and ConocoPhillips Alaska, as well as the Alyeska Pipeline Service Company, of key decisions that affect them. He said the aforementioned companies have offered their experience and support, as necessary. Mr. Bilbao continued by addressing how BP will remain responsible for future DR&R of upstream facilities and TAPS. He explained that Hilcorp will provide primary accountability for future DR&R in the upstream, while BP will hold secondary liability. Additionally, BP will retain DR&R accountability for TAPS. He noted that the cost of future DR&R is difficult to estimate given the requirements are still to be

defined by regulators. Further, DR&R activity is planned years in advance, which allows for the financial, regulatory, and operational preparation by various parties. Last, he pointed out that BP is not the only owner of Prudhoe Bay and TAPS. In closing, he extended BP's appreciation to the people of Alaska for supporting the company's efforts. He also thanked the Native people of Alaska for welcoming and partnering with BP and thanked the Alaska State Legislature for remaining committed to doing what's right for the state.

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REPRESENTATIVE RAUSCHER asked how long BP would be doing its "handholding" with Hilcorp.

MR. BILBAO said he would characterize it as a cooperation in preparation for day one. He clarified that Hilcorp does not need any handholding, as they have done a phenomenal job of showing they can operate on the North Slope. He explained that regarding day one readiness, the workstreams are focused on the frontline operations and ensuring that Hilcorp is prepared. He said Hilcorp would be taking a large percentage of BP's workforce and with that, the knowhow, experience, history, and institutional knowledge that it possesses. Furthermore, BP is instituting training plans for any new staff that will be joining Hilcorp, as well as shadowing plans for Hilcorp staff that will have roles post day one, so that Hilcorp will experience participating in activity conversations and have a better understanding of key decisions and risks that need to be mitigated. He noted that the preparation for day one readiness extends to other things, such as IT decisions and accounting responsibilities.

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MR. BILBAO, in response to a question from Senator Coghill, stated that BP's greatest asset is its people, later adding that the knowledge, experience, and technical expertise that it will bring to Hilcorp is invaluable. He explained that BPXA owns over 40 years of data - surface, subsurface and commercial - which Hilcorp will acquire with its purchase of BPXA. Additionally, Hilcorp will obtain the keys to warehouses that contain thousands of rocks and cores. He said Prudhoe Bay has been a "pearl" in BP's portfolio and an area where the company has developed technology and exported it elsewhere. He added that data is critical to operations in Prudhoe Bay. He noted that Hilcorp immediately placed top experts at the frontline of

Prudhoe Bay to learn about BP's operations and to ensure that it has the necessary data to be ready on day one. He offered his understanding that BP is on track to provided Hilcorp with everything it needs to operate Prudhoe Bay.

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REPRESENTATIVE RASMUSSEN inquired as to the plan for the BP building in Anchorage.

MR. BILBAO directed the question to David Wilkins.

[5:49:11 PM](#)

REPRESENTATIVE SPOHNHOLZ pointed out that Alaskans have a long track record with BP and have confidence in BP as a corporation. She offered her understanding that BP doesn't take action without engaging in homework, research, and planning. She further opined that BP would not undertake the responsibility of assuming the second liability for DR&R without the knowledge that Hilcorp could fulfill its obligation. She asked Mr. Bilbao to discuss the due diligence that took place between the corporate partners to give Alaskans more confidence in Hilcorp's ability to assume the responsibilities it's undertaking.

MR. BILBAO replied that BP was pleased when Hilcorp expressed interest in Prudhoe Bay. He recounted Hilcorp's positive impact in Cook Inlet and Milne Point, where it produced more oil and built new pads with a different approach. He further noted that over 90 percent of Hilcorp's employees live in Alaska, which spurs Hilcorp's desire to succeed in the state. He conveyed the importance of selecting the right company to ensure that Hilcorp won't need to continue to provide oversight in the future. Further, the owners of Prudhoe Bay, including ConocoPhillips Alaska and ExxonMobil Corporation, will continue to help each other better their operations. Additionally, the operating agreement at Prudhoe Bay will continue to provide safeguards around payments, obligations, and honoring financial responsibilities. He said all of that will be available to Hilcorp in the transfer from BPXA.

