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Alaska Public Information about the BP Amoco and ARCO Merger

Introduction

Purpose of this Web Site

This internet site provides the public with information regarding the proposed merger of BP Amoco and ARCO. The purpose is to counterbalance a one-sided media campaign both companies are pitching to Alaskans. BP and ARCO's expensive ads only tout the positive impacts of their merger. These ads often present misleading information and do not disclose the many negative consequences for Alaska. This internet site contains research results and analysis of historical data relating to BP Amoco and ARCO operations in Alaska. All information contained here is available from public records that BP and ARCO prefer the public did not see.

Recent survey results show only 22% of Alaskans favor the proposed merger. Forty-two percent oppose the merger and 36% have no opinion. With such a large group having no opinion, this implies people simply do not understand the true impacts of this merger on Alaska. This internet site provides information to help educate Alaskans about the real issues pertaining to the pending merger of these two oil giants and its likely impacts.

Introduction

The pending purchase of ARCO by BP Amoco for $26.7 billion has caused a great deal of concern within the State of Alaska. The decision by ARCO to sell itself to BP Amoco will certainly have major economic, social and political consequences for Alaskans. The merged company will pay taxes totaling almost 75% of Alaska's general state budget. No other state will be tied so intimately to a single company for their primary source of revenues. No other company will have the potential to control a state's revenues the way BP Amoco can control Alaska's if this merger is approved. Citizens and state lawmakers have begun to voice their concerns about the merger's impact on state revenues. One Alaska legislator said, "We are in nothing less than an epic battle to control our own economic destiny."

The primary reason for concern is the fact a combined BP Amoco-ARCO company will own an overwhelming majority of Alaska's petroleum resources. They will become the sole operator of all oil fields on the North Slope of Alaska. BP Amoco will have a 72% ownership in the trans-Alaska pipeline. They will own controlling interests in every pipeline that feeds oil into the trans-Alaska pipeline. The merged company will own 50% or more of every producing oil field on the North Slope. They will own mineral rights to 870,000 acres covering some of Alaska's best prospects for future oil fields. British Petroleum will, quite literally, control the current and economic future of Alaska's oil.

Alaska Governor Tony Knowles has appointed a team of his top officials including Attorney General Bruce Botelho, Revenue Commissioner Wilson Condon, Natural Resources Commissioner John Shively, and the head of his Washington, D.C. office, John Katz to review implications of the purchase. Davis Boies, one of the U.S. Justice Department's leading antitrust lawyers, has been

hired by Botehlo to evaluate the takeover and advise the state on how best to protect its interests. Alaska Senator Frank Murkowski held hearings before his U.S. Senate Energy and Natural Resources Committee to study impacts from this buyout and implications beyond Alaska. Hopefully, he will plan more hearings to get straight answers about the mergers true impacts. The Attorney Generals and antitrust officials from California, Oregon and Washington state will also review the sale.

The Alaska Legislature hired two law firms to help them study antitrust laws this merger may violate. Legislative hearings have already been held to discuss the impacts on Alaska from this proposed merger and more are scheduled. Unfortunately, these hearings are not scheduled to occur until the Legislative Session in 2000. BP Amoco plans to close the ARCO deal before Alaskans and their elected officials have an opportunity to fully review impacts of this merger. BP Amoco's eagerness to close the deal quickly is primarily driven by corporate greed. In the most likely event, Alaska lawmakers will not be given a chance to voice their official concerns until after the merger has likely closed.

Several former Alaska Governors and Attorney Generals are calling on a special legislative session to review the deal. They have helped organize a citizen panel named Backbone: Standing Up for Alaska's Future" to help Alaskans speak up with their questions. Many Alaskans worry, with good reason, about criticizing the deal publicly because they might not be given the opportunity to work for British Petroleum in the future. Perhaps that is the reason few Alaskans and even fewer elected officials are standing up for Alaska's future.

Other civic action, consumer protection, and environmental groups have expressed concern and are encouraging the public and elected officials to take a critical look at the merger. Some of these groups include:

- Ralph Naders' Center of Study of Responsive Laws
- Consumer Project on Technology Group
- Alaska Conservation Alliance, a coalition of 33 groups and businesses.
- Alaska Public Interest Research Group
- Alaska Forum for Environmental Responsibility
- Alaska Conservation Foundation
- Alaska Injured Workers Alliance
- Oil Watch Alaska
- Greenpeace

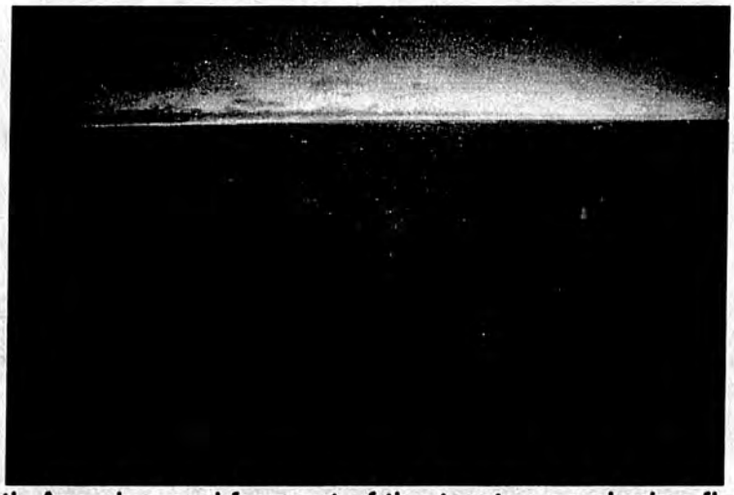
ARCO's sellout to BP Amoco is presently under review by the Federal Trade Commission who can block part or all of the merger. However, the FTC is allowing Alaska to take the lead in identifying concerns the state may have.

Background Information

Background

The North Slope of Alaska is a large expanse of almost treeless tundra north of the Brooks Range Mountains and above the Arctic Circle. This broad plain dips gently to the north and hence the name North Slope.

View of the North Slope of Alaska



The North Slope of Alaska is one of the most prolific petroleum producing areas in the world. It contains 30% of U.S. oil reserves, 21% of gas reserves, and accounts for 22% of all the oil produced in the U.S. every day. Prudhoe Bay and Kuparuk are the two largest oil fields in North America and four out of the top ten producing fields in the U.S. are located on Alaska's North Slope. The map in Figure 1 shows the location for most of the North Slope oil fields.

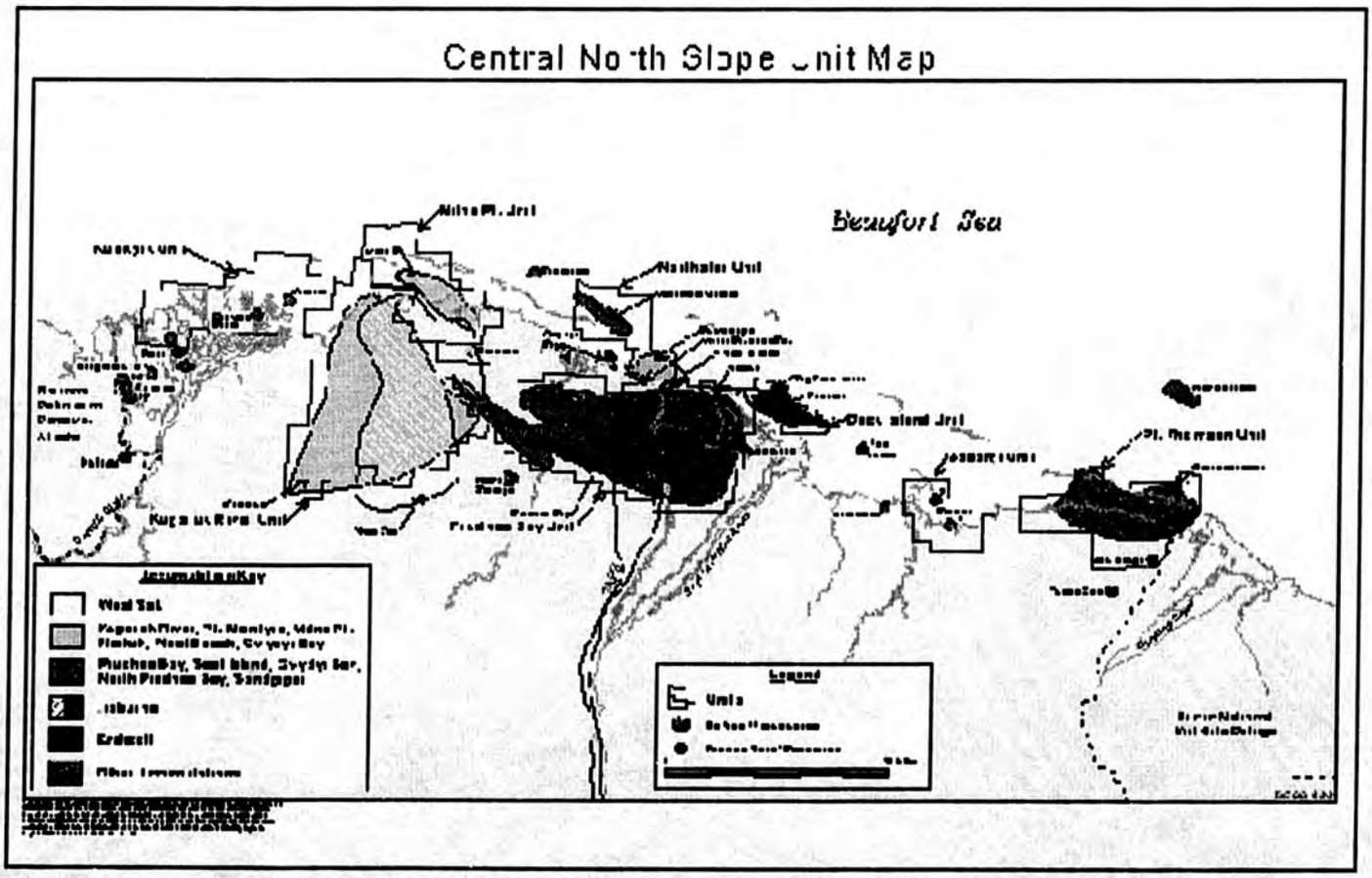


Figure 1. Alaska Dept. of Natural Resources map showing major North Slope oil fields.

The merger of Alaska's two largest oil producers will create a "supermajor" oil company. The combined BP Amoco-ARCO company will possess the largest oil reserves of any non-state owned oil company in the world. As shown in Figure 2, they will become the world's largest producer of oil and second largest producer of natural gas.

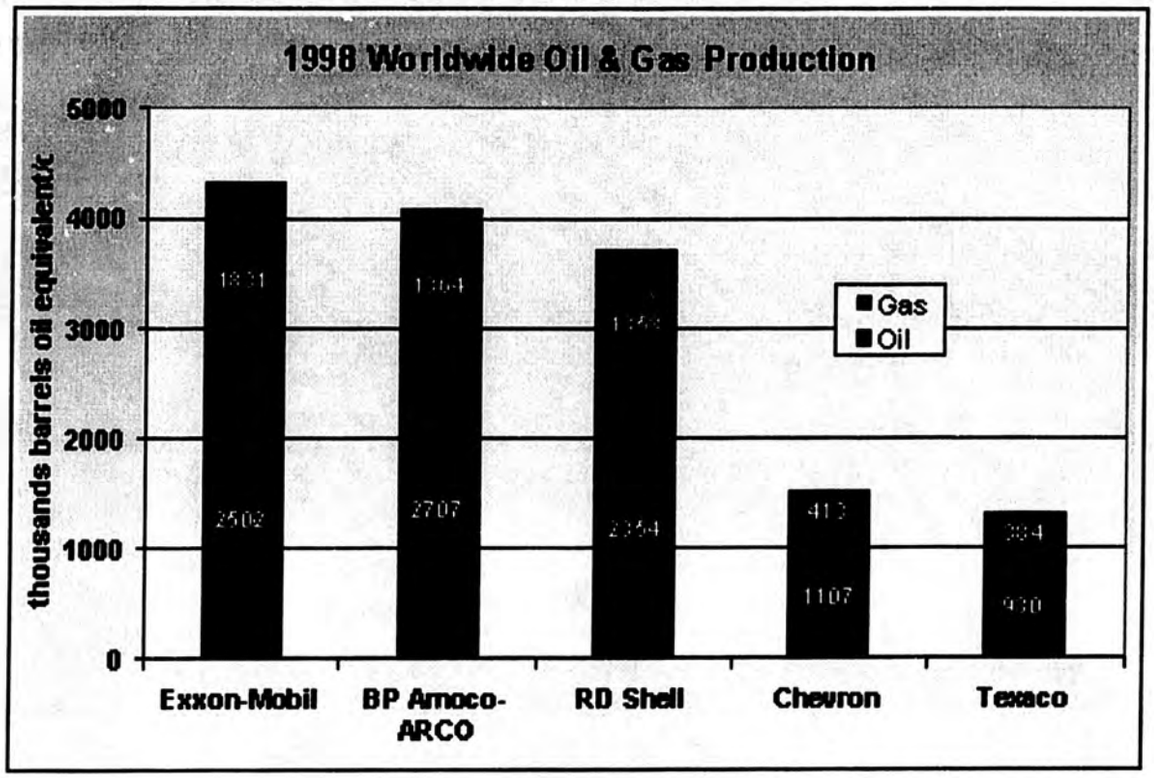


Figure 2. The combined BP Amoco- ARCO daily hydrocarbon production position.

Figure 3 shows BP Amoco-ARCO will be the largest oil producer in the United States supplying over 30% of the daily domestic production. This foreign owned company will become the dominant U.S. oil producer. They will be roughly three times larger than their nearest competitors with the exception of Exxon. Once BP Amoco buys ARCO, they will produce 35% more oil than Exxon.

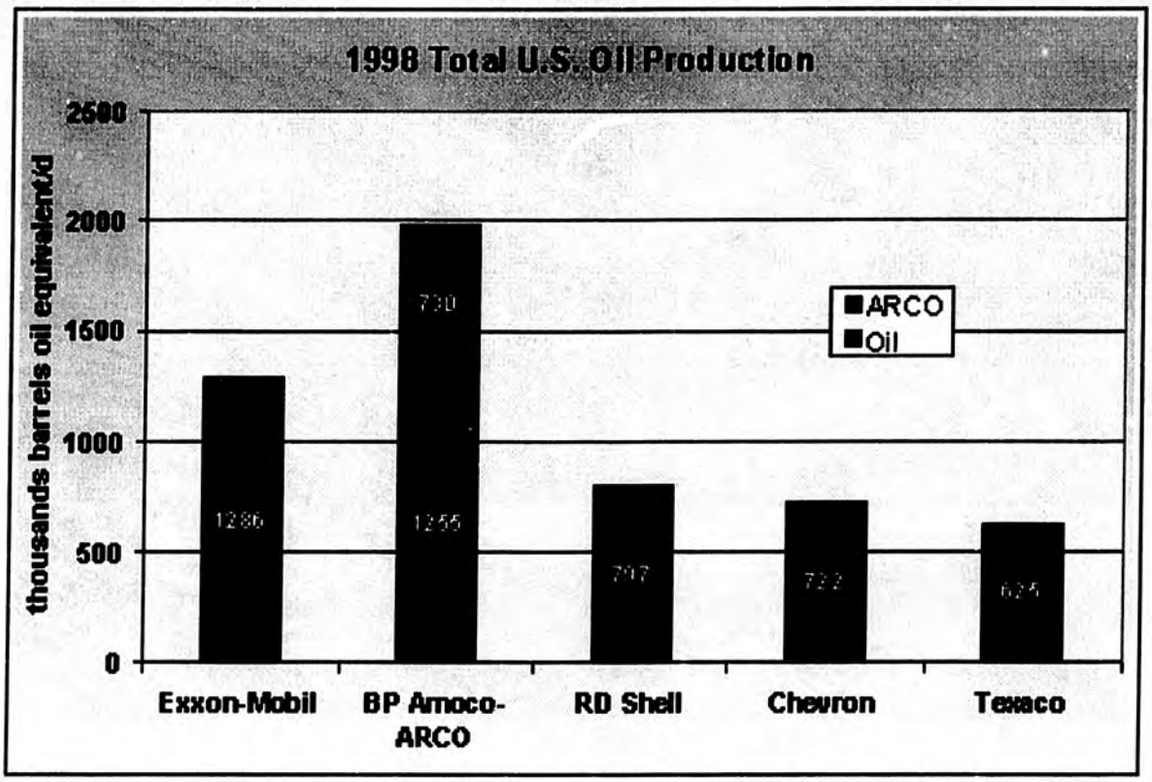


Figure 3. Major oil company daily U.S. production.

Relevant Facts

The following listing contains facts about the Alaska oil industry and what impacts this merger will have.

- The U.S. Geological Survey estimates Alaska contains 30% of the nation's proven oil reserves, 21% of the proven gas reserves, 57% of the nation's undiscovered oil reserves, and 37% of the nation's undiscovered gas reserves.

- The U.S. Energy Information Administration reports that Alaska produces 22% of all oil in the United States.

- If the buyout is approved, BP Amoco will own approximately 75% of all the oil fields in Alaska as is shown in Figure 5 below.

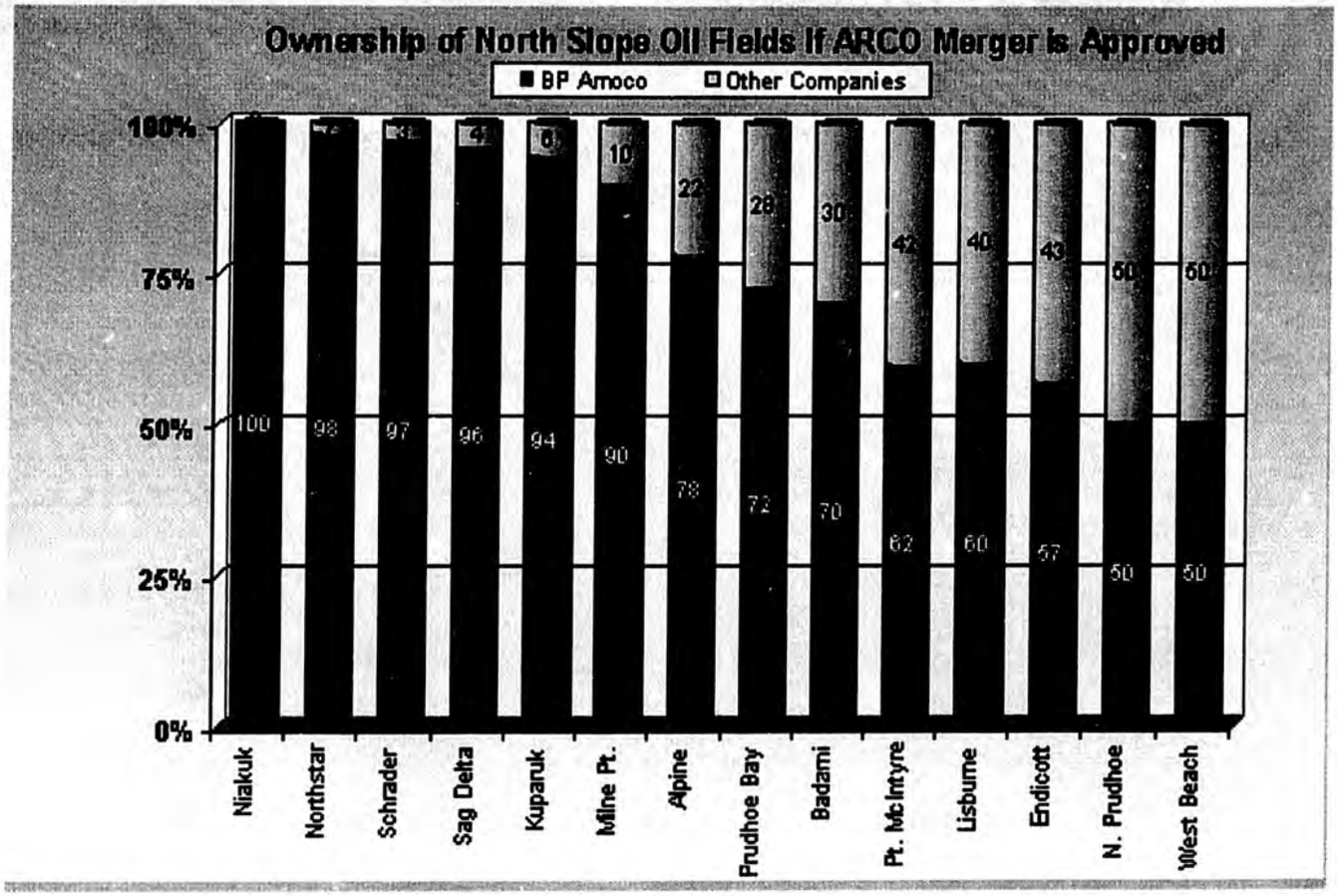


Figure 5. The BP Amoco-ARCO merged ownership of Alaska oil fields.