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REPRESENTATIVE HANNAN pointed out that BP has had a long and positive history with organized labor. She sought clarification on the extension of contracts in the organized labor units.

MR. BILBAO said Hilcorp will inherit all obligations and contracts in which BPXA is engaged, including labor agreements. He noted that last year, BP extended its labor agreements for three years. Furthermore, Hilcorp has access to the labor agreements and participated in conversations with leadership from the labor groups. He deferred any further questions regarding future actions on this matter to Hilcorp.

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SENATOR KIEHL asked what entity of BP will maintain the secondary liability for the upstream DR&R.

MR. BILBAO offered his belief that BP has not formally filed which specific entity will take on that liability. He said it will be an entity with sufficient financial backing to fulfill its responsibilities. He offered to return with an update when it's finalized.

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CO-CHAIR TARR indicated that ConocoPhillips Alaska is also in the process of selling some of its assets. She asked how that will affect the current owner/operator relationship on the North Slope.

MR. BILBAO declined to speak for ConocoPhillips Alaska. He stated that growing uncertainty informs the way corporations make decisions about their portfolios. Further, the ongoing uncertainty in Alaska around the direction that the oil tax debate will take is factoring into how corporations are making investment and long-term decisions in the state.

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REPRESENTATIVE TUCK sought clarification on how DR&R liabilities are accounted.

MR. BILBAO responded that DR&R is accounted as an obligation. He explained that years of litigation between the owners of TAPS, the state, and the federal government has resulted in the current DR&R structure regarding approach and inclusion in tariffs. He said BP has assured that it will remain financially accountable for DR&R; furthermore, it is in the other owners' best interest to ensure that those costs are covered at the right time and financial obligations are honored.

REPRESENTATIVE TUCK expressed interest in following up on the financial assurances regarding DR&R.

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CHAIR MICCICHE offered his understanding that the responsibility might fall to BP Corporation North America Inc. He requested a follow-up response with the requested information on DR&R liability.

MR. BILBAO clarified that BP will be retaining primary liability of TAPS and the secondary liability at Prudhoe Bay.

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DAVID WILKINS, Senior Vice President, Hilcorp Alaska, said he is testifying on behalf of Hilcorp's 581 employees, of which 90 percent are Alaskans. He informed the committee that Hilcorp Energy Company was founded in 1989 and is currently the largest privately held oil and gas production and exploration company in the U.S. Hilcorp Energy is entirely based in the U.S. and operates in eight states: Texas, Colorado, New Mexico, Ohio, Pennsylvania, Alabama, Wyoming, and Alaska. Hilcorp Energy operates 450 thousand barrels of oil equivalent per day, of which 20 percent comes from Alaska. Since 2012, Hilcorp Energy has been creating efficiencies, extending field life, and increasing production safely and responsibly. He addressed Hilcorp's commitment to safety, later sharing that in 2019, the Hilcorp employee OSHA [Occupational Safety and Health Administration] total recordable incident rate (TRIR) was .35, which is lower than the Alaska industry average of .9.

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MR. WILKINS stated creating efficiencies does not require cutting corners. Efficiencies, he said, produce longer field life, more reserves, more production, and more money for the state. He addressed Hilcorp's record in revitalizing fields in the Lower 48 and Alaska and noted that since 2012, Hilcorp has invested \$2.5 billion in the state, which includes \$1.7 billion in the Cook Inlet Basin, investments in production-increasing products, and investments in maintaining aging infrastructure. Hilcorp has drilled 86 wells in the Cook Inlet Basin and extended the life of the offshore basin by 20 years through projects like the cross-inlet pipeline, which allows for daily shipments of oil to the refinery in Nikiski. Mr. Wilkins related that in 2019, Hilcorp safely and responsibly

decommissioned the Drift River Terminal and is currently advancing the DR&R for the Christy Lee Platform in the Cook Inlet. He further touted Hilcorp's ability to stabilize the brownouts occurring in Southcentral Alaska due to a lack of gas in 2012. In 2014, Hilcorp brought its energy, investment, and innovation to the North Slope. He reported that 5 years and \$700 million dollars later, Hilcorp has drilled 60 wells and taken production from 18,400 barrels per day to 34,000 barrels per day at Milne Point. By the end of 2020, forecasts suggest that Hilcorp will produce over 40,000 barrels per day at the same location.