- BP Amoco will be the sole operator of all producing oil fields on the North Slope.
- BP Amoco will dominate and control Alaska's pipelines used for transporting oil to the U. S. market.

  BP will own 72% of the Trans-Alaska Pipeline.

  BP will own 92% of the Kuparuk Pipeline.

  BP will own 91% of the Milne Point Pipeline.

  BP will own 100% of the Alpine and Oliktuk pipelines.

  BP will own 60% of the Lisburne and Pt. McIntyre pipelines.

  BP will own 100% of the Niakuk pipeline.
- BP Amoco will own and control 73% of the North Slope oil tanker fleet capacity.
- BP Amoco will supply 34% of the crude oil to the U.S. West Coast market. This market share is large enough that BP has the ability and potential to influence gas prices.
- BP Amoco will own 870,000 acres of mineral leases which violates Alaska state regulations prohibiting a single company from owning leases on more than 500,000 acres.
- BP Amoco, a foreign company, will own interest in 87% of oil leases in the National Petroleum Reserve-Alaska. NPR-A was established by Congress for national security purposes.

- Since 1992, the combined expenditures of BP and ARCO have accounted for 70% of the total dollars spent at North Slope lease sales held by the State of Alaska.
- During the last seven years ARCO and BP have operated over 90% of the exploration wells that were drilled on the North Slope.
- Over the last seven years, ARCO has operated approximately twice as many exploratory wells as BP.
- Since 1992 ARCO and its partners have spent almost 350% more at State of Alaska lease sales than BP and its partners have spent.

Can BP and ARCO be Trusted to Equitably ManageAlaska Petroleum Resources?

The combined BP Amoco and ARCO company is expected to have revenues of over $100 billion and make $10 billion in profit every year beginning in the early parts of the next century. BP Amoco expects this merger will save over $200 million each year just in Alaska. These companies primary business goal in Alaska right now is to prevent changes to the proposed merger terms and minimize any concessions so they can protect these huge profits. They have already begun a major public relations campaign in Alaska touting the benefits of their merger. Both companies have refused to disclose how much they expect to spend on advertising dollars in Alaska to try and sway public opinion.

Most public information provided by these companies is biased toward what is in the best interests of their company. They have provided no information, or entered into any meaningful dialogue regarding the negative consequences to Alaska and U.S. consumers if this merger is approved. It is important everyone has access to all information as they try to understand the consequences of this merger. We can not rely only on the judgement of these oil executives to do what is right for Alaska or consumers. Indeed, the oil business is so complex even oil executives have difficulty forecasting the wisdom of their decisions. This is easily demonstrated with the following three examples.

Example 1. Earlier this year when oil was selling for $9/barrel, Richard Campbell, president of BP Exploration predicted oil prices would remain depressed for another two or three years. Campbell said, "The issue from my perspective is that low price is not something we're going to see an end to in the short-term." This pessimistic price forecast led BP Amoco to severely reduce their budget by 43%, layoff 600 employees in Alaska, and idle over half the drilling rigs on the North Slope. Yet, Figure 4 shows BP's own posted average price for Alaska North Slope crude has been below $10/barrel for a total of only three months since 1983 and has never sold for less than $14/barrel for longer than nine consecutive months.

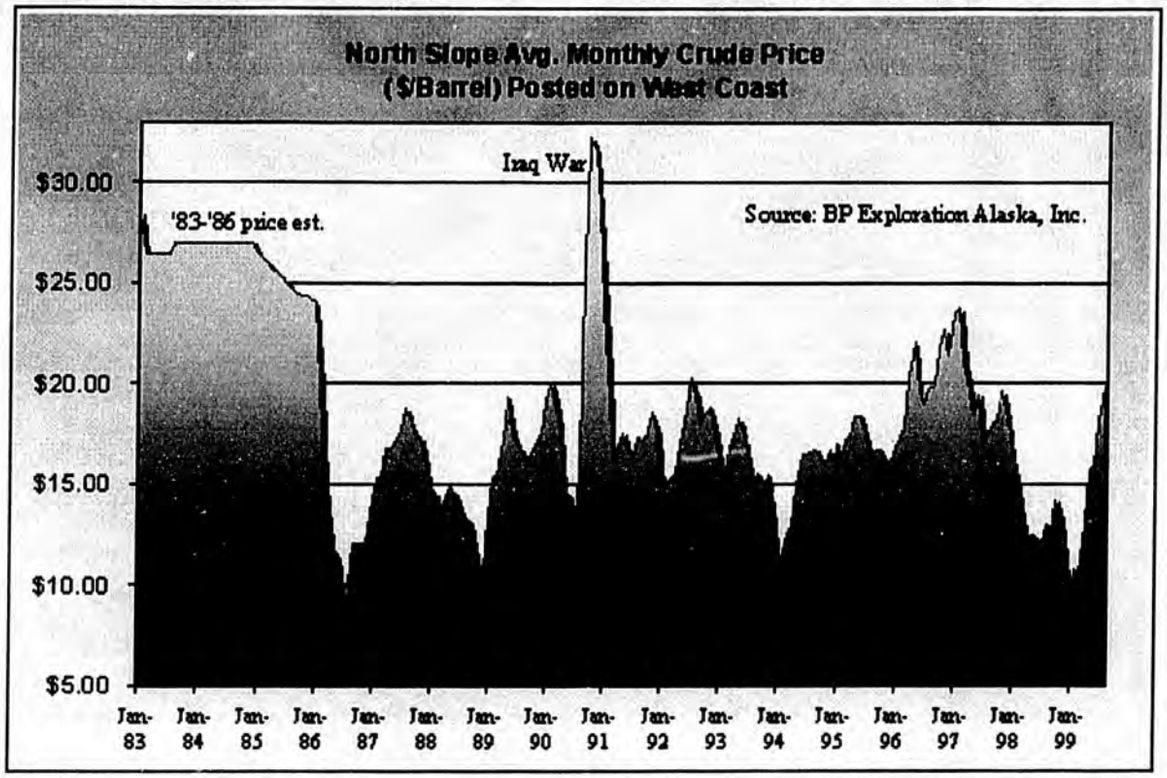


Figure 4. BP's monthly average crude oil prices on the U.S. West Coast.

After BP Alaska's president made his prediction in March the price of oil has more than doubled to over $20/barrel today (click here for current price). Figure 4 shows there was no factual basis for Mr. Campbell to predict oil prices would remain at historic lows for two or three years. BP Amoco and other major oil companies have used these temporary low oil prices as an excuse for consolidating and cutting costs so they can make huge profits. Figure 4 also illustrates the dramatic oil price decline since early 1997 to its near record low at the beginning of 1999. This period of low oil prices placed unprecedented pressure on oil companies to improve their efficiency in order to remain highly profitable. The continual pressure by stockholders to increase profits, become more efficient, and cut costs has contributed to rapid consolidation among oil companies. This may be good for stockholders but it has not yet been proven this is good for Alaska or consumers.

Example 2. When ARCO bought Union Texas Petroleum, they claimed it was a good deal for stockholders. Now ARCO claims their merger with BP is good deal for Alaska. But, did the UTP deal turn out to be a good one? In June 1998, ARCO's CEO Mike Bowlin completed a deal to purchase UTP for over $3.4 billion. The $29/share price was a 41% premium over UTP's closing price on May 1, 1998. Since UTP had about 577 million barrels of hydrocarbon reserves, simple math reveals ARCO paid $5.89/barrel for UTP's reserves. Nine months later Bowlin agreed to sell ARCO and UTP's combined 4.7 billion barrels of reserves for $26.7 billion, or $5.68/barrel.

If Bowlin had sold ARCO's reserves for the same price he was willing to pay for UTP's, the sale would have netted nearly $1 billion more for ARCO shareholders. In any case, the $5.68/barrel selling price to BP Amoco represents a loss to ARCO shareholders on the UTP reserves of over $120 million in just 7 months. This is not a trivial loss when compared to ARCO's 1999 first quarter earnings of $165 million. Either Mr. Bowlin values his own company's hydrocarbons less than he does UTP's or he failed third grade math.

When Bowlin approached BP Amoco about selling out ARCO, the price of oil was about $10/barrel. With the current price of oil around $23/barrel, Bowlin's decision to sell ARCO when oil prices were near record lows, will go down in history as one of the worst decisions by any executive of a major

U.S. corporation. These kinds of poor corporate decisions leave little wonder why ARCO had almost no credibility on Wall Street. The mere fact ARCO claims this merger is good for Alaska should be cause for concern.

Example 3. BP Amoco's Sir John Browne has said when the ARCO merger is completed, his newly combined company will invest $5 billion in Alaska over the next 5 years. This commitment by Sir John Browne has been stated publicly to stockholders, politicians and in TV, radio and newspaper ads.

BP Amoco's Chief Executive of Exploration & Production, Richard Olver, testified on June 24, 1999 before Senator Frank Murkowski's Energy and Natural Resources Committee. Olver stated, " As further evidence of our commitment to Alaska, we will invest $5 billion in our Alaska business over the next five years, an increase over the combined Alaskan investments of BP Amoco and ARCO over the past five years and more than we projected to spend in the coming five years."

BP Amoco claims this $5 billion is an increased level of spending that will benefit Alaska once the merger happens. Unfortunately, Mr. Olver's claim that $5 billion is "... more than we projected to spend in the coming 5 years" is simply not true. What BP Amoco doesn't tell people in their advertisements and what politicians have failed to ask is how this $5 billion commitment compares to these companies' previously projected spending levels from just one year ago.

In 1998, BP published a brochure entitled, "1998 BP Exploration in Alaska." Richard Campbell, president of BP Alaska, states on page 2 of this document, "We are investing an average of $700 million per year, in addition to our operating expenditures." Indeed in 1998, BP Amoco spent $730 million. On March 17, 1998, ARCO announced they planned to invest $500 million every year over the next 5 years. This story ran on the front page of the Anchorage Daily News.

Simple addition reveals BP and ARCO said only one year ago that they would invest $1.2 billion per year on average. That equates to $6 billion over 5 years. Now one year later, BP Amoco executives say they plan to spend $5 billion over 5 years and imply this is an increase. In reality this represents a 20% decrease from the plans these companies announced just one year ago. It appears BP and ARCO have conveniently forgotten what they were telling Alaskans before the merger was announced.

The three previous examples make the point why Alaskans should not accept predictions, business judgements, and slick advertisements by ARCO and BP Amoco about the positive aspects of this merger. Just because one company has the financial resources to purchase another, does not mean it is in the best interests of Alaskans or consumers. The public should have access to all the facts so they are free to draw their own conclusions about the merits of this merger.

Because oil price was on a down cycle when this merger was conceived, it represented an undervalued commodity. The companies who were smart enough to buy their competitors obtained those assets at bargain prices. These companies stand to make huge profits when prices rise. Those companies being purchased are often seeking a way out from under the burden of inept executive decisions that temporarily cripple their ability to compete and provide acceptable profits during periods of low oil prices. Indeed, ARCO's Bowlin has stated they could have remained a viable petroleum company but chose to sellout because it represented the greatest return to shareholders. The impact on Alaska and consumers was not even a secondary consideration.

Evaluation, Analysis, and Critical Questions

Will Competition be reduced?

Evaluation and Analysis

Evaluation of this proposed merger is framed around four fundamental questions:

1. Will the buyout of ARCO by BP Amoco result in a monopoly or reduced competition in Alaska's North Slope petroleum province?
2. Will this merger provide a net benefit to Alaska and U.S. consumers?
3. Does the dominant ownership of Alaska's petroleum reserves and resources by a foreign company represent a threat to National security?
4. What options are available to minimize the negative impacts of this merger for Alaskans and consumers?

The approach to answering these questions is based on analysis of historical data to determine how BP and ARCO have operated in the recent past. The National security issue looks at recent domestic oil consumption and production data. All of this historical data helps formulate a view for the future of Alaska's petroleum industry and the likely consequences of this merger, if approved as currently proposed.

Q. Will the buyout of ARCO by BP Amoco result in reduced competition on Alaska's North Slope petroleum province?

This is a vital question because if the answer is no then the status quo is preserved and there are no plausible anti-competitive issues to be addressed by the FTC and the State of Alaska. Analysis of historical data indicates competition will certainly be negatively impacted in three key aspects of the petroleum business: lease sales, exploration drilling, and access to oil production facilities.

Reduced Competition at Lease Sales - Lease sales are the primary means by which oil companies obtain the rights to develop hydrocarbon resources. When BP Amoco purchases ARCO they will eliminate their largest competitor. With less competition for leases, the price will go down and Alaska will see reduced revenues from these lease sales.

The amount bid by oil companies for leases is determined by three primary factors. First, the state establishes a minimum per acre bid that is acceptable. Second, a company determines the chances commercial hydrocarbons exist under the leases offered. Third, oil companies spy on their competition to gauge what their interest level is on particular leases. A company then determines the amount to bid based on the *minimum* amount necessary to win the lease. If the interest among competitors is perceived to be high, then oil companies increase their bid amounts to improve their chances if winning. If the competition is low, their bids are decreased to a level that is often barely above the state's minimum per acre amount.

A review of the Alaska Department of Natural Resources lease sale records since 1992 (Figure 6) shows that ARCO and BP (with non-operating partners) have accounted for 71% of the total money received by the State of Alaska for North Slope exploration leases. In the future, this merger will likely cause a large drop in lease bid amounts because BP's largest and most aggressive competitor (ARCO) will have been eliminated. BP Amoco will be able to acquire new oil fields for less money and they will make more profit at the expense of Alaskans.

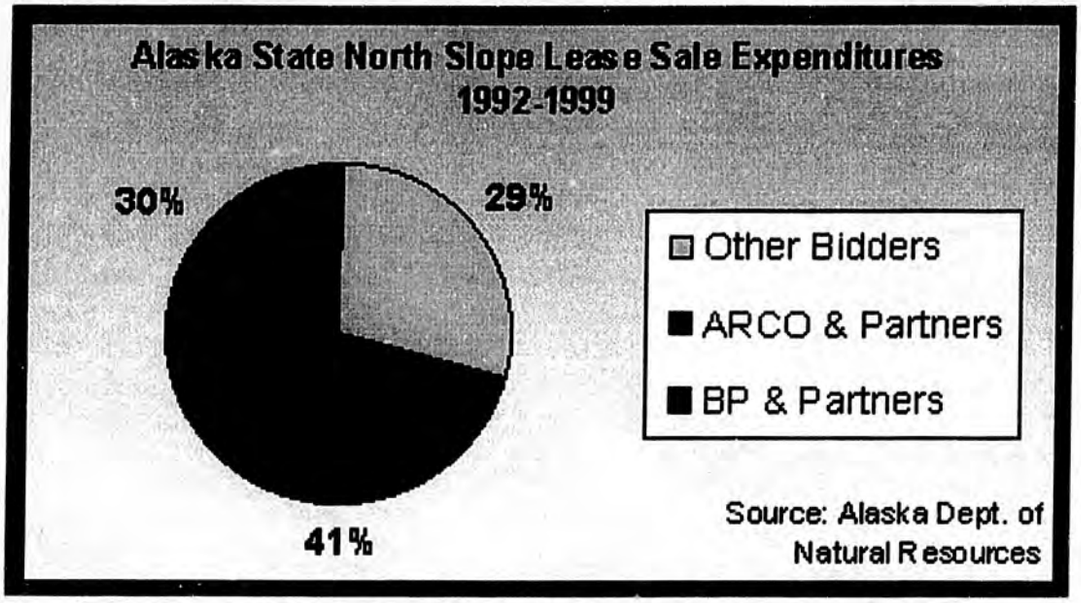


Figure 6. Analysis of North Slope, Alaska lease sale bids.

Over the last 7 years of lease sales, the amount of capital exposed in lease bonus bids by ARCO and partners has exceeded the amount exposed by BP (Figure 7) by almost 350%. This is not surprising because ARCO has historically been very successful exploring in Alaska and continues to have success, the latest examples being the Alpine, Aurora, Midnight Sun and Tarn oil fields. BP Amoco has failed to economically produce their recent exploration discoveries. Instead, BP Amoco has purchased fields like Badami and Northstar from their competitors for prices that are often kept secret.

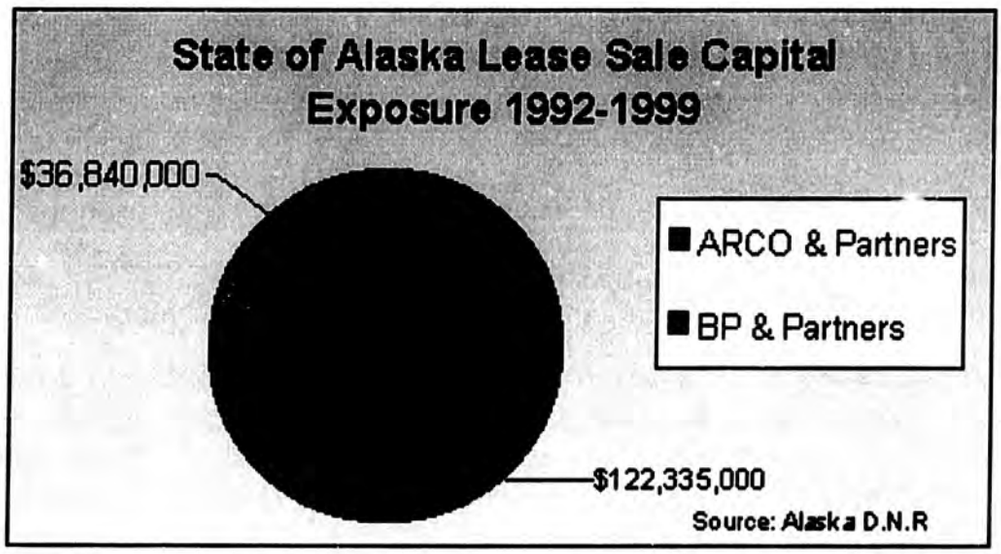


Figure 7. Alaska Mineral Lease Sale Bonus Bid Capital Exposure

A major reason BP Amoco exploration efforts in Alaska have failed economically is because they are a larger, globally diverse company with more economically attractive international opportunities than ARCO. Since these other opportunities compete for BP's internal capital investments, this is a major reason why they do not have a strong exploration record in Alaska. This is also the primary reason why BP has been, and will continue to be, a much less aggressive explorer in Alaska than ARCO. In simple terms, BP Amoco has better opportunities around the world to invest their capital. These foreign opportunities will produce higher profits than Alaskan opportunities even after the merger.

This is an important point because BP Amoco cites their global diversity and financial capacity as a major reason why this merger will be good for Alaska. But, BP Amoco's own track record has shown they often choose to take profits made in Alaska and use these dollars to explore elsewhere in the world. This behavior is not likely to change after the merger.

Alaskans should not expect new companies to arrive and make-up for the lack of competition. Participation in lease sales by competing companies will be reduced because the BP Amoco-ARCO company will own all modern, proprietary seismic data and all confidential well data on the North Slope. These are the primary tools used by oil companies to evaluate the hydrocarbon potential of leases. BP Amoco may offer to sell some data but the fact remains they will be the only company who owns all the data. This gives them a monopoly on exploration data. When a single company owns all exploration data, most competing companies will view exploration in Alaska as a high-risk business venture. The odds of another company successfully competing against this BP Amoco monopoly are extremely slim.

The lack of competition on the North Slope will also result in significant changes in exploration strategy. As discussed above, it is expected that the amount bid on leases will go down significantly. With dramatically reduced competition, it will become an unnecessary and unwise business strategy for BP to bid large amounts to win leases. It is interesting to note that the presidents of both BP Amoco and ARCO stressed their intention to compete against each other in the NPR-A lease sale. The implication was that unless they bid independently and as true competitors the sale would suffer.

The National Petroleum Reserve-Alaska lease sale was held on May 5, 1999 and it showed the lease sale would have definitely suffered without ARCO and BP Amoco competing for leases. ARCO and partners bought 92 leases and spent $55 million. BP Amoco and partners bought 25 leases and spent $19 million. Companies that did not own proprietary 3-D seismic data in NPR-A purchased only 9 out of 133 leases. This proves the earlier point about how BP Amoco's monopoly on modern 3-D seismic and well data will eliminate competition.