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MR. WILKINS continued to highlight Hilcorp's achievements at Milne Point, including Moose Pad, polymer flood operations, and a conventional Ugnu well, which unlocked the potential for one billion barrels of recovery on the North Slope. He stated that Hilcorp aspires to continue its success at Prudhoe Bay and hopes to triple its Alaska workforce by late 2020 through the BP acquisition. He reported that Hilcorp extended a job offer to 800 of the 1,000 BP employees that applied for a position. He said Hilcorp will honor all union agreements and has been in communication with the joint crafts council and other labor organizations on the North Slope, adding that their experience and expertise is critical to continuing safe and responsible operations at Prudhoe Bay. Hilcorp is also expanding its service technical teams, integrity team, safety group, and environmental group, which assist in maintaining accountability. He stated that Hilcorp will be a great operator at Prudhoe Bay and will continue to be a community partner with the Giving Program. He reported that with the company's match, Hilcorp employees have given more than \$2.8 million to over 375 Alaska-based charities. Furthermore, Hilcorp's newfound partnership with the Alaska Community Foundation will infuse an additional \$5,000 into the program. In closing, Mr. Wilkins pledged that Hilcorp will safely lead the charge towards more investment, jobs, and production.

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DENALI KEMPPPEL, General Counsel, Hilcorp Alaska, provided a short description of her educational background and her work experience at Hilcorp beginning in early 2019, later noting that she is a member of Hilcorp's "BP transaction team." She recalled that in August 2019, Hilcorp announced it would buy all of BP's upstream and midstream assets in Alaska for \$5.5

billion, which includes approximately 20 percent of BP's interest in and operatorship of the Prudhoe Bay Unit, BP's 48 percent ownership share in TAPS, BP's 49 percent share of the Alyeska Pipeline Service Company, and 25 percent of the Prince William Sound Response Corporation. Hilcorp will also take 33 percent interest in the Alaska LNG Project and buy BP's remaining interest in the Milne Point, Point Thompson, and Liberty Fields. She noted that Hilcorp is not buying all of Prudhoe Bay Unit, as ConocoPhillips and ExxonMobil remain partners for their respective ownership interest, which is approximately 37 percent of each. Since the announcement, Hilcorp has worked diligently with the state to procure the required approvals to close the transaction, including upstream components with DNR and midstream components with the RCA. Pending all regulatory approvals, Hilcorp expects to close the transaction in the second quarter of 2020.

MS. WILKINS turned attention to DR&R and explained that Hilcorp worked with DNR to find the right solution that ensures sufficient coverage for the state. Hilcorp entered into a financial assurance agreement, which enables the state to have up-to-date bonding information for any future abandonment risk at the end of an asset's life. Since 2012, she said, DNR has received Hilcorp's annual audited financial statements, quarterly unaudited financial statements, and reserve information, allowing the department to judge the company's financial strength. Additionally, every three years, an independent third party prepares a DR&R report that analyzes Hilcorp and Harvest Alaska's oil and gas properties, assets, and infrastructure, and provides an abandonment cost estimate. The estimate is subsequently incorporated into the financial assurance agreement and sets the new bonding requirement. She noted that Hilcorp's bonding amount has increased with the company's growth, later adding that Hilcorp is currently the "most heavily bonded oil and gas company in Alaska." She said Hilcorp will take over BP's share of DR&R responsibility for all upstream components and non-TAPS midstream assets, while BP will remain liable for its approximately 49 percent of TAPS DR&R. Furthermore, BP will leave its parent company guarantees in place for those obligations. She opined that this transaction puts Alaska in a better position, as another large oil and gas company will be partially responsible for TAPS at the end of the asset life. She noted that Fortune magazine placed Hilcorp on its "one of the best places to work in America" list for the seventh time. She said Hilcorp is proud of its accomplishments in Alaska and looks forward to sharing more successes in the future.