What BP and ARCO have failed to address is how future lease sales in Alaska will suffer if this merger is approved and these two companies no longer bid independently as competitors. A negative consequence of this merger has already occurred when Department of Natural Resources Commissioner, John Shively announced on September 22, 1999 that due to the pending BP/ARCO merger, his department is postponing the 1999 Beaufort Sea Areawide lease sale planned for October 13. Shively has postponed the sale indefinitely and it has not been rescheduled.

It is likely the reduced competition caused by this merger will lower the cost of leases and oil companies will be buy Alaska's oil fields cheaper. Alaskans lose while BP Amoco makes huge profits.

Reduced Exploration Drilling - To a much greater degree than lease activity, this merger is likely to produce a total lack of competition in the drilling of exploration wells on the North Slope of Alaska. Figure 8 shows the historical exploration drilling activity on the North Slope during the last seven years. BP and ARCO have drilled more than 90% of all exploratory wells since 1992. Figure 8 does not reveal the most alarming fact. It has been five years since any company other than ARCO or BP have drilled an exploratory well on the North Slope.

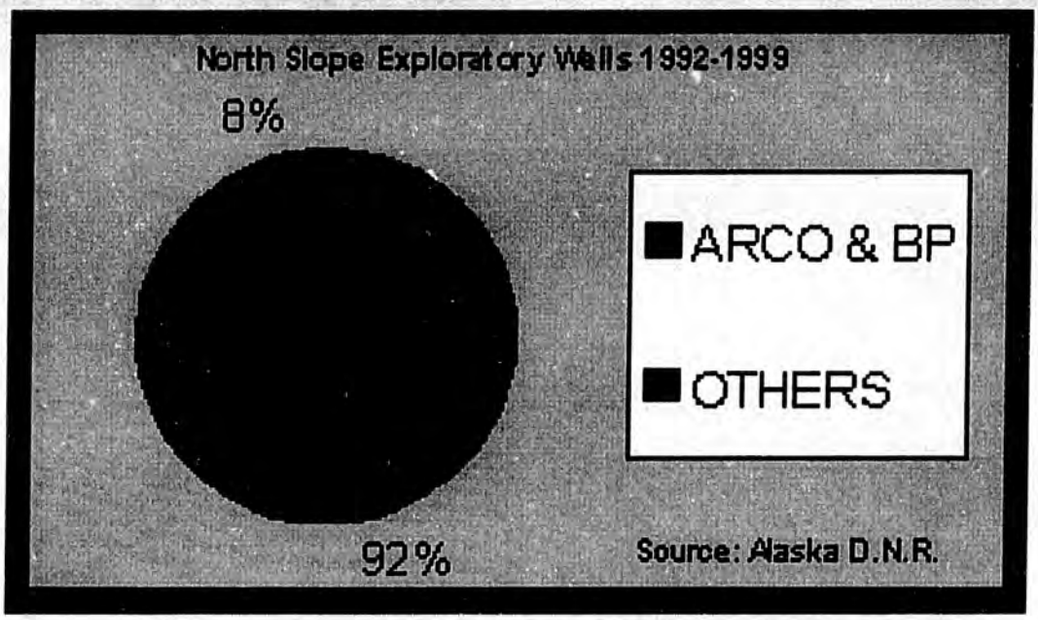


Figure 8. Operatorship of North Slope Exploratory wells.

These data provide strong evidence that while a few other companies may be bold enough to continue purchasing leases in the future, little or no exploration drilling will occur without the participation of BP Amoco. Some people have indicated the cost savings attributed to the buyout of ARCO will help increase the exploration activities on the North Slope. But, this is not true because this merger has little or no impact on the costs of exploration activities.

For example, ARCO and BP both employ drilling engineers and geoscientists in Anchorage that pursue North Slope exploration opportunities and have easy access to the North Slope. While the buyout will consolidate these staffs with an expected headcount reduction of over 50%, the cost of acquiring seismic data or drilling exploratory wells will not decrease as a result of the buyout. Indeed, since exploration is driven more by company philosophy, culture and worldwide opportunity portfolio than by cost, it is likely that the buyout will result in a significant reduction in the amount of exploration done in Alaska.

Support for this observation is provided by Figure 9 which shows a comparison of exploration wells drilled by ARCO and BP over the last seven years. The facts show ARCO has drilled over twice as many exploration wells as BP during the past seven years. When asked about this, a BP spokesman told the Anchorage Daily News these numbers reflect not a lack of interest by BP but a different focus, concentrating on boosting production from existing fields.

This is a good example of how BP Amoco officials attempt to divert attention away from the relevant facts and onto an irrelevant subject. This question dealt with exploration and not development wells. What BP did not explain is how ARCO managed to drill twice as many exploration wells, discover one of the largest new fields in a decade, and boost production from their oil fields. The fact is that BP has drilled only half the number of exploration wells compared to ARCO since 1992. The reason is very simple but one that they continually try and cover up. Their business philosophy is to spend their profits made from Alaska oil in overseas countries like Azerbaijan, Columbia and Angola. Indeed, the merged company will only produce 26% of its' oil from foreign countries. But, they plan to spend 40% of their development dollars and 52% of their exploration capital in foreign countries. BP Amoco's business plan is not in the best interests of Alaska and U.S. consumers.

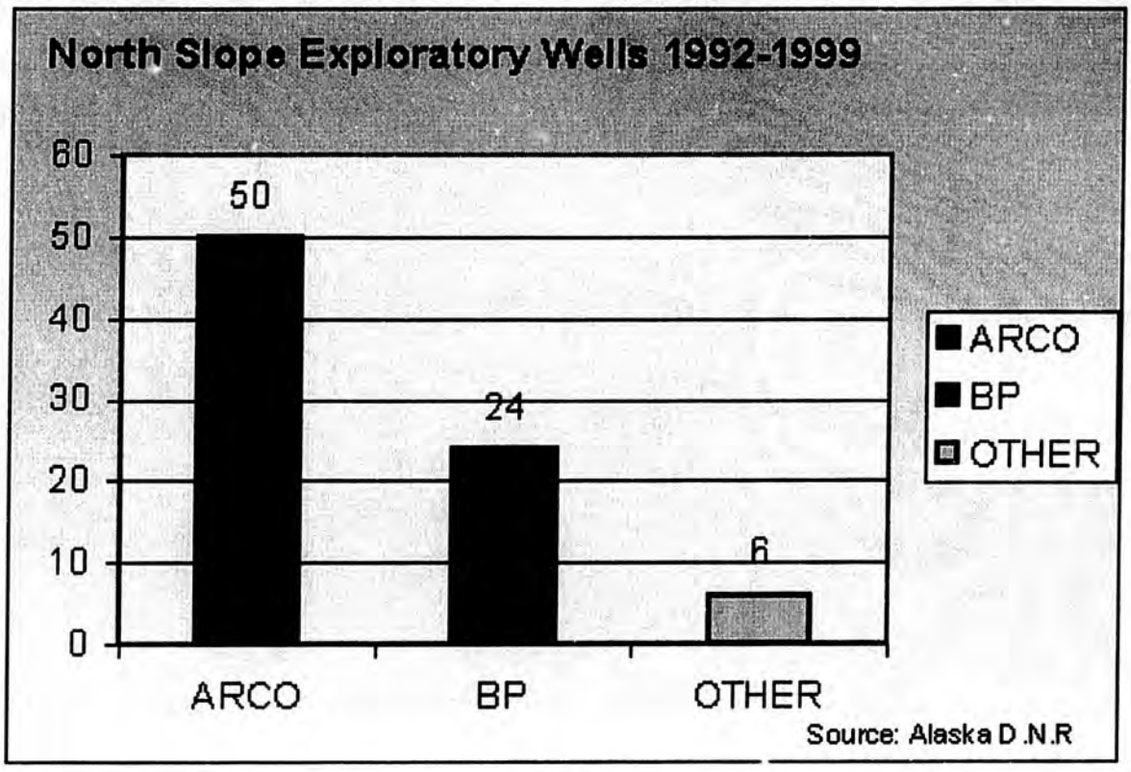
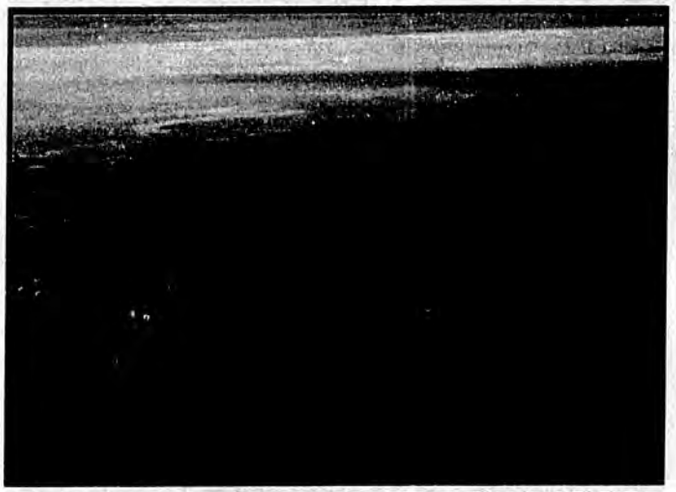


Figure 9. Exploration Wells drilled on North Slope, Alaska.

Once the buyout is complete, it is reasonable to expect the future number of exploration wells drilled in Alaska will reflect the historically lower BP numbers. Indeed, BP executive Sir John Browne stated, "Alaska can not be an area of growth. When you find the biggest field first (Prudhoe Bay) it's impossible to do more than that." This kind of corporate philosophy from BP will result in a major decline in exploration expenditures in Alaska, both on the North Slope and in other parts of the state.

Since the merged company will operate with a significantly reduced exploration staff, it is also likely that Alaska will see fewer exploratory wells drilled each year. This is supported by the historical record regarding the amount of exploration drilling done by ARCO compared with BP. The BP Amoco announcement stating they will reduce the 870,000 acres held after the buyout to the 500,000 acre limit imposed by the Alaska regulations indicates that a lower level of exploration can be expected in the future. BP Amoco's offer to sell the excess acreage to other companies as a gesture of their willingness to bring new companies into Alaska has favorably impressed some people. But, this gesture is hollow when evaluated in a practical sense and will be discussed in more detail later.

Monopolistic control of production operations, facilities and infrastructure - It is important to understand the reason why ARCO and BP hold such a dominant position on Alaska's North Slope in the areas of leasing and exploration. This position is derived directly from their long-held status as oil field operators. Although several different oil companies currently have ownership positions in various North Slope oil fields, only these two companies are active operators. ARCO and BP are the only two companies that have successfully discovered new oil fields and made these new discoveries economic to develop. Every other competing oil company's exploration business ventures have failed on the North Slope. Unless, of course, they were a non-operating minority partner with either BP or ARCO.



Oil production facilities located on Alaska's North Slope.

On Alaska's North Slope the remote location of the oil fields and harsh arctic climate strengthens the advantages of operatorship. Operating companies enjoy access to existing infrastructure that exceeds that afforded to other owner companies and most certainly to competing companies. Both ARCO and BP (at that time SOHIO) recognized this when operatorship of the Prudhoe Bay Field was being negotiated. These companies understood that giving up operatorship of the field was equivalent to giving up access to the North Slope. The result was the highly unusual joint operatorship at Prudhoe Bay.

ARCO currently operates the Kuparuk, Pt. McIntyre, North Prudhoe Bay, West Beach, Lisburne, Tabasco, Alpine, West Sak, Sambuca, Tarn, and the eastern half of the Prudhoe Bay oil fields. BP currently operates the Badami, Endicott, Milne Point, Niakuk and the western half of the Prudhoe Bay fields. As a field operator, companies possess certain privileges not afforded to other co-owners or competitors. A partial list of infrastructure advantages that field operators have differentially to their competitors is listed below:

1. Field roads that are closed to the public can be used for mobilizing and demobilizing for exploration activities.
2. Field pipelines can be used for testing and newly discovered exploration oil fields.
3. Spare parts and maintenance infrastructure are available if needed.
4. Field equipment that is not available to other companies is accessible to operators. While this equipment will be paid for 100% by the operating company when used for exploration work, it is not available to other companies at all.
5. Charter flights to and from the North Slope provide low cost transportation for operating company personnel. Other company personnel must fly on more expensive commercial airlines.

Over the years, an operator's workforce acquires detailed geologic and engineering knowledge about drilling and operating wells that can be immediately applied to exploration in adjacent areas. This knowledge is not commonly shared among other companies are partners.

The history of Milne Point, Badami and Northstar Fields provide ample supporting evidence for the conclusion that only operators can successfully compete on the North Slope. Conoco discovered and attempted to develop the Milne Point field. But, they eventually realized they could not make acceptable profits and sold the field to BP.

Conoco discovered the Badami Field in 1990 but development of this field was delayed for 8 years. Conoco finally concluded they could not economically develop this field due to lack of equitable access to infrastructure owned by other oil companies. BP, through their majority ownership of facilities, effectively blocked Conoco's access by charging excessive fees. But, BP had access to this

infrastructure that was already built and paid for. This unfair advantage is why BP bought the Badami field and knew they could make money and Conoco could not. BP's ability to tie a new Badami oil pipeline into their existing Endicott oil pipeline and infrastructure allowed them to eliminate Conoco as a competitor.

The Northstar field was discovered almost 18 years ago in 1982 by Shell Oil. It was originally named Seal Island and great enthusiasm and optimism marked this oil discovery. But, after almost 15 years of trying the original owners were unable to justify the cost of development and sold the field to BP. Again, BP with access to its North Slope infrastructure, knew they could make the field profitable and is currently moving ahead with development. The price BP paid remains a secret as part of the sale agreement.

Even though BP admitted Northstar was profitable under existing royalty payment terms, BP successfully sought and received special legislative action to reduce the royalty amount Alaskans would earn from Northstar oil. This strategy by BP to delay development of economic oil fields until the state concedes to their demands will be discussed in detail later.

The primary lesson about oil exploration on the North Slope is that only two companies have been economically successful. ARCO and BP are the only companies with an operating presence. Every competing company that explored for new oil fields, discovered new oil fields, and tried to deliver this new oil to consumers has failed. Only ARCO and BP (along with minor non-operating partners) have succeeded.

What the Milne Point, Badami and Northstar examples teach oil companies is that even if they choose to spend exploration dollars on the North Slope, they have almost no realistic chance of developing a newly discovered oil field. Under current regulations, BP Amoco has no obligation to provide fair or equitable economic terms for facility access so a competitor can bring their oil to market. They can eliminate their competition simply by charging artificially high fees to access pipelines and facilities.

These artificially high fees are possible because there is monopolistic control over the infrastructure. These high fees cause oil development to be delayed, increase the minimum economic size of oil fields, cause small fields to never be developed, force competitors to operate on unfairly narrow profit margins, and make fields reach the economic end of field life sooner. None of this is good for consumers, Alaskans, or competition.

This is precisely why BP Amoco's offer to sell their 370,000 surplus acres is so hollow. If BP gains a monopoly on the North Slope, this gesture to sell leases is meaningless. But, to help make this merger happen they have publicly stated their intent is to sell the excess acreage to competitors. To many people this sounds like a reasonable offer, but this nothing more than a smokescreen. Since these competitors will not have access to infrastructure, BP can hold any company's new discovery hostage. How? The same way it was done with Conoco, Shell, and Amerada Hess. Equitable and fair access to existing infrastructure can be denied. Of course, BP Amoco will be eager to find companies naïve enough to be snared in this trap so they can buy back these new oil fields for pennies on the dollar just like they have done with Northstar, Badami and Milne Point.

The downside for Alaska and the United States is that BP Amoco's monopoly ownership of infrastructure means oil production will be delayed 5, 10 or 20 years from the time of field discovery. Northstar and Badami are prime examples. Other examples are the small satellite fields around Prudhoe Bay. These potential oil fields have been identified for over 10 years, but the first production from these small oil accumulations began only this year. A main reason for this long delay is the fact that ownership percentages for these small accumulations are not identical to the ownership of existing production facilities. BP has been willing to wait for higher profit margins, at the expense of delayed production and revenues to the State of Alaska.

While this may be good business for a foreign company, it is not in the best interest of the State of Alaska or the United States. This scenario is likely to replay itself in the future when non-owner companies make discoveries near existing facilities. Most oil companies recognize that without fair access to existing facilities, they are competitively handicapped. This should cause most competitors to be very cautious about investing in Alaska and many are not likely to invest in Alaska at all.

It is likely that the advent of a single operator on the North Slope will end any meaningful competition. Whether by design or not, the effect of this merger will be to create a monopoly for BP Amoco. They will dominate oil leasing, exploration drilling, and production activities in Alaska.

Will this Merger Provide a Net Benefit?

Does it Strengthen the Economy & Protect the Environment?

Q. Will this merger provide a net benefit to Alaska and consumers?

Before this question can be answered the term "net benefit" must be defined. When the most likely impacts from the merger are tallied is the result a net gain or loss? If it is a loss then Alaska officials and the FTC should work to delay the merger until enough negative aspects can be turned into positives.

Alaska Governor Tony Knowles established four principles the merger should be evaluated on. Knowles' cabinet level team will be addressing these principles and some of their report will likely be made public. But, the assessment of net benefit for Alaska should include the following issues related to each of the four principles as outlined by Knowles:

Principle I. The merger must continue to strengthen Alaska's economy through Alaska hire, use of Alaska businesses, and support of community organizations and causes.

It is not likely this merger will strengthen Alaska's economy through Alaska hire. During Governor Knowles' State of the Economy Forum held in February 1999, state labor economist Neal Fried said, "The effect of oil industry layoffs ripples through the economy." Oil jobs have "a disproportionate importance," in the Anchorage area. The typical oil industry salary for a family is about $7,000 a month, compared with about $2,700 for Alaska as a whole. That money was spent by families in Alaska stores, paid for high-dollar homes, and given to Alaska charities. The negative consequences of these oil jobs losses can not be understated.

Even if BP Amoco institutes a 100% Alaska hire policy, the net benefit will still be negative. The Institute for Social and Economic Research at the University of Alaska-Anchorage estimates that every oil and gas extraction job equals 3.5 jobs in the Alaska economy. This does not include employment created by expenditures of state oil and gas revenues. If those expenditures are considered, the estimate is likely to double.

Using the conservative 1-to-3.5 ratio, and the 400 jobs BP's president Richard Campbell predicts will be eliminated in the merger, this calculates into a net loss of 1800 jobs for Alaskan families because of the ripple effect. These 400 jobs are on top of the 600 people who were terminated by BP Amoco on March 31, 1999. If this merger is approved as planned, BP Amoco will eliminate 1,000 of Alaska's oil extraction jobs in less than one year. Using the same formula from above (to calculate the ripple effect) reveals this action by BP will do away with jobs for 4,500 Alaskan families just in 1999. Hence the new Alaska oil patch slogan "Walk the Unemployment Line in '99."

The concern about the impact of this merger on charities led BP Amoco to announce they will increase charitable donations to 50% over the combined giving of ARCO and BP. Unfortunately, this does not take into account the hundreds of thousands of dollars and thousands of volunteer hours that will not be donated by terminated employees if they are forced to seek employment outside Alaska. It is certain that local charitable organizations will see a significant decrease in donations and volunteer efforts in the coming years caused by this merger. **Principle I ... Net benefit = negative.**

Of course nobody really believes BP's estimate of only 400 job losses for this merger. BP's Sir John Browne stated 6,000 people would be terminated during the merger with Amoco. Once the FTC approved the BP Amoco merger and the deal was consummated, that number quickly swelled to over 14,000 people who will be fired. Most believe the real number of job losses in Alaska is certain to exceed 400 once the deal is finalized.

Principle II. The merger must continue improvements for environmental protection and the safe transportation of oil.

The same extended period of low oil prices that motivated this merger has also caused facility maintenance and other work to be deferred on the North Slope. When BP's Prudhoe Bay Z pad facility exploded and burned to the ground recently, it was believed to be caused by a leak of gas into the building. BP has yet to rebuild this facility. There is no public estimate on how many millions of dollars are needed to bring all the North Slope facilities and pipelines back into top performing condition. Many of these facilities are 20 years old and will require more and more maintenance to protect the environment and worker safety.

The fact that BP Amoco will own roughly 75% of all these facilities also means they are burdened with 75% of the costs to fix them. It will be a very attractive business decision for BP Amoco to continue deferring expensive maintenance as long as possible so they can maximize their profits. Since BP Amoco appears content with their decisions to defer maintenance and not rebuild burned down facilities, they are certainly not taking all available proactive measures to reduce hazards to the environment.