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REPRESENTATIVE RASMUSSEN inquired as to the plan for the BP building in Anchorage.

MR. WILKINS said Hilcorp plans to retain the lease of the building.

[6:23:37 PM](#)

SENATOR GIESSEL referenced a report submitted by Hilcorp to the RCA claiming that the disclosure of confidential documents would be harmful to the company. She asked Mr. Wilkins to elaborate.

MS. KEMPPPEL acknowledged that Hilcorp submitted a filing with the RCA. The filing emphasized the competitive harm that would result to Hilcorp by publicly disclosing financial statements. She specified that the financial statements would reveal Hilcorp's cost structure, which could allow for effective competition; further, she argued that the financial statements include a level of specificity, such as customer names and contract details, which doesn't exist in a public company's financial statements. She also noted that the RCA has granted Hilcorp confidentiality on its financial statements 19 times in the last 9 years.

MR. WILKINS remarked:

It would be like you were bidding on a home and that bid ... [was] made public so that everybody bidding against you could see what you were bidding, and I don't think that's fair.

[6:26:05 PM](#)

REPRESENTATIVE HOPKINS inquired as to Hilcorp's future plans for existing union contracts on the North Slope. Additionally, he asked about plans to increase the number of Alaskans employed through Hilcorp's contractors.

MR. WILKINS said he welcomes unions, later adding that Hilcorp will engage them at the proper time and is "pro-work and pro-project" with all its workers and contracts.

[6:27:25 PM](#)

REPRESENTATIVE HANNAN asked how much of Hilcorp's management and technical staff is based in Alaska versus Houston and how much authority that management staff would have over the Alaska operations.

MR. WILKINS replied that day-to-day decisions are run locally.

[6:28:24 PM](#)

SENATOR REVAK inquired as to Hilcorp's goals for production and how the legislature can support Hilcorp's future in Alaska.

MR. WILKINS answered that Hilcorp is currently in a "seek to understand" mode at Prudhoe Bay. He explained that Hilcorp is engaging with its partners at Prudhoe Bay to understand their ideas and how things work. He added that Hilcorp looks forward to a long time in Alaska; however, he expressed his concern about the uncertainty regarding the tax structure, which takes away from Hilcorp's capital and increased production.

[6:31:01 PM](#)

CO-CHAIR TARR asked how Hilcorp plans to upscale with fewer employees without cutting corners.

MR. WILKINS stated that Hilcorp has a five-level employee structure and pushes responsibilities down to the lowest level. Additionally, he said, Hilcorp maps out tasks, hires smart, and trains its employees to make decisions. He added that regarding the current transition, Hilcorp plans to upscale with fewer employees by targeting efficiencies.

[6:34:35 PM](#)

REPRESENTATIVE SPOHNHOLZ expressed her appreciation for Hilcorp's hire of Alaskans, specifically into its leadership team, as well as the company's commitment to philanthropy. She acknowledged that Milne Point is a "shining example" of increasing production; nonetheless, she opined that there are risks associated with Hilcorp's "lean" model of work. She noted the loss of a Hilcorp employee at Milne Point in December 2018 and asked what the organization has learned from that experience and what it plans to do ensure that Hilcorp employees are safe on the job.

MR. WILKINS said the experience was tragic and motivated Hilcorp to reflect and recommit to work safety. Additionally, he shared

that Hilcorp worked with OSHA on implementing changes to ensure the incident doesn't happen again.

[6:36:05 PM](#)

SENATOR KIEHL sought clarification on how Hilcorp is financing the BP purchase.

MS. KEMPPPEL indicated that Hilcorp is still evaluating all options for financing the transaction. She noted that two \$250 million payments have already been made to BP.

SENATOR KIEHL asked whether Hilcorp is borrowing money to finance the acquisition.

MS. KEMPPPEL said Hilcorp works with a sophisticated group of banks and is currently in discussion with a number of those banks on the best path forward.

[6:38:04 PM](#)

REPRESENTATIVE RASMUSSEN offered her belief that putting a \$500 million down payment on an investment of \$5 billion demonstrates financial competence.

[6:38:58 PM](#)

CHAIR MICCICHE asked for Hilcorp's position on paying corporate income tax.