On September 23, 1999, BP plead guilty to illegally dumping hazardous waste at their Endicott oil field on the North Slope. Pollutants injected into BP wells included solvents, waste oil, and substances containing methylene chloride and benzene. Workers repeatedly complained about severe fumes released when the wastes were dumped but their complaints were ignored. BP's illegal pollution of the environment will cost the company $22 million in fines and penalties. When BP buys ARCO they will control every producing oil well on the North Slope and it will be even easier for them to try and circumvent anti-pollution laws. **Net benefit = negative.**

Some may argue that getting ARCO's new double hulled tankers and other gains BP gets from ARCO might add together to balance or tip the scales toward a positive net benefit. Don't be misled. There should be no compromises on environmental safety.

Does it Maintain Competition & Provide Stable Revenues?

Principle III. The merger must maintain competitive opportunities for other companies to enter the oil industry in Alaska.

The detrimental impacts on competition and the monopolistic advantages that BP Amoco will gain by this merger have already been discussed in detail. There is no question that this merger reduces competition for Alaska's petroleum resources. **Net benefit = negative.**

Principle IV. The merger must continue to provide a stable source of revenues to the State of Alaska.

Historical facts gathered from the Alaska Department of Revenue and shown in Figure 10, indicate that oil revenues have rarely been stable. In fact, oil revenues have plummeted by over $1 billion just in the last two years. Yet, the Department of Revenue's Spring '99 Forecast predicts oil will produce stable revenues through 2005 as seen in Figure 10.

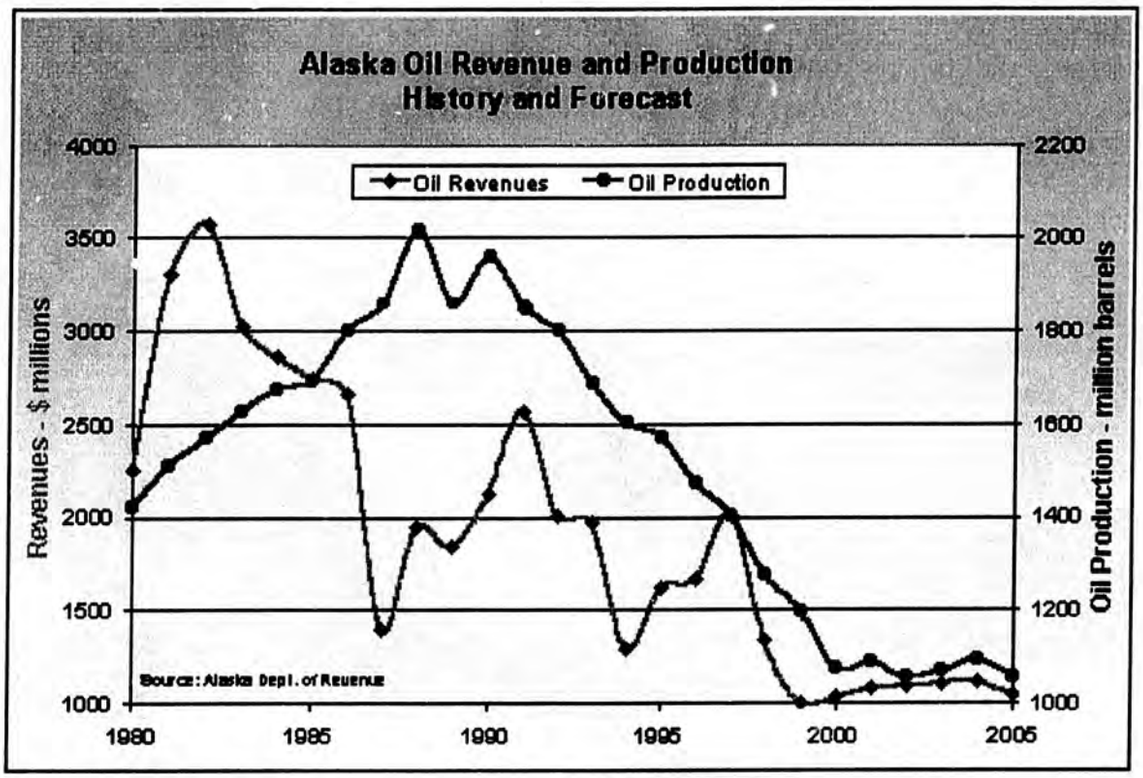


Figure 10. Dept. of Revenue Historical and Future Oil Revenues and Production.

Governor Knowles may believe he knows the answer to the question about stable revenues. He can certainly tell Alaskans he expects revenues will be stable because his Revenue Department has already published a report predicting this will happen. But, will this stable revenue prediction turn into reality if this merger happens? Not very likely.

Before explaining why revenues won't be stable, it should be recognized that it is not the responsibility of any company to provide stable revenues to a government. Indeed, companies are in business for profit and any money they pay the state reduces their profit. This is why it is a mistake to believe there is a partnership between the oil industry and government. Alaska State Government is in competition with oil companies for a fair portion of the profits made from oil. Government's job is to successfully compete on behalf of its citizens for a fair share of these profits. Corporations should not be expected to provide stable sources of revenue for private citizens. It is not the fault of Alaska corporations that state government's current spending exceeds state revenues and has created a large budget deficit.

But, why do Alaska officials expect revenues to suddenly stabilize in 2000 and remain flat until 2005 as depicted in Figure 10? This prediction is based on two primary assumptions, and not facts. First, they assume oil prices will increase steadily from $12.10/barrel in 1999 to $16.64 in 2005. Figure 4 previously showed the true volatility of oil prices and why there is no basis or justification for expecting stable future oil prices. There is general agreement that oil prices can not be reliably predicted and Figure 4 should dispel any beliefs that they can be. However, this price volatility does

not eliminate the need for a prediction when trying to forecast oil revenues for the state. The State's price prediction seems reasonable given the inherent uncertainties. But, this does not make the prediction reliable.

The second assumption is that declining production from existing fields will be abated so that when added to oil from new fields the total production will level off. The oil production decline from existing fields that began in 1990 and has continued in nearly a straight-line fashion is predicted to change in 2000. Figure 11 shows how this is expected to happen. 2000 is the same year that oil from new fields will flow into pipelines and begin providing revenues. It is more than a little suspicious that the change in decline rate for existing fields, when combined with oil from new fields, yields a flat production rate forecast after 1999.

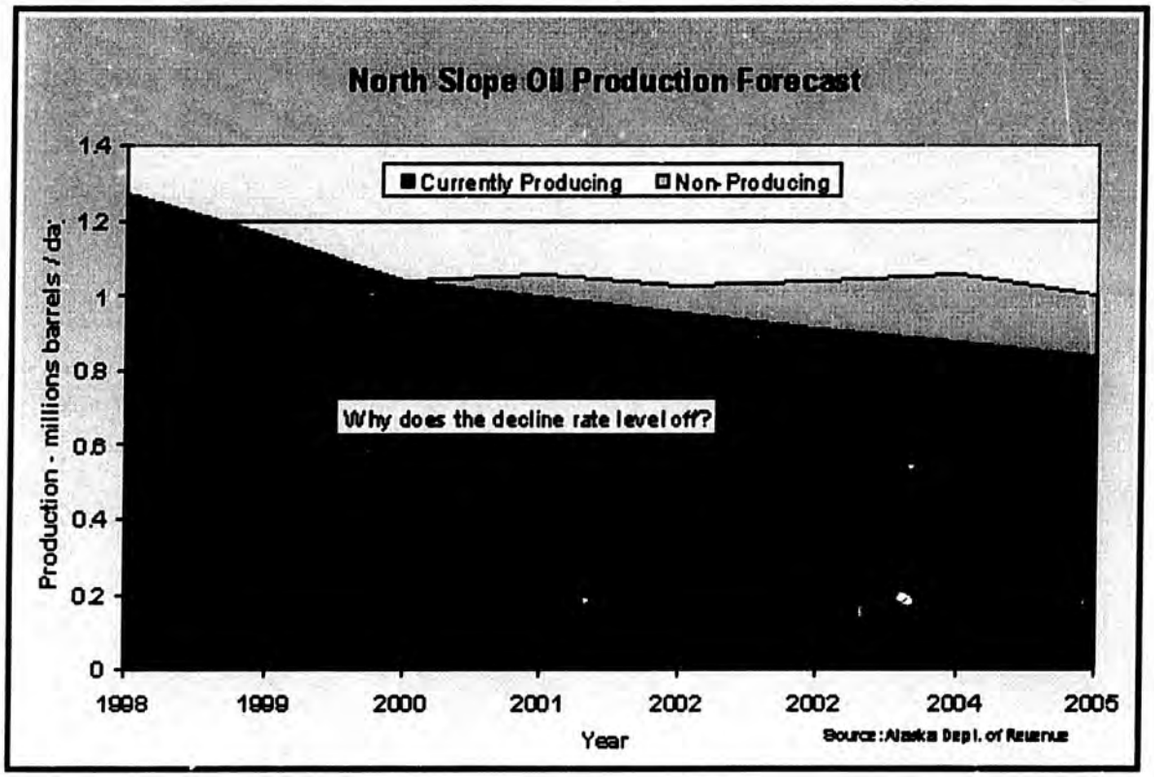


Figure 11. Alaska Dept. of Revenue oil production forecast for existing and future fields.

The reason for this suspicion is that a majority of the information used to predict stable future oil production is provided by the oil industry. This information is not factual data either. It is a purely hypothetical case about how existing fields and yet to be developed new oil fields might produce in the future. This information provided by the oil industry to the Department of Revenue is flawed for two reasons.

First, the change in production decline rates for existing fields will not happen in 2000. The oil industry assumed they would be drilling many more development wells in 1999 than they actually will. But, only 6 of 13 drill rigs that were active on the North Slope last year are currently drilling wells this year. The rigs have been idled primarily because BP cut their budget by 42% to $400 million in 1999 from $730 million in 1998.

Last year, over 250 wells were drilled on the North Slope. So far this year, oil companies have drilled about 90 wells. .Fewer wells drilled means less oil will be produced and less revenue for the state. The production forecast in Figure 11 does not adequately take these facts into account.

The second flaw in the production forecast is the high probability that guesses about future production

for new fields are wrong. BP and Alaska should have already learned this lesson by reviewing the history of BP's Badami field. BP originally estimated this field would produce 30,000 barrel/day. But, after production peaked at 7,000 barrels/day then dropped to 3,000 barrels late last year, Badami production was halted entirely. There has been a ten-fold decrease from the predicted to the actual production from this oil field. Since fields like Northstar, Alpine, Liberty, and most other satellite fields are not yet producing nobody knows if these predicted oil rates will come true. Recent history suggests the postulated rates from new fields might be too optimistic and not achievable.

Both the oil production and revenue forecasts are flawed and neither will be stable as predicted by the Spring '99 Revenue Forecast. This merger will only make predicting future production and revenues more difficult for Alaska officials. BP Amoco's publicly stated philosophy is to remain cash neutral and test their projects against $11/barrel prices even though the price is currently well over $20/barrel. This has caused fewer wells to be drilled and production will continue to fall despite predictions otherwise. With only one operating company on the North Slope, the information supplied to public agencies on present and future oil fields will be a carefully crafted version. A version that represents the best interests of BP Amoco and the best interests of Alaska and consumers.
Principle IV Net benefit = Negative.

On all four principles Governor Knowles established to evaluate the merger there are large negative consequences. The State of Alaska has little choice but to oppose this merger in its present form. Whether politicians are willing to tread onto politically thin ice and effect changes that are in the best interests of Alaska remains to be seen.

Some people argue that because BP Amoco is a financially strong corporation they have the resources to better develop the North Slope. Certainly there are efficiencies gained by having only one company operate Prudhoe Bay because duplication can be eliminated. BP Amoco has estimated this will save about 80 cents per barrel, which at current production rates translates into about $1 million every day. But, most of these efficiencies can be gained by having a single operator and do not require BP and ARCO to merge. It was well know in Alaska oil circles that both companies were already considering how to create a single operator to eliminate most of this duplication. A single owner is likely to be somewhat more efficient than a single operator. However, this small amount of incremental efficiency comes with a hefty price tag with the loss of ARCO in Alaska.

Does this Merger Present a Risk to National Security?

C. Does the BP Amoco and ARCO Merger present a risk to the national energy security of the United States?

BP Amoco is a foreign company headquartered in London, England. This merger will give them dominant control over one of the world's premier petroleum provinces in Alaska. While it may appear easy to cast aside the national security concern because Britain is such a good ally of the United States, it is worthwhile to place this merger in the context of how it will change the dynamics of domestic ownership of this non-renewable resource.

The strategic importance of Alaska to the U.S. economy and energy supply is heightened because according to the Department of Energy the U.S. currently imports over 58% of our oil from foreign sources. Americans consume 26% of worldwide oil production, but only produce 12% of the world's oil. These facts cause the United States to be extremely vulnerable to manipulation of oil supply and prices. There is no doubt that Alaska's petroleum production and resources are strategically important

to both the United States and Alaska.

In 1923, President Warren Harding created the Naval Petroleum Reserve in northern Alaska as a defense measure. In an era in which naval armament around the world regularly appeared in newspaper headlines and the American Navy was converting its ships to oil power, the President, in his Executive Order established the Petroleum Reserve and stated, "the future supply of oil for the Navy is at all times a matter of national concern." He added that "there are large seepages of petroleum along the Arctic Coast of Alaska, but that existing laws to "promote development seem imperfectly applicable in the region because of its distance, difficulties, and large expense of development." For more than a half a century thereafter, the Navy and the U.S. Geological Survey conducted petroleum exploration of the region.

By the mid-1970's, the Navy's dependence on oil was dwarfed by that of the entire Nation's economy. This need was highlighted during the oil embargo of 1973. As a consequence, President Gerald Ford signed legislation to develop the Naval Petroleum Reserves in the United States, but to do so "in a manner consistent with the total energy needs of the Nation." President Ford authorized production of oil from the reserves in the lower 48 states. Two of the three petroleum reserves in the contiguous states are now extensively developed; for example, the Elk Hills, California reserve has produced over 1.1 billion barrels of oil, including 20.5 million in 1997 ranking it as the 7th largest producer in the U.S. outside Alaska. This law renamed the Naval Reserve to the National Petroleum Reserve-Alaska and prohibited petroleum production until authorized by Congress. In 1980, Congress granted that authorization and directed the Secretary of the Interior to undertake "an expeditious program of competitive leasing of oil and gas in the Reserve." The most immediate outcome of this was the lease sales held by BLM in the early 1980's.

Another lease sale was held in NPR-A on May 5, 1999 when oil companies bid $105 million for drilling rights. It was the most lucrative onshore lease sale since the offering of Prudhoe Bay leases in 1969. ARCO dominated the bidding and spent about $55 million. BP Amoco spent $19 million. If the merger of ARCO and BP happens as planned, BP Amoco will own 87% of the NPR-A leases. The National Petroleum Reserve-Alaska which was established to help insure U.S. national security will be dominantly owned by a foreign company.

Since the Arab Oil Embargo of 1973, U.S. citizens and policy makers may have become too complacent regarding the importance of our domestic petroleum supply. The 1973 Arab Oil Embargo was the first oil supply disruption to cause major price increases and a worldwide energy crisis. In 15 years during the last half of the 20th century, several major disruptions in world oil supplies have occurred. Six of those instances decreased the world oil supply by at least 2 million barrels per day. The Iran/Iraq War in 1981 reduced oil production by 3.5 million barrels per day. When Iraq invaded Kuwait in 1991, world oil production dropped by 4.6 million barrels per day.

In 1950, the United States provided 52 percent of the world's crude oil production; by 1998 that figure had dropped to 10 percent. Virtually all spare oil production capacity in the world is located in the Middle East. Supply disruptions have grown in severity as world oil production increased and production shifted to less secure areas of the Middle East.

The real answer about having a foreign owner (BP Amoco) dominate the Alaska petroleum industry will occur only during a time of crisis ... either disrupted supply or sustained high prices. This is precisely when the United States would need oil from Alaska most. Yet, there is no way to know if this foreign company will view Alaska as a good investment relative to other global opportunities during a time of stress in prices or interrupted supply. As Alaska Governor Tony Knowles has said, "It is not a question of their good faith. We simply recognize these boards are obligated to a different set of shareholders than Alaskans." The same statement is true for the rest of the United States.

The petroleum industry has entered into a new era of consolidations dominated by an elite group of

supermajor oil companies. It is impossible to accurately predict if the merger of BP Amoco and ARCO truly presents a threat to the National Security of the United States. But, it can be argued that since the impact on National Security can not be predicted ahead of a crisis, this merger represents an unacceptable risk and should not be approved by the Federal Trade Commission in its currently proposed form.

BP's Recent History Lessons

Northstar Oil Field and Module 880

History Lessons

Before examining history, it is instructive to recall the consequences of this merger. The BP Amoco and ARCO merger will create the second largest oil company in the world. They will soon have about $100 billion in revenues and $10 billion in profit every year. The oil in Alaska will represent about 14% of this company's profits. But, oil revenues represent about 70% of Alaska's general budget. Alaska already has a $1 billion annual budget deficit that is growing. The Alaska State Government has no approved plan to eliminate this deficit.

It is likely that state officials have put together oil production and state revenue forecasts that can't be achieved. In no small part, because the information supplied by oil companies is flawed. None of the present revenue predictions adequately account for the reduced oil production caused by the major decline in wells drilled on the North Slope. Governement spending exceeds revenues by $1 billion annually. These facts combined with the almost certain revenue shortfall caused by reduced oil production, makes Alaska very vulnerable and creates a huge weakness that BP Amoco will be eager to exploit. Stated differently, Alaska needs the revenues from its oil fields much worse than BP Amoco needs revenues from Alaskan oil fields.

BP Amoco's corporate behavior is driven entirely by their single-minded focus on more bottom-line profits. Several relevant examples of BP's behavior plainly shows how they are willing to exploit Alaska and their "partners" if they believe money can be made. BP's approach to relationships with Alaska and their corporate partners and the relevancy of the following examples to the pending merger with ARCO can not be understated.

Example 1. Northstar - This oil field was previously mentioned when discussing how BP Amoco will use facility access in a monopolistic manner if this merger is approved. Northstar is mentioned here because it illustrates how skillfully BP manipulates Juneau politicians to get what they want. What BP

wanted was a bigger share of the profits at the expense of Alaskans. They sought and received special legislative action to reduce the royalty amount Alaskans would earn from Northstar oil. BP lured Alaska legislators with campaign contributions and then pressured them to pass special legislation changing Northstar lease terms. It was likely a much easier triumph for this foreign-based company than dealing with most other governments around the world where bribery and corruption are commonplace.

Northstar is an important example because it shows how greedy BP Amoco truly is. Both BP and Alaska's Department of Revenue agreed the Northstar oil field was economic to develop even without the special concessions BP was demanding. According to the Department of Revenue, Alaskans will lose between $9 million and $295 million in revenues because of BP's demand that Northstar lease terms be changed.

But, BP refused to develop the field anyway. Of course BP neglected to mention their true intentions when they filed their Plan of Development with state officials. An example of how BP does not honor their commitments can be found on Page 11 in the work draft of SB318: Northstar Lease Amendment. Quoting from the draft, "The Department of Natural Resources has testified that BP Exploration (Alaska) Inc. did not inform the state of its unwillingness to develop the Northstar Unit leases without amendment of the net profit share terms until some time after the department had approved the current Plan of Development and the three-year extension of the unit term."

BP either deceived the Department of Natural Resources by submitting a Plan of Development outlining commitments they never planned to fulfill or they deceived Alaskans with their threat not to develop Northstar. Either way, BP was holding Northstar's oil hostage until Alaskans gave up their net profit share of the oil. Northstar demonstrates why Alaskans have good reason be suspicious of BP Amoco's pledges.

Northtstar was one of the more hotly contested measures during Alaska's 1996 legislative session. In the waning days of the session with the bill still not passed, BP agreed to steer more of their work to Alaska's construction unions. The heads of theses unions and construction company executives promptly boarded planes to Juneau. The bill was quickly passed that eliminated the profit sharing provision for Alaskans on Northstar oil leases. The scheme that BP hatched to get a bigger share of the state's profits had worked. BP's plan and the tactics they used to wrestle these profits away from Alaska reveals the true character and business ethics of this oil giant. Alaskans should prepare to see more of this behavior in the future when BP owns almost all the oil in Alaska and controls 70% of Alaska's general revenues.

Example 2. Module 880 is a $17 million oil and gas processing facility BP built at Prudhoe Bay. Module 880 is a complex issue revolving around how ARCO, BP and Exxon get paid for oil and natural gas they produce at Prudhoe Bay. Module 880 demonstrates the extreme measures BP will take to swindle their partner companies and Alaska residents if it means they can line their pockets with more money.

At Prudhoe Bay field, BP owns a larger share of the oil and a smaller portion of the gas. ARCO and Exxon own more gas and less oil. Companies put natural gas liquids and various grades of oil (all with different market values) into the pipeline. What comes out at the other end of the pipeline in Valdez is a single, blended product. To compensate for these oil quality variations, companies use a fund called the Quality Bank. The Federal Energy Regulatory Commission and the Alaska Public Utilities Commission use a method for calculating the value of different oils shipped down the pipeline.

But, BP complained they were losing at least $15 million a year because BP believed they were being underpaid for their higher quality oil. BP tried to convince ARCO and Exxon to pay extra and compensate BP for these perceived losses. These companies refused to pay BP claiming the Quality

Bank formula was fair and equitable.

That is when BP decided to play a multi-million-dollar game of poker by constructing Module 880 for $17 million. Module 880 is a mobile home sized building that blends oil and natural gas. Module 880 would allow BP to bypass the blending equipment that already existed and deliver its oil directly to the trans-Alaska pipeline. ARCO and Exxon would be forced to pay BP to blend their natural gas liquids with BP's oil at Module 880. BP estimated they would make $40,000 a day with Module 880. In effect, BP was increasing the cost to operate Prudhoe Bay field by $40,000 a day.

But, ARCO and Exxon were not going to be bluffed. Module 880 directly violated the key contracts that were the cornerstone of the Prudhoe Bay operations. Companies at Prudhoe Bay had already paid to build a shared blending facility and ARCO and Exxon were not going to pay BP to duplicate it.

BP's partners weren't the only ones who were going to lose if Module 880 were allowed to operate. The state of Alaska would lose $2.8 million a year from lost royalties. It was clear that BP's only concern was for their bottom line profits. The dispute raged for years in the Alaska Department of Revenue, the Alaska Oil and Gas Commission, the Alaska Public Utilities Commission, the Federal Energy Regulatory Commission, federal court and state court. The final rulings sided with ARCO and Exxon. The Alaska Oil and Gas Commission concluded BP's Module 880 duplicated similar facilities that were already built and paid for. In the end, BP lost $17 million in a poker game they started. BP was ordered to dismantle and remove Module 880 but they have yet to comply with the order.

If BP will go to these extremes in dealing with their partners and the state imagine what they will do to their competitors. This kind of behavior should cause all Alaskans to pause and wonder what new poker games BP will invent once they buy ARCO and gain control over the purse strings for 70% of state revenues.

Alaska's Tax Structure & BP's Oil Production Forecast

Example 3. Taxes. On February 16, 1999, BP Amoco's chairman Sir John Browne spoke to the Institute of Petroleum in London. During his speech he said, "The continued existence of a separate tax regime for oil and gas in areas like the North Sea and Alaska (above and beyond a standard corporation tax charge on profits) is a barrier to new activity and therefore a tax on new investment and employment." BP spokesperson in Alaska attempted to clarify Browne's statement by adding, "He's simply saying that the Alaska tax structure is discouraging investment." Days later, BP's Richard Campbell, answering questions from state lawmakers in Juneau, acknowledged Browne's remarks and BP's desire to see Alaska's tax structure changed to provide more incentives for oil and gas exploration and development.

Alaska officials let BP know that at a time when the state is facing several years of $1 billion budget deficits that an oil industry tax cut wasn't likely. Alaska Senate President, Drue Pearce, a strong oil industry supporter was more blunt when she said, "I certainly don't think he (Browne) ought to hold his breath for Alaska to lower its taxes." Pearce also said, "Some of the things we have done as incentives, those are the ones that were brought to us by the industry. We've responded to them."

Many legislators were surprised and disappointed by BP's stance on Alaska's tax structure since they had enacted legislation specifically designed to encourage oil industry development. Alaska had just put in place an area wide leasing program the oil industry claimed was needed to bolster exploration. Legislators enacted another bill that cut the state's royalty rate to encourage development of smaller fields. This bill was designed primarily at the urging of BP to help bring their Badami field online. Legislators also repealed Northstar's net profit sharing provision after receiving demands from BP. BP's ultimatum will cost Alaska between $9 million and $295 million in lost revenues.

Interestingly, the day BP Amoco announced plans to merge with ARCO they also reversed their position on changing Alaska's tax provisions. BP spokesman Paul Laird said, "This merger will go a long way toward eliminating the competitive disadvantage that Alaska North Slope crude suffers now. But, nobody is saying the regressive tax system in Alaska is optimal. We're saying because of the savings opportunities in this merger, we would no longer need a change to compete during times of low oil prices."

Just this past February, BP president Richard Campbell was in Juneau lobbying for changes to Alaska's tax structure. Two months later (and after the merger announcement), Campbell said, "This is not a time to have a conversation about the tax structure. We want stability in that." This blatant about face left many Alaska officials wondering whether BP's flip flop was a statement of substance or simply a way to prevent tarnishing their image before state and federal regulators who must approve the merger.

More likely the reversal was because Campbell suggested in February that the state's tax structure should be tied more closely to BP's profits. But, that was before BP was going to save $200 million a year in Alaska by merging with ARCO. In any case, BP Amoco has put Alaska on notice that they view their tax structure as regressive and less than optimal.

Example 4. BP's Oil Production Forecast - September 20, 1999 Press Release

Officials from BP just released their new forecast for North Slope oil production. BP Amoco says they expect oil production to increase over the next four years. BP implies this increase is a consequence of the merger with ARCO and will only be possible if the merger happens. BP spokesman Ronnie Chappell said, "This is growth made possible by the combination. The production is the fruit of a planned 25% increase in capital spending by BP over the next 5 years." Chappell was referring to BP's plan to spend $5 billion during the next 5 years, whereas BP and ARCO together planned to spend $4 billion ... or so BP claims.

But, as detailed back on page 4, both BP and ARCO publicly announced in 1998 their plans were to spend $6 billion over 5 years. BP's recent press release is a classic example of how they twist the truth to fit their own selfish purpose. Mr. Chappell's statement about this growth being made possible by the combination with ARCO is complete fabrication since both companies 1998 plans were to spend $6 billion without a merger. For BP to even suggest that an increase in oil production is a consequence of this merger shows their total disregard for the facts and their willingness to say anything that might appear positive to the public.

The arrogance BP Amoco displays by releasing such a misleading and dishonest press release is hard to believe. Especially since one reason Alaska continues to see oil production and revenues decline is a direct result of BP's own actions. Earlier this year BP slashed their budget by 42%, fired 600 workers, and idled over half the drilling rigs on the North Slope. Since these idled rigs are not drilling new wells this means less oil will be produced in the near term. Now BP implies their merger with ARCO will bring about increased production.

BP and ARCO are currently running full page ads stating, "We have the opportunity to create a brighter future for Alaska by increasing production. This production increase is made possible by the joining of ARCO with BP Amoco." This statement is misleading and simply not true. Oil production is most easily increased by drilling more wells. If BP Amoco and ARCO simply returned to their combined 1998 spending level of over $1 billion this would increase production dramatically. Even when oil prices rebounded to over $20 a barrel, BP has refused to increase drilling. The reason is simple, they do not want to increase spending until after the merger. This way they can falsely claim the only way to increase production is by merging the two companies.

Of course ARCO and BP Amoco are not about to increase drilling since that would reveal the fictional

nature of their press release and expose the false claims about the positive aspects of their merger. Luckily, Alaska Revenue Department officials are already suspicious of BP Amoco's claims and are being cautious about estimating any "additional" benefits from the merger.

The previous four examples serve as history lessons about BP Amoco's true corporate behavior. BP is entirely consumed by greed. They are almost devoid of business ethics and as such can not be trusted to be honest with Alaskans about the true impacts of this merger.

What Options are Available to Alaska?

Even with all the negative consequences of this merger, it is unlikely the FTC or Alaska will be able to stop the merger entirely. The focus for Alaska should be to eliminate or minimize the negative aspects resulting from BP Amoco and ARCO merging. In fact, a state-wide poll showed 80% of Alaskans believe significant conditions and limitations should be placed on the proposed merger. These two companies have chosen to merge and form the second largest private oil company in the world. Citizens and consumers should not be forced to accept detrimental results caused by these companies actions. Alaska has three basic paths they can pursue. Alaska can do nothing, they can try to negotiate concessions, or they can go to court to protect their interests.

The Do Nothing Path:

Most people realize the negative aspects of this merger for Alaska are too great to ignore. This path is based on the beliefs that:

- Free enterprise will ultimately win out if left alone by government.
- BP Amoco can be trusted to do what is right.
- What is good for BP Amoco is good for Alaska (partnership philosophy).
- Requesting concessions from BP amounts to extortion and obstructs justice.

Very few people in Alaska believe nothing should be done because there is simply too much at stake. Most people have a general distrust of big corporations and oil companies in particular. BP Amoco is no exception and their past corporate behavior suggests there is much to be concerned about. Numerous examples have been discussed showing why BP can not be trusted to do what is right for Alaska or their partners. They can only be trusted to do what will fill their pockets with maximum profits. This is good for BP Amoco stockholders but not most Alaskans. It is unrealistic to expect this foreign corporation will protect the best interests of Alaska if nothing is done.

The Path of Negotiating Concessions:

This is the path Governor Tony Knowles has chosen and many Alaskans seem to support this approach. The ultimate outcome of this path is entirely dependent on the ability of Knowles and his staff to successfully negotiate with BP Amoco. This will be difficult since BP Amoco is a very experienced negotiator. They negotiate with governments and other companies all over the world. BP has negotiating teams who are experts at extracting the best possible terms for their company. Alaska has far less experience negotiating the types of concessions needed and is therefore at a disadvantage.

Knowles' has already made mistakes in his negotiations with BP by giving them a draft copy of

concessions he wanted before he made them public. BP Amoco immediately convinced Knowles to remove all the specifics associated with these concessions before publicizing them. This prevented the specific terms from being negotiated in public view. BP Amoco succeeded in keeping these negotiations entirely private where they have greater control over the outcome. In fact, Dick Olver who is BP's head of worldwide exploration and production recently visited privately with Knowles at the Governor's mansion to discuss the concessions Knowles wants.

Governor Knowles revealed his concessions during a speech to the Anchorage Chamber of Commerce. The text of this speech and other information regarding the State of Alaska's position on the merger between BP-Amoco and ARCO can be found at http://www.gov.state.ak.us/bparcomerge.html. The basic concessions Knowles wants are as follows:

I. BP must sell some of its oil production interest in existing fields. Knowles refused to specify how much production he expects BP to sell before he would approve the takeover. BP will produce about 800,000 barrels a day and own 50% or more of every producing field on the North Slope. This request is intended to reduce BP's dominance. However, if BP is allowed to divest small portions of large oil fields or only the smaller fields, this concession will not meet the intended objective. BP Amoco must sell a large field, like Kuparuk, or package several smaller fields together so their dominant position is reduced. It will be very difficult to successfully negotiate concessions from BP to allow another viable operating company on the North Slope.

II. BP must divest some leases in the National Petroleum Reserve-Alaska. In addition to the 360,000 acres BP must divest to comply with state law, Knowles wants BP to sell leases in NPR-A. Knowles refused to specify how many acres and instead said the specific number would be negotiated. On the surface this appears to be a prudent request. But, this request will only succeed if BP is forced to sell all their ownership in these leases. If they are allowed to keep a diluted ownership in any of these leases then this concession is meaningless.

BP's head of exploration in Alaska, F.X. O'Keefe publicly stated he wants to enter into partnerships with other companies on these leases. He wants companies to earn an ownership share in the leases by drilling exploration wells. This is commonly called a "drill-to-earn" deal. But, if BP is allowed to keep a diluted interest, they can still control development of any new discoveries. If BP retains just a small ownership interest in these leases they can halt or delay development of new discoveries.

How? They can simply refuse to fund their portion of the drilling and development costs. This means the other company's only option is to fund BP's share of these expenses. Since the option to pay BP's costs (with no guarantee of repayment) makes no business sense the result is that BP Amoco still controls these leases. BP recently announced they would not drill any of their NPR-A acreage this winter. BP's decision was made even though their partners on these leases were ready to drill wells. This is exactly how BP Amoco plans to monopolize Alaska's petroleum resources once the merger is complete.

The only way this divestiture of acreage will work for the benefit of Alaska is if BP is forced to sell 100% of their interests in leases. This sale must also included all seismic and surrounding well data. Knowles should not accept anything less than BP divesting 100% ownership of the 360,000 state acres and NPR-A acreage.

Some people have suggested that having BP as a partner would be good for another company because of their experience in the Arctic and their knowledge of state politics and regulations. This argument is rubbish since BP just fired 600 people in Alaska and plans to layoff 400 more if this merger goes through. There are plenty of skilled workers with experience in Alaska oil exploration and development that any new company can employ.

III. BP must publish the fees and provide equal access to North Slope oil facilities. BP has demonstrated they will use their ownership of facilities to charge excessive fees in an attempt to eliminate their competition. Badami, Northstar and Milne Point oil fields are prime examples where, not only did they eliminate competitors, but they also delayed oil production and state revenues by years.

This concession is important to Alaska and should not be compromised. However, Knowles and Revenue Commissioner Condon must take great care to evaluate the fees published by BP to determine if they are fair. Quite often these costs are inflated to provide an extra margin of profit or to recover the costs over-capitalized facilities.

It is not unreasonable to expect BP Amoco should make a profit on their investment for building and operating oil facilities. However, the amount of this profit should be specified. Once the initial investment and profit are recovered, these fees should be lowered to encourage development. There must also be written agreements to periodically review these costs to insure they remain fair and do not discourage oil development.

IV. BP should lower the shipping rates for oil on the Trans-Alaska Pipeline. Companies that own a portion of the pipeline have a large competitive advantage over companies that produce oil but do not own part of the pipeline. If BP buys ARCO, this advantage will be enormous. BP will own 72% of the trans-Alaska pipeline. Assume it costs $5 a barrel to send oil down the pipeline. When BP pays $5/barrel they get to keep 72% or $3.60. This means it actually costs BP only $1.40/barrel to send their oil down the pipeline. Other companies that do not own a share of the pipeline pay the full $5/barrel. This puts them at a serious competitive disadvantage. This disadvantage is a primary reason many oil companies have left Alaska and choose not to compete here.

It is in BP's best interests to inflate, as much as possible, the costs of transporting oil down the pipeline. Most of this money simply goes right back into their own pockets. These inflated pipeline fees make it extremely difficult for any new company to compete for new oil fields. This lessens competition in Alaska and gives BP a stronger lock on Alaska's petroleum resources. These inflated fees also lower the amount BP must pay to Alaska. Officials from Tesoro Oil Company have claimed before the Alaska Regulatory Commission that overcharges on the pipeline have cost the state treasury some $3 billion to $4 billion since 1985.

Knowles agreement with BP Amoco must eliminate the practice of overcharging pipeline tariffs. He should also demand BP's cooperation in an investigation to study the charges of pipeline overcharges. If the result of this investigation reveals overcharges have indeed reduced revenues paid to the state then BP's repayment of these revenues must be a condition of the merger being approved.

V. BP Amoco must provide written commitments on oil tankers and environmental cleanup. Governor Knowles knows protecting the environment is good politics. He will not meet any resistance from BP in this issue either. All the commitments Knowles wants appear to be already mandated by law. Knowles could seek commitments that go beyond those required by law.

For instance, BP has stated their Alaska tanker fleet will be double hulled by 2015 to meet the Oil Pollution Act of 1990. This Act requires double hulls for all tankers operating in the U.S by 2015. Knowles could seek to accelerate BP's compliance with this law. He could ask BP Amoco to update their fleet to double hulls by the year 2010 with penalties if the deadline is not met.

BP Amoco claims they have a commitment to environmental excellence. Yet, on September 23, 1999 they plead guilty to illegally dumping toxic waste at their Endicott field in Alaska. The penalties assessed in federal court will cost BP $22 million. Knowles could seek a written agreement with BP Amoco that doubles any penalties assessed in a federal court for illegal dumping or other activities

that harm the environment. If BP Amoco is truly committed to environmental excellence they should have no problem with such an agreement.

An important agreement Knowles must seek from BP Amoco is to begin clean-up of old abandoned drill sites used by the oil industry in the early days of exploring for oil. Many of these sites were built before the awakening of the environmental consciousness. They are littered with old rusting barrels and mud pits with toxic chemicals. Most of these sites were not built by BP Amoco or ARCO. But, it is a shameful legacy the oil industry should not be allowed to leave behind.

Neither the oil industry or the state has an adequate plan to clean-up these sites. Knowles has an ideal opportunity and should require BP Amoco to remove toxic wastes and remediate these drill sites. Again, if BP Amoco is truly committed to environmental excellence, they should not have a problem committing to this clean-up work. BP's own commitment to environmental excellence should not allow them to be part of an oil industry in Alaska that leaves a legacy of these contaminated drill sites behind.

V. BP Amoco must provide written commitments to fund an endowment at the University of Alaska. Governor Knowles suggested he wants this endowment to fund a program in Arctic engineering. Once again, Knowles refused to specify how much this endowment should be. But, Knowles should not limit this endowment to just Arctic engineering. Alaska has world class oil fields. Some of the advanced technology used to develop and produce this oil has been pioneered in these Alaska fields. Petroleum engineers and geoscientists employed by BP Amoco and ARCO have invented technology such as coiled tubing drilling and enhanced oil recovery techniques like miscible injectants. Many companies are looking to apply this technology to oil fields around the world.

Governor Knowles should expand this endowment pledge to include petroleum engineering, geoscience and other related disciplines. The University of Alaska should strive to become a world leader in training new engineers and scientists in petroleum exploration, development and production techniques. Alaska has the perfect teaching laboratory on the North Slope and an endowment from BP Amoco should provide the University of Alaska with the funds to make this happen.

The Path of Using Courts to Protect Alaska's Interests

This is the path that some Alaskans and legislators are suggesting. Probably the most vocal proponent of this path is a group called Backbone. This group consists of a diverse mix of Alaskans including former Governors, legislators, local politicians, business leaders and environmentalists. They formed Backbone to study the BP Amoco and ARCO merger. The Backbone group has offered suggestions to Governor Knowles and publicized their specific recommendations. This is also the path that BP Amoco and ARCO fear the most.

One suggestion from the Backbone group is that Alaska must file an antitrust lawsuit in state and federal courts. The primary reason for a lawsuit is that this merger threatens competition for Alaska's petroleum resources. Backbone's arguments in favor of a lawsuit center around their claim that this merger violates Alaska's Statutes on antitrust laws including:

Combinations in restraint of free trade [are] unlawful - Section 45.50.562. This law states, "Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce is unlawful."

Monopolies and attempted monopolies [are] unlawful - Section 45.50.564. This law states, "It is unlawful for a person to monopolize, or attempt to monopolize, or combine or conspire with another person to monopolize any part of trade or commerce."

Mergers and acquisitions [are] unlawful when competition is lessened - Section 45.50.568. This law states, "It is unlawful for a person to acquire and hold, directly or indirectly, the whole or a part of the stock, or other share capital, or assets of any corporation after August 5, 1975 if the effect of the acquisition and holding may be substantially to lessen competition or to tend to create a monopoly in any line of commerce in the state or in a section of the state."

The merger between BP Amoco and ARCO appears to violate these laws and the Backbone group argues that filing an antitrust suit now gives Alaskans both the time and opportunity to study the deal. Knowles has said he prefers to negotiate with BP Amoco in an attempt to obtain his concessions before pursuing the option of filing antitrust suits.

The Governor's approach sounds reasonable but there are several pitfalls. First, the more time and effort put into negotiating with BP, the harder it will be abandon these talks. Even if it means compromising on important specific issues, the Governor may choose to accept less than optimal terms rather than pursue a lawsuit. Knowles could also be afraid of breaking off negotiations because it supplies his political opponents with ammunition about his inability to lead successful negotiations. Another pitfall is the fact BP Amoco has required Alaska's elected officials to sign a confidentiality agreement that essentially guarantees Alaskans will never know details of these negotiations.