MR. WILKINS stated Hilcorp has no opinion on corporate income tax as it is a policy decision for the legislature. He said if there were a corporate income tax, Hilcorp would pay it.

[6:40:25 PM](#)

REPRESENTATIVE HANNAN questioned whether Hilcorp has corporate tax exclusions in any other states where the company operates.

MR. WILKINS said he does not know.

CHAIR MICCICHE asked Mr. Wilkins to follow up with the requested information.

[6:41:08 PM](#)

CO-CHAIR TARR sought clarification on the relationship between the parent company and the Harvest Alaska subsidiary.

MS. KEMPPPEL said she would provide a corporate organizational chart.

CHAIR MICCICHE shared several personal anecdotes about his positive experiences with Hilcorp. He added that Alaskans are concerned and interested about the BP/Hilcorp transaction. He said keeping Alaskans informed throughout the process would be welcome.

[6:43:27 PM](#)

SENATOR KIEHL asked Commissioner Feige which entity provides corporate assurances for future DR&R.

COMMISSIONER FEIGE said the state will seek an entity with the greatest durability, wherewithal, and security to satisfy the state's requirements. She added DNR will continue to work with BP to select the appropriate entity. She further noted that the DR&R agreements are updated every three years to ensure that the appropriate bonding and "financial instruments" are in place.

[6:46:02 PM](#)

REPRESENTATIVE TUCK questioned whether it's necessary for BP to be the secondary liability if Hilcorp "[is] able to bond for the full value of ... any DR&R activities that need to take place in the future."

COMMISSIONER FEIGE answered yes. She explained that secondary liability is important to protect the state's interest if the entity responsible for the primary liability were to default in the future.

REPRESENTATIVE TUCK posited that the bonding company would assume responsibility if Hilcorp were to default.

COMMISSIONER FEIGE confirmed that. She noted that bonding covers what is on the ground at the time. She added that bonding is a place holder and does not cover 100 percent of the value. She continued:

But at this point, where we stand today, we don't actually understand what - at the end of the, for example, Prudhoe Bay field life - the state or other

entities may want to have removed and what we may want to retain. So, when we're doing our estimates for DR&R, they contemplate removal of roads, removal of pads, removal of all facilities. When we get to that point in time, it's entirely possible that road infrastructure - the state or the North Slope Borough or some other entity - may want to stay in place. So, that's why I point back to the fact that these are living documents. We put a bonded amount in place to cover those initial stages or percentage, and then we have other financial vehicles that further go to support that to make sure that the full DR&R obligation can be accounted for.

REPRESENTATIVE TUCK questioned whether entities that are responsible for secondary liabilities are required to have bonding abilities.

COMMISSIONER FEIGE said that will be considered in the contractual agreements with BP. She noted that secondary liability is typically a durable, corporate or parent guarantee. She offered to follow up with a primer on how DR&R, bonding, and insurance are consolidated into a financial assurance agreement.

[6:50:33 PM](#)

SENATOR GIESSEL posited that DNR isn't the only entity that levies bonding requirements. She asked whether Alaska Oil and Gas Conservation Commission (AOGCC) has more bonding requirements.

COMMISSIONER FEIGE confirmed that is correct. She explained that AOGCC has its own bonding provisions and requirements for all wells that are drilled. She added that every well drilled in the state must be bonded for plugging and abandonment responsibility. Furthermore, in May 2019, AOGCC increased those bonding levels significantly. Currently, BP and Hilcorp carry all the necessary bonding to cover AOGCC's requirements as well as financial assurance agreements for DR&R. She noted that in the DR&R, plugging and abandonment is also considered; therefore, the avoidance of "double dipping" and "double charging" for the plugging and abandonment of wells is being considered during the preparation of the financial assurance agreements to transfer the assets included in the BP/Hilcorp transaction.

SENATOR GIESSEL requested that AOGCC provide a summary of the bonds it is requiring of the companies.

[6:53:40 PM](#)

ADJOURNMENT

There being no further business before the committees, the joint meeting of the House Resources Standing Committee and the Senate Resources Standing Committee was adjourned at 6:54 p.m.