Since BP Amoco has forced Alaska lawmakers to sign confidentiality agreements before they would brief legislators on the merger indicates how important it is to BP that these negotiations be conducted in secret. Their reason is very simple. BP knows they have a much better chance of controlling the outcome of these negotiations (for BP's benefit) if the public is not involved. If the details of this merger and possible concessions were made public either through hearings or in court, BP loses control of the process. This is a primary rule of successful negotiating ... maintain control of the process. To date, BP has successfully maintained control of the negotiation process. When Alaska legislators signed this confidentiality agreement, BP muzzled their ability to openly and freely communicate with Alaskans about the details of this merger. Once again, BP wins and Alaska loses.

Conclusion

It is certain the best option Alaska has to assure their oil and gas resources are competitively and fairly developed is by filing antitrust suits in state and federal courts. Antitrust lawsuits will benefit Alaska in several ways:

- It removes control over this process from BP and places it in unbiased courts where all evidence is presented and ruled upon.
- It forces the process to take place in a public forum and not in secret meetings between Governor Knowles and his appointees.
- It does not eliminate the ability of Alaska officials to negotiate with BP Amoco and ARCO in efforts to reach an out of court settlement.
- A lawsuit sends a strong message to BP Amoco and ARCO about how seriously Alaska views this merger and their resolve to protect Alaska's best interests.
- An antitrust suit assures Alaska will have adequate time to review all consequences of this merger and select the best course of actions.

Whether Alaskans like it or not ... oil is vital to this state. Alaskans can not afford to allow BP Amoco

to buy ARCO and control the future of Alaska's petroleum resources. Alaska must demand concessions that will lessen BP's ability to monopolize Alaska's oil and gas. The only way to assure this is accomplished in an equitable manner is to file an antitrust lawsuit. Alaskans should contact Governor Knowles and request that he immediately begin the process of filing an antitrust suit.

Two recent developments involving this merger show that antitrust laws have already been violated. Alaska postponed indefinitely the 1999 Beaufort Sea Areawide lease sale planned for October 13 and cited the merger as the primary reason. This will delay revenues from the sale of these leases, delay exploration activity and potential oil production. BP Amoco announced they would not drill any exploration wells this winter in the NPR-A despite the fact their partners were ready to drill these wells. BP cited the merger as the reason. Postponement of the lease sale and BP's refusal to drill wells in NPR-A are both clear violations of Alaska Statute's Section 45.50.562 which states, "Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce is unlawful." This merger has already restrained commerce.

Governor Knowles announced a series of town hall meetings on the proposed terms for BP Amoco's acquisition of Arco will be held prior to reaching any final agreement between the State and BP Amoco. Depending on the outcome of negotiations with BP, the series of town hall meetings could occur in mid-October . After reviewing the public's comments and consulting with legislators, a final agreement with BP could be signed in early November.

It is imperative that Alaskans use this public forum to tell the Governor two things:

I. Alaskans disagree with Knowles' decision to negotiate secretly with BP and only make the merger terms public after the negotiations have concluded.

II. Knowles must not sign any agreement and should instead file an antitrust lawsuit. This is the only course of action that adequately protects Alaska's interests.

If this merger happens as proposed or without major concessions, Alaska will face major economic and political problems in the future. BP has already suggested they will demand reductions in taxes and royalty payments they make to Alaska. BP has demonstrated they are willing to use questionable ethics and tactics to increases their bottom line profits. BP does not consider the consequences of their actions on the Alaska citizens or consumers. They will mislead the public with false claims in their ads and press releases. BP has been convicted of illegally disposing of toxic chemicals at their Endicott field. BP can not be trusted to be honest and forthright with Alaskans about the real impacts of this merger.

Once BP Amoco acquires ARCO they will have a monopolistic influence over Alaska. BP will have a vested interest in making certain Alaska radically changes how revenues are obtained to run state government. These include:

- Reducing state revenues by demanding lower tax and royalty payments.

- Using Alaska's Permanent Fund to pay for government services.

- Weaken safety, health and environmental regulation so BP saves money

- Increase individual property taxes

- Lobby for statewide sales taxes and income taxes.

Alaskans should realize that once this merger happens, BP Amoco will have the political clout and influence to make these changes occur. Their actions surrounding the Northstar legislation prove they can get what they want by pressuring legislators to pass regulations that reduce revenues for

Alaska. This merger will give them almost complete control over revenues from oil. BP will use this power for their benefit and to the detriment of Alaska.

The only way to prevent BP from gaining this kind of power is to file an antitrust lawsuit. Only in a court of law can appropriate and binding conditions be placed on this merger to assure BP will not gain a strangle-hold on Alaska's revenues and resources. It is unreasonable to expect acceptable can be negotiated in secret meetings between BP and Governor Knowles.

Citizens should voice their concerns to elected and government officials. Here are e-mail addresses and sites to find the addresses of your legislators and government officials. It is most important to write Governor Tony Knowles and the FTC.

COMMONWEALTH NORTH

DISCUSSION POINTS
BP AMOCO/ARCO MERGER
Tuesday, April 13, 1999
Captain Cook, Club Room 2

The following are discussion points brought up by Commonwealth North members in relation to the proposed BP/ARCO merger. None of these points constitute a Commonwealth North position unless they have been officially approved by the Commonwealth North Board of Directors.

I. General observations:

a. The pending merger between BP Amoco and ARCO will result in changes to the social, financial and economic landscape of Alaska. The checks and balances inherent in a competitive marketplace will be so measurably diminished as to become virtually nonexistent. As owners of Alaska's resources, the State and its citizens must assume responsibility to assure that its interests are protected and that the values and benefits of competition are not surrendered.

b. The window of opportunity to impact the merger is short—no more than four months.

c. For thirty years the State of Alaska has regulated a diversified oil industry. The oil industry is about to become a single oil company. The state does not currently have the tools it needs to do the job. A new regulatory regime may need to be more aggressive, probing, and intrusive than before.

d. It is unfortunate that the systems and structures to preserve and protect the State's business interests as an equity partner in development of the State's resources have not been established. However, with prompt action, this situation can be remedied to assure the long-term viability of a strong, diversified oil development industry.

e. To what extent is the merger an opportunity to renegotiate key relationships, or an opportunity to negotiate topics not directly related to the merger?

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Co./Dept.	Co.	
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II. Issues that affect economic returns to the state of Alaska:

a. Should Commonwealth North urge the Governor to assume leadership in negotiating agreements during the acquisition process which will formulate the framework for the future relationship between the State and private sector contractors that develop its resources?

b. Royalty issues, TAPS ownership, natural gas use and development, and reservoir data issues all need to be addressed.

c. Should BP Amoco divest a minimum of 21% (Arco's current share) of the TransAlaska Oil Pipeline? This would be held by the state and made available to leaseholders that do not own a share of the line after they decide to develop commercial quantities of oil which would require transportation through the line.

d. Should existing and future gathering lines and other infrastructure on the North Slope be deemed common carriers so as to foster developmental competition?

e. Should BP Amoco and Arco provide the Alaska Oil and Gas Conservation Commission executable copies and source code of their Prudhoe Bay reservoir models, update these models monthly until the merger takes effect, and thereafter BP Amoco continue to update the model monthly?

f. Shall the State establish the Alaska Resource Development Corporation to protect and advocate for the business interests of the State of Alaska to maximize financial opportunities as equity owners of Alaska's resources available for development? Initial funding to underwrite the establishment of the corporation could be generated from a Decommissioning, Restoration and Reclamation Fund (DRR) established by BP Amoco. DRR funds could be required to be deposited in Alaskan financial institutions.

g. When the merger is approved, shall BP Amoco be barred from any lease sales in ANWR or NPRA until such time as production from such leases equals BP Amoco's then current share of North Slope production?

h. Shall BP Amoco be required to make available a specified amount of conditioned gas annually at a fixed price for delivery to a potential natural gas pipeline? This gas could be marketed independently.

i. Shall any gas utilized for gas to liquids bear its full royalty share regardless of where the GTL is produced, in or out of the unit?

j. Should the Legislature prepare a progressive reserves tax bill applicable to undeveloped North Slope gas to provide economic incentive and political assurance for development and sale of North Slope gas?

k. Are the current taxes and severances appropriate for the post-merger environment?

l. What is the legal status of existing contracts?

m. Shall any portion of the announced economic savings coming from the merger be given to the State of Alaska? This "royalty share" of the savings could be used for economic development activities of other natural resources.

II. Issues that affect beneficial returns to the state of Alaska:

a. Should BP Amoco ensure that oil industry charitable contributions never fall below the promised combined levels in the pre-merger environment? A charitable foundation could be funded and administered by a board of trustees comprised of representatives from BP Amoco, with majority representation appointed by the Governor and Legislature.

b. Shall BP Amoco be required to develop an acceptable local hire and native hire program for all activities conducted in the State of Alaska?

c. Should BP Amoco have political fund raising constraints similar to federal or municipal entities?

APR 07 1999

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ALASKA STATE CHAMBER OF COMMERCE

April 1, 1999

Mr. Kevin Meyers
ARCO Alaska, Inc.
700 G Street
Anchorage, Alaska 99501

Mr. Richard Campbell
BP Exploration (Alaska) Inc.
P.O. Box 196612/MB 13-7
Anchorage, AK 99508

Dear Kevin and Richard:

I am writing this letter in my capacity as chairman of the Alaska State Chamber of Commerce (ASCC). As you probably are aware, ASCC is the statewide organization that represents the interests of all Alaskan business. Through your membership in ASCC and your enormous contributions to Alaska's economy, the membership of ASCC holds enormous respect and admiration for both BP and ARCO.

Along with BP, ARCO has always been an excellent corporate citizen. We will sadly watch the ARCO name disappear from the Alaska scene; their "spark" and contribution within the business community will be missed.

ASCC does not usually interfere in the process of mergers and acquisitions, as we have found, in the long term, they usually produce positive results for business in Alaska. Periodically however, we intervene to allow a fair process to move forward, as recently demonstrated in our counsel to the Governor. ASCC recommended that the Governor intervene in and support the Safeway-Carrs acquisition to minimize unwarranted negative federal interference.

We applaud BP Exploration (Alaska) Inc.'s commitment to the state of Alaska and to the ARCO employees. ASCC offers our unified support towards helping ensure that the process is allowed to move forward in an equitable manner for the long term benefit to Alaska and BP.

We also sincerely wish BP and ARCO's management and employees all the best through these times.

Yours truly,

Peter Leathard
Chairman of the Alaska State Chamber and
President of VECO Corporation

cc: President of ASCC Pam LaBolle
ASCC Excecutive Committee
Governor Tony Knowles
Senate President Drue Pearce
Speaker of the House Brian Porter
Chair of the Senate Resources Committee Rick Halford
Co-Chairs of the House Resources Committee Jerry Sanders & Scott Ogan
Chair of the Senate Judiciary Committee Robin Taylor
Chair of the House Judiciary Committee Pete Kott
Co-Chairs of the Senate Finance Committee Sean Parnell & John Torgerson
Co-Chairs of the House Finance Committee Eldon Mulder & Gene Therriault

Regional Citizens' Advisory Council / "Citizens promoting environmentally safe operation of the Alyeska terminal and associated tankers."
In Anchorage: 3709 Spenard Road / Anchorage, Alaska 99503 / (907) 277-7222 / FAX (907) 277-4523
In Valdez: 154 Fairbanks Dr. / P.O. Box 3089 / Valdez, Alaska 99686 / (907) 835-5957 / FAX (907) 835-5926

MEMBERS
Alaska State Chamber of Commerce
Alaska Wilderness Recreation & Tourism Association
Chugach Alaska Corporation
City of Cordova
City of Homer
City of Kodiak
City of Seldovia
City of Seward
City of Valdez
City of Whittier
Community of Chenega Bay
Community of Tatitlek
Cordova District Fishermen United
Kenai Peninsula Borough
Kodiak Island Borough
Kodiak Village Mayors Association
Oil Spill Region Environmental Coalition
Prince William Sound Aquaculture Corporation

September 9, 1999

Debra A. Valentine
Office of the General Counsel
Federal Trade Commission
600 Pennsylvania Avenue NW
Washington, DC 20580

Subject: British Petroleum Company's proposed acquisition of ARCO

Dear Ms. Valentine,

The Regional Citizens' Advisory Council of Prince William Sound (RCAC) is an independent non-profit corporation whose mission is to promote environmentally safe operation of the Valdez Marine Terminal and associated tankers. Our work is guided by the Oil Pollution Act of 1990 and our contract with Alyeska Pipeline Service Company. RCAC's 18 member organizations are communities in the region affected by the 1989 Exxon Valdez oil spill, as well as commercial fishing, aquaculture, Native, recreation, tourism and environmental groups.

As expressed in RCAC's August 20, 1999 letter to Alaska Governor Knowles, RCAC believes the potential is great for BP's proposed acquisition of ARCO to significantly affect the environmentally safe operation of the Valdez Marine Terminal and associated tankers. We know your agency is reviewing this acquisition and seek an opportunity to discuss our concerns with appropriate FTC officials. We call your attention to the following provision in the Oil Pollution Act of 1990: (33 U.S.C. §§ 2701-2761)

> Section 5002 (g) AGENCY COOPERATION. – On or after the expiration of the 180-day period following the date of the enactment of this section, each Federal department, agency, or other instrumentality shall, with respect to all permits, site-specific regulations, and other matters governing the activities and actions of the terminal facilities which affect or may affect the vicinity of the terminal facilities, consult with the appropriate Council prior to taking substantive action with respect to the permit, site-specific regulation, or other matter.

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This consultation shall be carried out with a view to enabling the appropriate Association and Council to review the permit, site-specific regulation, or other matters and make appropriate recommendations regarding operations, policy or agency actions. Prior consultation shall not be required if an authorized Federal agency representative reasonably believes that an emergency exists requiring action without delay.

The Prince William Sound RCAC is the "appropriate Council" for the FTC to consult with regarding BP's proposed acquisition of ARCO, a matter directly related to two major operators of the Valdez Marine Terminal and the marine transport of crude oil from Alaska to the West Coast of the United States and abroad.

We look forward to the opportunity to review the FTC's findings and to provide meaningful and appropriate recommendations on behalf of RCAC's member entities and their constituents.

Please let me know if you need additional information or have any questions. We are happy to meet with FTC officials at any time and would appreciate any information you may be able to provide about the timing of your review and when consultation with PWS RCAC might occur.

Sincerely,

John Devens

John Devens, Ph.D.
Executive Director

cc: Bob Malone, Alyeska Pipeline Service Company
Senator Frank Murkowski
Bruce Babbitt, Dept. of the Interior
Sir John Brown, British Petroleum Company
Kevin Meyer, President, ARCO Alaska

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Regional Citizens' Advisory Council / "Citizens promoting environmentally safe operation of the Alyeska terminal and associated tankers."

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☐ In Valdez: 154 Fairbanks Dr. / P.O. Box 3089 / Valdez, Alaska 99686 / (907) 835-5957 / FAX (907) 835-5926

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Kodiak Village Mayors Association

Oil Spill Region Environmental Coalition

Prince William Sound Aquaculture Corporation

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Memorandum

TO: Alaska State Legislature
State Capitol Bldg
Juneau, Alaska 99801

FROM: John Devens, Executive Director
PWS Regional Citizens' Advisory Council

DATE: January 13, 2000

The following resolution and letter to Governor Tony Knowles are regarding BP Amoco's proposed acquisition of Arco. The Prince William Sound Regional Citizens' Advisory Council felt it is important for you to get the opportunity to understand our views concerning the acquistion.

Please call John Devens at (907) 835-5957 if you have any questions concerning the information we have sent.

Regional Citizens' Advisory Council / *"Citizens promoting environmentally safe operation of the Alyeska terminal and associated tankers."*

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Kodiak Village Mayors Association

Oil Spill Region Environmental Coalition

Prince William Sound Aquaculture Corporation

RESOLUTION 99-5

REGARDING BP AMOCO'S PROPOSED ACQUISITION OF ARCO

WHEREAS, Section 5002 (g) of the Oil Pollution Act of 1990 requires all Federal agencies to consult with the appropriate citizens' advisory council before taking actions that could affect the operations or environment of a terminal facility such as the Valdez Marine Terminal in Valdez, Alaska, and the Prince William Sound Regional Citizens' Advisory Council (RCAC) is the appropriate council for the Valdez Marine Terminal; and

WHEREAS, for the citizens of RCAC's region, competition in the Alaska North Slope crude oil transportation goes beyond lease sales and prices at the gas pump and extends to environmental protection and corporate citizenship; and

WHEREAS, the potential for an oil spill or other environmental catastrophe to disrupt the economic well-being of the communities in the RCAC region is well documented; and

WHEREAS, the State of Alaska's position encompassed in "Charter for Development of the Alaskan North Slope" (Charter) does not fully represent the position of the RCAC Board of Directors, and many of its key environmental provisions are unenforceable; and

WHEREAS, competition among oil transporters has contributed to the many significant and positive environmental protection and safety programs which have been instituted in Prince William Sound since 1989, and the maintenance and continuous improvement of those programs depend on a long-term commitment from the owner companies for funding; and

WHEREAS, ARCO Marine has consistently set high safety and environmental protection standards for the operation of tankers taking North Slope crude oil from Alaska to the West Coast, as evidenced by the official record and the success of ARCO's safety management plan which was implemented long before the company was required to do so; and

WHEREAS, the BP chartered tanker fleet is in the midst of a transition to management by the Alaska Tanker Company, a newly formed company with no established safety record; and

WHEREAS, ARCO Marine has historically offered the most competitive pay scales and benefits, thus the ARCO officers and crews represent some of the most experienced and competent individuals; and

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WHEREAS, BP-AMOCO has projected an increase in Trans-Alaska Pipeline crude oil throughput to 1.24 million barrels per day by the end of 2004 and shipment of that quantity of oil would necessitate the installation of vapor control on an additional berth at the Valdez Marine Terminal. Without installation of vapor control on an additional berth or a waiver from environmental law, the supply of crude oil to the West Coast refineries will be limited to 1.1 million barrels per day.

NOW THEREFORE BE IT RESOLVED that the Prince William Sound Regional Citizens' Advisory Council requests the Federal Trade Commission to take the following actions:

1. Consult with the PWS RCAC before taking action on the proposed acquisition of ARCO by BP-AMOCO

2. Require BP-AMOCO to make the following commitments, and to make those commitments enforceable in court:

   A. Reduced Operating Costs: The reported potential reductions of operating costs for the production and transportation of North Slope crude oil must not jeopardize the significant and very positive environmental protection and safety programs now in place or in progress. Personnel and budget reductions during the past few years have already challenged these efforts both at the Valdez Marine Terminal and within the Alyeska/SERVS organization. BP should commit to provide Alyeska Pipeline Service Co. with the people and money to maintain and continually improve the oil spill prevention and response capabilities of SERVS, and to fully implement recommendations to improve the safe operation and maintenance of the Tanker Vapor Control System at the Valdez Marine Terminal.

   B. Human Factors and Marine Safety: The role of human error in marine casualties has been studied for years and is becoming well documented. Safety Management Plans, now required by the U.S. Coast Guard for all tankers and oil shipping companies, represent one attempt to reduce human factor risks. ARCO Marine implemented a comprehensive safety management plan long before the requirement took effect. The plans for the BP chartered tanker fleet are diverse, and a process of consolidation is taking place within the newly formed Alaska Tanker Company. In addition, the safety records of the two shipping companies are quite different. An independent third party should be retained to conduct a comparative analysis of the ARCO and BP safety and quality management plans and reportable violations. BP should agree to adopt the ARCO policies and practices that are identified as most effective at reducing human error. BP should also agree to participate in and support the International Maritime Information Safety System (IMISS) program which is designed to give mariners a new way to prevent marine accidents by telling fellow mariners about their close calls.

   C. Tanker Crews' Experience Level: The effect of selling ARCO's tankers to a third company, as required by the Jones Act, could be to dramatically reduce the experience level of tanker officers. Pay scale differentials and other factors could lead many experienced ARCO officers to elect early retirement or severance packages. Cost savings projected from the merger should not affect maritime safety and environmental protection. As a condition of the acquisition BP, should agree to encourage and support Alaska Tanker Company incentive and bonus programs to retain ARCO's experienced crews during the integration of the ARCO fleet into ATC.

D. Minority role in Alyeska Governance: Alyeska's governance should continue to ensure minority owners a strong voice in order to maintain what is now a competitive "market" to improve operational safety and environmental protection programs.

E. Vapor Controls: Since 1990 the Prince William Sound Regional Citizens' Advisory Council has advocated for the capture of all petroleum vapors resulting from tanker loading at Alyeska Pipeline Service Company's marine terminal in Valdez. A system to capture tanker loading vapors was constructed on two of four berths at the marine terminal and has been operating successfully for nearly two years, preventing significant amounts of hazardous air pollution. A maximum of 550,000 barrels of oil per day (annual average) can be loaded across each of the two vapor-controlled berths at the terminal, for a total of 1.1 million barrels per day, according to Alyeska Pipeline Service Company. However, recent projections of crude oil throughput foresee a rise to 1.24 million barrels per day by the end of 2004, a 25 percent increase over current levels, and well above 1.1 million barrels per day. This resurgence in pipeline throughput was neither anticipated nor accounted for during the development of the federal Vessel Loading Rule, which requires the capture of crude oil vapors during tanker loading at the Valdez Marine Terminal and the loading of oil across berths lacking vapor controls will be prohibited after the year 2001, except for small amounts during performance of maintenance on a controlled berth. BP should guarantee that Alyeska Pipeline Service Company will construct vapor controls on a third crude oil loading berth at the Valdez Marine Terminal without delay.

3. Require BP-Amoco and the state of Alaska to amend the Charter to make the provisions of Section II enforceable in court.

4. Take appropriate actions to ensure that the acquisition of ARCO by BP-AMOCO not occur until all of the above concerns have been adequately addressed to ensure the citizens of the RCAC region that the level of environmental safety will not be diminished by the loss of the existing competition.

_____
President

ATTEST:

John Devens

_____ _____
Executive Director December 10, 1999
Date

Regional Citizens' Advisory Council / *"Citizens promoting environmentally safe operation of the Alyeska terminal and associated tankers."*

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Kodiak Village Mayors Association

Oil Spill Region Environmental Coalition

Prince William Sound Aquaculture Corporation

August 20, 1999

VIA FACSIMILE

Governor Tony Knowles
State of Alaska
P.O. Box 110001
Juneau, AK 99811-0001

Dear Governor Knowles:

Following up on our letter of last week, the Prince William Sound Regional Citizens' Advisory Council writes now to explain the basis of our interest and to identify specific concerns we believe should be included in conditions the State develops for acceptance of BP's acquisition of ARCO.

As you know, the Prince William Sound Regional Citizens' Advisory Council was established because government, industry and local citizens concluded that the people who have the most to lose from oil shipping accidents should have a say in the decision-making process. The United States Congress codified that concept in the Oil Pollution Act of 1990, which mandates that federal agencies consult with the appropriate regional citizens' advisory council on decisions that could affect the environmentally safe transportation of crude oil.

RCAC believes the potential is great for the proposed acquisition of ARCO to significantly affect the environmentally safe operation of the Valdez Marine Terminal and associated tankers. Further, we strongly support more opportunities for public dialogue as your administration develops recommendations and conditions on behalf of the State of Alaska. We stand ready to assist in any way we can as RCAC strives to keep the public informed and to provide objective and substantiated advice to government officials on behalf of our member entities and their constituents.

RCAC is conducting a statewide poll to assist in our evaluation of these issues and the development of specific comments and recommendations. We will provide the results of that poll to you early next week. We have also requested additional information from the US Coast Guard and Alyeska to verify and further support our concerns. At this time, we request your serious consideration of the following major concerns.

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Reduced Operating Costs: The reported potential reductions of operating costs for the production and transportation of North Slope crude oil must not jeopardize the significant and very positive environmental protection and safety programs now in place or in progress. Personnel and budget reductions during the past few years have already challenged these efforts both at the Valdez Marine Terminal and within the Alyeska/SERVS organization. BP should promise in writing to provide Alyeska with the people and money to maintain and continually improve the oil spill prevention and response capabilities of SERVS, and to fully implement recommendations to improve the safe operation and maintenance of the Tanker Vapor Control System at the Valdez Marine Terminal.

Double Hulls: There are striking differences between the attitudes and actions of BP and ARCO regarding their schedules to comply with the Oil Pollution Act of 1990 requirements for double-hull tankers. When ARCO publicly announced the design for the Millennium Class tankers, it was in the context of going "beyond compliance" and provided an excellent example of applying Alaska's Best Available Technology regulations. BP, meanwhile, has not sought delays to the OPA 90 double hull schedule and has said that it will not violate the law. However, BP has made no formal commitments for replacing its aging fleet of single-hull tankers. BP's promise to go forward with ARCO's contracts for three Millennium Class tankers should be a condition of acquisition acceptance by the State of Alaska. Further, BP should merge ARCO's philosophy into their own oil shipping operations and commit to replacing their tanker fleet with double hull tankers equivalent to the Millennium Class.

Human Factors and Marine Safety: The role of human error in marine casualties has been studied for years and is becoming well documented. Safety Management Plans, now required by the U.S. Coast Guard for all tankers and oil shipping companies, represent one attempt to reduce human factor risks. We know that ARCO Marine implemented a comprehensive safety management plan long before the requirement took effect. The plans for the BP chartered tanker fleet are diverse, and a process of consolidation is taking place within the newly formed Alaska Tanker Company. In addition, we know that the safety records of the two shipping companies are quite different. RCAC recommends that an independent third party conduct a comparative analysis of the ARCO and BP safety and quality management plans and reportable violations. BP should agree to adopt the ARCO policies and practices that are identified as most effective at reducing human error. RCAC also recommends that BP agree to participate in and support the International Maritime Information Safety System (IMISS) program which is

designed to give mariners a new way to prevent marine accidents by telling fellow mariners about their close calls.

Tanker Crews' Experience Level: The effect of selling ARCO's tankers to a third company, as required by the Jones Act, could be to dramatically reduce the experience level of tanker crews. We understand that pay scale differentials and other factors may lead many experienced ARCO officers and crew members to elect early retirement or severance packages. Here again, cost savings projected from the merger should not affect maritime safety and environmental protection. As a condition of the acquisition BP should agree to encourage and support Alaska Tanker Company incentive and bonus programs to retain ARCO's experienced crews during the integration of the ARCO fleet into ATC.

Minority role in Alyeska Governance: Alyeska's governance, if and when BP is allowed to assume some 70% ownership of the pipeline and terminal facilities, should continue to ensure minority owners a strong voice in order to maintain what is now a competitive "market" to improve operational safety and environmental protection programs.

We have requested a meeting with your review team's transportation and environment committees and seek your support for that request. We will continue to provide additional reports or other information to you as it becomes available. We look forward to your reply to this letter, and will be happy to meet with you at your convenience to discuss further details about our concerns. On behalf of the citizens whose livelihoods depend on a healthy natural environment, we urge you to include the concerns discussed above in any conditions you seek to attach to the State of Alaska's acceptance of BP's acquisition of ARCO.

Thank you for this opportunity to be heard and for your significant support in the past.

Sincerely,

John Devens, Ph.D.
Executive Director

cc Bob Malone, Alyeska Pipeline Service Company
Federal Trade Commission

Senator Frank Murkowski
The Honorable Bruce Babbitt, Secretary of Department of Interior
Joint Special Committee on Mergers
Sir John Brown, British Petroleum Company
Kevin Meyer, President, ARCO Alaska
Rick Halford, State Senator
RCAC Board of Directors

John L Rader
4118 Caravelle Dr.
Anchorage, Alaska 99502
907 243-3749
907 248-0112 (fax)

Jalmar Kertulla
P.O. Box 1009
Palmer, Alaska 99645
907 745-3057
907 746-3585 (fax)

Chancy Croft
2727 McCollie
Anchorage, Alaska 99517
907 248-2727
907 274-0146 (fax)

January 21, 2000

Mr. Robert Pitofsky, Chair
and Members of the Federal Trade Commission
600 Pennsylvania Ave., NW
Washington, D.C. 20580

Dear Chair Pitofsky and Commission Members:

Together the three of us have more than 50 combined years in the Alaska legislature. Arco has been a good corporate citizen and the State of Alaska and the nation have benefited from the competition between Arco and BP Exploration. Alaska and the nation would benefit from that same competition in the future. We ask that the FTC seek a legal injunction against BP's takeover of Arco. Here is why.

Competition is the official policy of the State of Alaska. Alaska policy is established not by the governor or the legislature or any one branch alone. A viable lasting policy must be a coordinated effort, discussed in public, adopted by vote and survive a system of checks and balances. That happened in 1975. It did not happen in 1999.

We are not causal observers of Alaska policy. John Rader was the first Attorney General of Alaska. He was a member of the first State House of Representatives and served in the Alaska legislature a total of 17 years. He was President of the Senate in 1977-78.

Jalmar Kertulla was a member of the Alaska state legislature longer than any other person, serving a total of 32 years. He is the only person to be elected both Speaker of the House and President of the Senate, serving as President of the latter from 1980 to 1984.

Chancy Croft, like both Senators Rader and Kertulla, was a member of both the Alaska House and Senate and was President of the Senate in 1975-76. He takes pride in the fact that it was in 1975, during his first year as President, that Senator Kertulla's 10 year effort to enact a comprehensive state anti-trust statute reached fruition.

After public hearings, open debate, legislative amendments and executive approval AS 45.50.562, et.seq. became law and the official policy of Alaska. None of us say that we worked for passage with a fear to BP's current acquisition. All of us say that it was to prevent this very type of combination with its inevitable restraint of trade. Whether it is monopoly in the traditional sense or monopsony in this particular instance, we wanted our new State to have the best legal resources to prevent others

January 21, 2000
Members of the Federal Trade Commission

from controlling our destiny. We intended our new statute to provide that. Legal scholars told us we achieved that result.

Newspaper accounts say that the FTC is concerned about down stream competition on the West Coast. We believe that up stream competition on the North Slope is equally important. Having one company control more than 50% of the production of North America's largest oil and gas field may effect California and Alaska differently in method but both in equal degree.

We have heard BP's claim that efficiencies of operation justify its ownership of the majority of the oil, the majority of the gas, the majority of the facilities, the majority of the pipeline and the majority of the tankers. But for decades both Arco and BP competed. They also had agreements which resulted in operational efficiency. We note as well that despite all the talk of efficiencies that BP's takeover of Arco has not been accompanied by any reduction in BP's pipeline tariff - which is the highest of any owner company and has been for years. Reduced tariffs would help Alaska but would be of obvious benefit to the consumers of California.

Upon comparison then, the decrease in competition looks real, any benefits of asserted increased operational efficiencies seem illusory. We are dismayed that, at a moment which cried out for determined action , Alaska's legal resource went unused, the important state policy it enshrined was ignored. Embarrassing as it is for any Alaskan, our options are limited. So we turn to the federal government to protect competition in Alaska. We commend you on your resolve and hope that you will use America's anti-trust laws to protect not only America's interest but Alaska's as well. The competition we had with Arco served us well. The paper charter does not regain it. We ask that you sue to stop BP's takeover of Arco in its tracks and in its entirety.

Very truly yours,

John Rader
President Alaska Senate
1977-78

Jalmar Kertulla
President Alaska Senate
1980-84

Chancy Croft
President Alaska Senate
1975-76

October 7, 1999

OCT 12 1999

Senator Rick Halford
PO Box 670190
Chugiak, AK 99567-0190

Dear Senator Halford,

As a current BP employee and one of your constituents, I urge you to prevent the BP takeover of ARCO. The following information may help you determine that it is not in Alaska's interest to allow BP to have this much power.

First BP is a British company and should not be allowed to control such a great amount of America's energy and Alaska's economy. Recall that the British government would not allow Kuwait to own 15% of BP stock; so now why are American and Alaskan government officials so anxious to turn over our resources to the British. Once BP completely controls the North Slope infrastructure, no other companies will be allowed to compete regardless of what Tony Knowles hopes for. BP will not allow competition.

The BP ads are extremely misleading. One must first recognize that Richard Campbell is a chronic liar. The following supports this statement.

- One year ago, Campbell said the BP takeover of Amoco would have minimal effect on BP's Alaskan employees. By this spring between 30 and 40% had been laid off.
- Campbell also said that Alsaka should restructure the tax system to favor BP. As soon, as the ARCO takeover became known, Campbell said this was not the case and the current tax structure is acceptable.
- BP keeps implying in news articles that there will be 400 jobs lost after the ARCO takeover. In house, BP admits this is just a figure for BP and ARCO employees and that the real number of Alaskan job losses including contractors will be 1000 or more.
- BP's ads say that BP will spend $5 billion in five years.
    - In a town hall meeting, Campbell said he didn't say that and that was a promise by another BP official.
    - BP in-house has said they do not plan to spend $1 billion each year. From past experience, BP will defer any major spending until the five years is up, all this time maintaining they will spend $5 billion in five years, and then say they changed their mind due to low oil prices, better prospects elsewhere, etc.

Contrary to BP ads, most of the Northstar and Badami work was not done in Alaska. Most of the modules were done by contractors and engineering firms in Canada and the lower 48.

When Endicott's illegal disposal of hazardous waste became known to the public, BP sent its British Endicott field manager back to England and allowed the American field manager to take the heat. This should be a indication that BP's responsibility and allegiance is only to the British.

In 1998, BP contractors suffered two deaths and several serious injuries which contrast sharply with ARCO's good safety record. Showing their contempt for the American worker, BP sued one of the contractors, Todd Reike, who experienced a near fatal accident and will suffer health consequences for the rest of his life. The reported reason for BP's suit is that Todd ruined their "safety record".

A huge accident is likely in the near future; there already have been several near misses, e.g., Endicott was almost blown off the map and is called the Piper Alpha that didn't happen by safety experts. In addition to the loss of life and environmental quality, such an accident may close the North Slope off to further oil exploration and development a la the Exxon Valdez and Anwar.

Such an accident is likely because BP puts short term profits ahead of everything. BP's CEO mandates 15% or greater cost cuts each year. Because of this, maintenance and inspection budgets have been cut in half or more during the past 3-4 years. Much needed work is being continually deferred even though the equipment is becoming older and less reliable. Experienced workers are being run off to cut costs; all past layoff packages have targeted employees over 50.

BP's treatment of subcontractors is very bad; payments for services or products received are delayed for six months or more. BP just says they can go elsewhere if they don't like this system. This practice will become much worse if BP takes over ARCO.

There is a continuing influx of British companies, e.g., APC Woods, and workers, especially in management positions. Alaska hire does not mean much if British nationals are considered Alaskan residents for hiring purposes.

BP's method of management is intimidation. BP has a major layoff almost every year and contractor rotation is a standard. For this reason, safety, environmental and other violations are not reported because most BP employees and contractors are very concerned for their jobs.

Regretfully, I can not sign this letter because I too am concerned for my job.

Subject: BP buyout of ARCO
Date: Wed, 31 Mar 1999 07:11:31 -0900
From: Bannan <bannan@alaska.net>
To: governor@gov.state.ak.us, Representative_Ethan_Berkowitz@legis.state.ak.us, senator_stevens@stevens.senate.gov, email@murkowski.senate.gov, Don.Young@mail.house.gov, Senator_Drue_Pearce@legis.state.ak.us

As Alaska residents, we are writing you to express our concerns about the possible buyout of ARCO by British Petroleum (BP). We do not believe that this consolidation is in the state's best interest because:

1.) In the short term this merger would probably result in a large number of layoffs. In late 1998 ARCO laid off 80 people and in early 1999 BP reduced their staff by 400 people. These salaries for these families were typically above average incomes and loss of this money in the community impacts real estate, retail, and our tax base. The Anchorage area communities have not fully absorbed, nor probably even felt, the full impact of the layoffs that have already occurred. Another large layoff could be very devastating. Furthermore, both companies have traditionally supported the community at large for such concerns as the United Way, the Anchorage Concert Association, etc. This will become a one-company town with a much narrower base if this take-over is allowed to occur.

2.) In the longer term having only one significant player in Alaska's oil and gas industry has some very definite downsides. Competition has always been shown to be a benefit to all concerned including the state and ARCO and BP. Minimum commercial field sizes have dropped on the North Slope due to changing demands, innovation, and technology. Some of these "sparks of insight" were later used by the other company. This would be lost with only one major operator. We are concerned that a single, foreign-owned company would not consider Alaska's interests.

3.) Granted that having one operator for all the fields on the North Slope would probably be efficient and will reduce some of costs; however with BP potentially controlling 75% of the oil production in the state there could be many unforeseen pitfalls. Perhaps BP will do their best to produce the already developed fields and keep the pipeline viable, but what about their commitment to the exploration effort (which means new fields and future revenue)? BP is a large, international oil company, and by their own statements Alaska projects must compete against their projects worldwide. Competition between Arco and BP has kept diverse exploration efforts going every year and has led to several new oil fields and new extension discoveries around established fields.

Competition and cooperation between these two companies have been good for Alaska; the lack of them will not be as beneficial.

Sincerely,
David B. and Janette Dyer Bannan
2130 Atwood Dr.
Anchorage, AK 99517
(907)274-1184

Nick Begich
P.O. Box 201393
Anchorage, Alaska 99520 U. S. A.
Fax 907-696-1277
Phone 907-694-6081

To: **Senator Jerry Ward**
Senator Jonny Ellis
Representative Beth Kerttula
Senator Drue Pearce
Senator Jerry Mackie
Representative Fred Dyson
Senator Rick Halford

February 28, 2000

Recently the press has announced that BP may be considering the sale of the Alaska assets of ARCO. The attached paper was prepared for the Oil and Gas Committee on the merger and presented with my testimony this summer. The idea has also been the subject of a number of 1-2 hour radio programs around the state and has met with a strong level of support. The concept paper below was developed to stimulate debate which could serve to create an environment where the purchase of ARCO's Alaska assets could be put in front of the public as an advisory vote. At the same time the sale of these assets to the state could serve to stabilize the taxing environment for the industry in Alaska by providing a different route for the state to receive revenues to meet its obligations. This paper shows that the state, through the acquisition of the ARCO assets in Alaska, could resolve its budget problems for decades into the future.

As a result of the events of the last few years the support for the industry is at an all time low. If BP is really considering a sale of these assets and could work with us to make it a ballot issue we could get in in front of the voters by fall. The value of showing the public what could be gained would be a stark reversal from the diminishing revenue picture otherwise presented. BP and its acquisition of ARCO could be viewed as a good thing for Alaska and BP could, perhaps, find a great deal of public support for their company and increased cooperation from the state. The pressure to increase taxes would be gone if the public reviewed the possibility. I believe a group of people could be assembled to push for the cost/benefit analysis and public vote. BP could be instrumental in putting the issue forward and costing out state ownership when the fact that state assets are exempt from taxation making its ownership even more attractive to residents.

I am making this suggestion as a way for us to perhaps build a more effective relationship between BP, Alaskan citizens and others. Please pass this information on to those you are in touch with at BP.

Sincerely,

Nick Begich

NJB

Outline of the Possibility of State Acquisition of Atlantic Richfield

Prepared by Nick Begich

The issues surrounding the ARCO/BP merger place Alaskans at a turning point in the evolution of the oil and gas industry in Alaska. Should Alaska allow a single foreign corporation the opportunity to control 72% of the state's oil and gas?

The regional development of oil world wide has resulted in the creation of two types of major producers – multinational corporations and government owned oil companies and smaller independent firms. In the course of the last several years I have considered the possibility of what would happen if Alaska, like many third world countries, began to produce its own oil. The third world reached a point in their oil development where they began to cost out the value of owning and controlling oil production, resulting in new marketing alliances with the industry while retaining the bulk of the wealth produced through oil and gas production within their boundaries. It became clear to them that the industry's interests were reflected in their stockholders interests regardless of the advertising campaigns conducted by the industry. Perhaps it is time to consider the economic consequences of a state acquisition of ARCO versus a BP oil monopoly on the state's single greatest income producing asset – our oil.

Our relationship with the oil and gas industry has provided Alaska a 12.5% share of royalty oil production and approximately an equal amount in tax revenue. Some other regions of the world have been able to obtain substantially greater shares of their production (In many cases over 50%) while at the same time gaining significant capital investment commitments for producing the oil.

Who owns the Oil?

Alaska owns the oil on state land and is entitled to 90% of the federal tax revenues generated from oil on federal land in Alaska according to the Statehood Act. Each person in Alaska has a vested interest in the development of the state's resources not just by virtue of the existence of the Permanent Fund but because fundamentally the citizens *are* the state of Alaska. Alaskans own the oil as the lessor, as the owner with the industry being our tenant.

Our state constitution also mandates that our resources shall be developed in a manner which offers the greatest benefits to all Alaskans. At the time that North Slope oil leases were being sold to industry Alaska was not in a position to produce its own oil. The best use of the resource at that time was to enter into production leases and create a right-of-way for the transportation of oil from the North Slope to Valdez.

Alaska is in a much different position now in that we have the economic base to reevaluate our role in oil and gas development in the region. We are in a position, we are at a crossroad, where we can choose to be dominated by the stockholder interests of a foreign corporation – British Petroleum – or we can begin to chart our own course through control of the energy resources owned by Alaska. We can no longer let our tenant dictate the course of development.

Buying ARCO - The Price

At the present time British Petroleum (BP) has set a value on all of the world-wide assets of Atlantic Richfield Corporation (ARCO). The Alaska portion of this value could be easily separated from the value of the rest of ARCO's assets. The prorata share of the assets could be valued based on either their income producing history or their depreciated book value or, perhaps, some combination of the two. I believe the value of Alaskan ARCO owned assets would likely range between 7 and 11 billion dollars.

The Assets

ARCO owns about 22% of the oil pipeline(TAPS), 30% of current production and 42% of the gas cap on the North Slope.

The natural gas ARCO owns is several trillion cubic feet and at present it is not being marketed at all.

Additionally, ARCO has already established a complete staff, office complexes and corporate infrastructures needed to operate in Alaska.

The Advantages of Acquisition

Alaska's share of oil and gas moving through TAPs would increase from 12.5% to about 40%.

Permanent Fund contributions could increase over 300% above present levels, resulting in significant increases in dividends in the short and long run. The problem then facing Alaskans would change from worrying about the dividends going down to considering at what level we should cap the dividend, if at all, in order to avoid an increasing influx of people from other states.

Funds available for the State Operating and Capital Budgets would also increase by a similar factor. These funds could be used for a number of things including building water, sewer, road, railroad, ports and other improvements needed in the long term in Alaska.

The State would receive the ARCO share of all oil transportation profits, including those from the operation of the oil pipeline, which over time could repay the State's initial cost of buying the asset in the first place.

Another advantage is that as a state owned enterprise the ARCO assets would be exempt from federal corporate taxes which would further increase the profitability of state ownership. In fact, if the state chose to as part of its acquisition plan, it could divert these funds to Municipal Revenue Sharing in order to replace property taxes in Alaska cities and boroughs.

At present a movement towards the formation of a Port Authority has begun. This initiative would place ownership of the gas line in the hands of some municipalities and boroughs while it should be more rightly placed in ownership by a state if public ownership is being considered at all. Adding this to the asset mix acquired from ARCO together with the state's existing oil and gas interest in development an incredible set of possibilities emerges.

The economic possibilities would put Alaskans in the position to accomplish almost any future vision put forward. The added income to the state from the resources already in production would also change the rate of development of future resources. The pressure to give tax concessions to the industry in exchange for development considerations would end the pressure to develop risky off-shore oil and gas fields would diminish or disappear altogether in the short run and the need to tax citizens would be avoided.

Alaskan employment, hire and in-state contracting issues would be resolved.

Taxes

The idea that Alaskans "pay no taxes" is not true. State revenues are generated by either a direct tax of money from business or individuals or through the sale of Alaskan resources which already belong to the people who reside here by virtue of their state citizenship. The

industry-favorable leases and terms of exploitation negotiated with the oil industry has allowed us the opportunity of avoiding state taxation of private persons in favor of a policy of generating revenue from our resource base. This taxing method is being managed in a way which, in my personal opinion, is unfair to all Alaskans. Acquisition offers us the opportunity of maximizing our income from our resources, perhaps putting off the question of direct taxes forever.

Over the last fifteen years we settled a number of oil tax, royalty and pipeline disputes with our oil "partners". Those settlements resulted in billions of dollars in savings to the oil industry. Most recently, the Knowles Administration, then entered into other agreements which gave the industry "marginal" oil fields virtually royalty free, generating nothing for the state but the promise of a few jobs. Most of the producing fields in Alaska has been underestimated in terms of size after initial drilling programs. Field size is delineated over time. What incentive is there to delineate a field's size when there is a counter incentive to keep it small?

In the coming years additional tax questions will arise for Alaskans. The issue of property taxes will begin to affect Native Corporations which are land based and currently exempt from property taxes. In addition, with the anticipated deceases and perhaps elimination of state municipal revenue sharing, we will be faced with either significant decreases in public services or significant increases in property taxes. The revenue stream produced from the ownership of ARCO could in part be used to eliminate property taxes in Alaska, allowing people to one day truly own their land free off all encumbrances.

Industry Trust

The interest of the oil industry is counter to good public policy in that the industry is accountable first to its stockholders rather than the citizens whose resources they are developing. The Alaska based industry has been a less than good citizen. The pipeline was built on a cost-plus basis with all the costs being assessed against future oil coming through the line. The value of the transportation was based on underestimated oil reserves. The industry then stalled settling TAPS tariff (shipping costs) disputes until the state knuckled under and agreed to an unfair transportation price. The industry also moved on to take advantage of the tax laws in order to avoid paying the state its fair entitlement resulting in multi-billion dollar losses for the state. The industry then captured new tax concessions resulting in increased profits for them and reduced revenue for the state.

What many Alaskans do not consider is that the oil revenue the state gets from its oil is not just effected by the price per barrel but also by the quantity of oil shipped through the pipeline and out of Valdez. The pipeline was designed to ship up to 2 million barrels a day. At present we are shipping 1.3 million barrels per day. The industry can not control the world price of oil but by controlling the shipping and refining they can control the state's income. At the present time a shortage of tankers limits the carrying capacity available for Alaskan crude oil. The ability of a single oil company to constrict the flow of oil and thus the income to the state must be avoided by proper state policing of the industry.

Competition

Competition between BP and an Alaska owned company could take place. ARCO - Alaska really would represent a partnership with Alaskans and it would be free to compete for the opportunities to develop all of Alaska's oil and gas resources available in the future. It would be a company operated by Alaskans for the interests of Alaskans.
The idea the industry has put forward in the past is "if you tax us or change the rules we will go elsewhere," which has been the cry of the oil industry everywhere in the world. Competition between multi-national corporations and a state owned oil company would yield the greatest benefits to all Alaskans.

Method of Acquisition

From my vantage point, the proposals to purchase 72% of TAPS and the Port Authority for building a gas line, while intelligently conceived and meritorious, do not go far enough to protect the public interest. Acquisition of ARCO could take place through a number of possibilities:

1) ARCO-Alaska could be purchased through the use of Alaska Industrial Development Bonds which could be repaid out of the oil revenues and transportation fees.

2) ARCO-Alaska could be purchased by the Permanent Fund.

Summary

This concept paper has been put forward to stimulate public debate of this important issue. The impacts of the issues surrounding the acquisition of ARCO by BP must include an analysis of the option of state ownership. It is in the public interest that this analysis be carried out and the results presented to the public. We have an opportunity to change the

course of our state from one worried about declining revenues at the mercy of a foreign corporation or to create a new vision capable of meeting the challenges we face in the next century. We are the richest region in the world and are being exploited much like a third world colony at a time when we have the resources, talent and capability of rising above the current circumstances and once again gaining control of our state's destiny.

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BLESSINGTON

Subject: BP/ARCO and Thanks
Date: Thu, 01 Apr 99 19:21:47 PST
From: "Bill Blessington" <bbless@sinbad.net>
To: Senator_Rick_Halford@legis.state.ak.us

I appreciate your consideration of a bill to curtail the use of state symbols, badges or authority to influence elections. I know you've been there on the short end.

In regards to the BP/ARCO merger, I really want to thank you for urging extreme caution on the part of the state toward possible effects of this merger. While we already know the jokes about to start circulating on reducing the cost of political contributions by at least 50%, we really need to consider a full run through on the impact on Alyeska, transportation costs and the state's value of crude at Pump One. It would be very easy for values to be "controlled" under these circumstances.

On the other hand, I would suggest there may be a silver lining in this cloud that I can see you describing.

The company(s) will be returning 380,000 acres of active leases to the state. These are propertiers that have drawn the attention and consideration of investment by two of the sharpest oil developers in the state. Their return to the state literally spells a bonanza for attracting the medium to halfway big oil companies to the North Slope and offshore areas that they have been effectively discouraged from entering.

If I may suggest:

1. Make returned leases available for re-lease while the environmental and economic "findings" or justifications for the leases remain in effect. Up for sale under these conditions would be the remainder of the existing lease period with renewals being made according to existing regulation,
2. Direct DNR and the Gov to accelerate a special lease sale system for these remaining leases. These essentially would be a way of transfering one leaseholder's lease to a new leassor without starting up the full selection, investigation and ruling process that takes a long time and exposes everything to the state and federal courts. And,
3. Find some way of encouraging North Slope entry for smaller firms. This will put more chairs at the table and help offset the size of BP/ARCO. It would also trigger a rebirth of the North Slope since new entrants would have access to Alyeska amnd the North Slope common carriers, international markets thru exports and the capability of encouraging gas use.

These acres had to have something to get Sohio's or ARCO's interest. For what could best be described as "choice" property to suddenly come back on the market has to be an opportunity for the state. The technology and infrastructure to develop them has already been proven and is in many areas sitting there waiting to be used because BP won't develop a field here unless it ranks with third world countries (full payback of the investment in 5 years or less.) Domestic oil firms will gladly take half that.

This proposal has within it the ability to launch our oil industry once again.

Thanks again and let me know if I can help.

Bill Blessington

BLESSINGTON, WILLIAM K
HC79 BOX 4870
CHUGIAK AK 99567
District: 26-457 Party: R Sex: M

Bond

Subject: BP Buy-out of Arco
Date: Wed, 31 Mar 1999 10:06:18 -0900
From: "Andrew J Bond" <ABOND@mail.aai.arco.com>
To: Senator_Rick_Halford@legis.state.ak.us

Senator Halford,

I urge you to do what you can to stop this buy-out. You know I work for Arco and of course I don't want to lose my job. But beyond that - this is a bad deal.

I truly believe this will be bad for the state of Alaska. BP will have a monopoly on oil production and future developments on the North Slope of Alaska. This can not be a good thing for the US and the State.

BP will own 70+% of the TAPS, 70+% of Prudhoe Bay, 90+% of Kuparuk, 78% of Alpine, 91% of Milne Point, 60% of Pt. Macintyre and 70% of Badami. So all in all they will own all the infrastructure and most of the reserves and production.

It would be virtually impossible for any other company to attempt to compete for production on the North Slope. Everyone would have to go through BP.

Arco has been one of the most aggressive lease bidders over the years. In comparison BP did not bid at the most recent area wide lease sale. Alaska projects will now have to compete with BP projects around the world. And in most cases they won't compete favorably. So BP is likely to spend it's money elsewhere hurting future developments in Alaska.

Last month when oil prices were under $10 bbl, BP requested that the state change the tax structure. ARCO accepted the State's need for revenue and worked within the existing tax structure.

BP has continually requested special dispensation from the State including substantial changes to royalty rates and royalty reduction statutes and regulations, (i.e. royalty tax reduction at Northstar and Badami). ARCO has not made these types of requests, preferring to use innovation and superior technology to make our projects commercial.

The above are the exploration differences between how ARCO and BP conduct their business. I am vaguely aware production philosophical differences. I believe there have been budget cuts by BP in both the Kuparuk and Prudhoe Bay fields. For example, BP capital cuts were responsible for laying down three rigs at Prudhoe. BP shut down production at Badami. BP has delayed start up at both Liberty and Northstar. BP has delayed delineation drilling at Sourdough. In contrast, ARCO has delayed production only at West Sak. Alpine is going forward with only minor reductions. (That may change when BP takes over that field). ARCO has continued Prudhoe satellite drilling (Midnight Sun, NW Eileen).

This a bad situation for Alaska - please do what you can to stop this from happening.

Andy Bond
12100 Woodway Circle
Anchorage, AK 99516

BOYER

Subject: Stop BP!
Date: Mon, 05 Apr 1999 12:33:17 -0400
From: Trish and Darryl Boyer <SurfaceInterval@ce.net>
Organization: Surface Interval Wreck Diving Charters
To: email@murkowski.senate.gov

As a concerned U.S. citizen, I must express my dismay at the news of the probability of a takeover of ARCO by BP. Do you really want a huge foreign company taking over the state of Alaska? I for one, do not. Please vote this matter down!

Patricia A. Boyer
--

Surface Interval Wreck Diving Charters
Diving Mid-Atlantic wrecks from Indian River Inlet, Delaware
Tel: 302-422-DIVE * Fax: 302-424-1990
Email: SurfaceInterval@ce.net * Web page: www.ce.net/surf

Britten

The Greenbrier

Re: BP/ARCO

4/13/99 **POM**

Dear Sen. Pierce -

I am concerned about the BP/ARCO acquisition. While it is nice to see the Governor taking the steps he is to review the deal, I think you need to ensure the state's interests remain foremost. We need to make sure that BP manages their leased lands in the best interests of Alaska, not the best interests of BP. The two may be in conflict in some areas.

Thank you!
Eric Britten

ERIC BRITTEN
17530 STEAMBOAT DR.
ANCHORAGE, AK 99516

Brudie

Public Opinion Message

ATTN: Senator Drue Pearce

I do not wish to become a colony of Great Britain with regards to the State of Alaska, the BP/ARCO merger would leave far too much money and power in the hands of one company. While I am sure that BP is a good "Corporate Citizen", the bottom line is BP's world-wide profit. GP's global profit structure and the predation of their prime competition in the State of Alaska are a bad combination.

How about a tea party?

Eric Brudie
2212 Roosevelt Drive
Anchorage, AK 99517

ROSS COEN

P.O. Box 82718 • Fairbanks, Alaska • 99708-2718
(907) 479-6946 • ross@mosquitonet.com

OCT 12 1999

October 6, 1999

Governor Tony Knowles
P.O. Box 110001
Juneau, Alaska 99801

Dear Governor Knowles:

This letter is in response to the briefing given by Commissioner John Shively before the Joint Committee on Mergers on 9/25/99. The purpose of his briefing was to address, on the request of Senator Rick Halford, Chair of the Committee, the points raised by *Backbone* in their letter of 9/22/99.

I believe that Commissioner Shively's briefing failed to adequately address what are very important points raised by *Backbone*. Essentially, he stated in very few words and fewer details that every point is either not important or already being addressed by the Administration.

For example:

- With regard to the discrepancies in the wellhead value of BP and Arco's oil, the Commissioner stated that these things are "already regulated" and thus apparently not a target of the Administration's focus. Additionally, the Commissioner intimated that the state "has ways" to negotiate these wellhead values if they become a problem. What exactly are these "ways"? And are discrepancies in wellhead values a target of the administration or not? The statements made by the Commissioner left me with more questions than answers.

- With regard to maintaining competition on the North Slope, the Commissioner stated that this is already the primary focus of the Administration, but he offered no specific details of how exactly this is to be accomplished (other than the divestiture of some 350,000 acres of lease, something already required by state law). It seems to me – an admitted uninitiated observer – that the Administration has taken a provision already required under state law and dressed it up as a condition of the merger under the vague guise of attracting another major oil developer. Furthermore, the state already has two major oil developers: BP and Arco. It appears that we are simply doing BP a favor by assenting to their business wishes, and in doing so altering the climate of our oil industry for their profit, not ours.

- The issues of access to and tariffs for TAPS was also glossed over by the Commissioner. While taking notes in the gallery on these topics I found myself with an empty page because seemingly nothing substantial was said. Yet during the Q&A by the legislators, the Commissioner admitted that "the current tariff schedule (on TAPS) is anti-competitive." This sounds remarkably similar to your sentiments in the August 23 speech before the Anchorage Chamber of Commerce. Yet at the same time, I have not seen or heard anything that the Administration plans to do about this situation. Furthermore, any tariff reduction may be meaningless if it comes down from an artificially high starting point. The people of Alaska should be privy to information now treated as confidential, such as the maximum ceiling for tariffs under TSM, in order to assess whether tariff reductions are meaningless or worthwhile.

- Commissioner Shively altogether avoided the point about published North Slope facilities charges (as in your 8/23/99 speech). It is my understanding that this goal is difficult, if not impossible, to obtain. What is the status of this issue?

- Finally, the Commissioner stated that the state's natural gas should be made available for development to "any viable project." What exactly does this mean? Does the so-called Pipeline Mayor's proposal qualify? Or has BP committed (in a form other than a feel-good TV commercial) to develop Alaska's natural gas in lieu of their other substantial worldwide deposits, such as those in Azerbijan? Again, the briefing by Commissioner Shively left me with more questions than answers.

I believe that the many issues raised in the 9/22/99 *Backbone* letter merit serious consideration. But I must say that the briefing given by Commissioner Shively was lacking in details to an alarming degree. Indeed, his entire briefing lasted less than 15 minutes and I fail to see how the enormity of these issues can be addressed in so short a time. Much has been made lately of the relative secrecy surrounding the Administration's review of the BP-Arco takeover. I respectfully request: (1) that the Administration consider and act on each and every point raised by *Backbone*, and (2) that in all public forums, including briefings given before the legislature, the Administration not act in a dismissive manner cloaked in secrecy and a "trust us" mentality.

Sincerely,

Ross Coen

Cc: Commissioner John Shively
Senate President Drue Pearce
House Speaker Brian Porter
Senator Rick Halford
Representative Joe Green
Senator Johnny Ellis
Representative Beth Kerttula
Representative Jim Whitaker

Davis

POM

DATE: 4-13-99

TO: Senator Drue Pearce - Via Fax: (907) 465-3872
Representative Brian Porter - Via Fax: (907) 465-3834

FROM: Mr. Marion Davis
11511 Brayton Drive #C-1
Anchorage, AK 99516

RE: BP/ARCO Merger

While we can't stop the merger, I applaud your concern, as well as the Governor's. Moreover, this merger is created to provide economic benefit to BP.

Alaskans should not be forgotten at the expense of "big oil" and suffer economically as we did in the mid-80's. Please protect our interest to ensure a stable business environment in Alaska and not give in to every PB request.

Regards,

Marion G. Davis

Marion G. Davis
(907) 348-8856

From the desk of **Richard A. Fineberg**

P.O. Box 416 Ester, Alaska 99725
(907) 479-7778 ◦ Fax: 479-7770 ◦ E-mail: fineberg@alaska.net

== (Copy Express Mailed to Port Alsworth Sept. 3) ==

September 1, 1999

Governor Jay Hammond
Alaskaland Civic Center
Fairbanks, Alaska

Dear Governor Hammond:

I wanted to tell you how much your involvement in the ARCO-BP merger issue is appreciated. For those of us who labor in the oil policy arena today, it is truly inspiring to work with you and the other figures who have returned to offer the benefit of your experience and skills at this crucial time.

The primary purpose of this note is to tell you why I believe the call for a 1/3-1/3-1/3 split of the "take" may not be beneficial at this time. Based on work I did last year on the respective shares of the economic rent from North Slope production and TAPS, it appears to me that the federal government now receives less than 1/3 because federal income taxes were reduced in 1986 (from 46% to the present level of 35%, net of state royalty and taxes).

According to my analysis, for the five years between 1993 and 1997 the three-way split was approximately:

- Industry 43%
- State 33%
- Federal 24%

These results are consistent with those of the Department of Revenue's 1989 earlier accounting study by Edward B. Deakin, which was commissioned by Hugh Malone (it covered the 1977-87 period).

Note also that at the unusually low prices that prevailed through 1998, the state apparently got the upper hand. The split was approximately:

- Industry 37%
- State 41%
- Federal 22%

Finally, as prices rise, the approximate split of the incremental dollar is:

- Industry 50%
- State 25%
- Federal 25%.

Unless I am mistaken, over time the state does get roughly 1/3 of the profits from North Slope production and TAPS. But the industry gets a significantly larger share unless prices are low (as in 1998); in this case, the State gets a share larger than 1/3. To re-establish equity, I believe that the root of the problem we need to address is this: As oil prices go up, for every $1 that we receive, the industry takes $2. The disparity between Alaska's "take" and that of the industry grows as oil prices go up.

To allow the state to share more equally in the gains from North Slope development, in February of this year, Oilwatch Alaska proposed an incremental tax called the Windfall Equal Sharing Tax (WEST). This is a "win-win" proposal; it allows the state to share more equally in the gains from oil price spikes, but industry's revenue also increases with rising prices (but at a lower rate than under the current regime). The details of the WEST proposal are contained in the attached short paper. (As the report notes, there may be better ways to skin this cat. To the best of my knowledge, however, this proposal has not received serious consideration from public officials.)

By way of background information, I am also attaching my December 1998 report to Oilwatch Alaska reckoning North Slope production and pipeline profits; annual percentage shares for 1993 through 1998 are summarized at Table 4.1 (p. 60). This model is far from perfect; among other things, my income tax calculations are klutzy and I do not have access to confidential data. But if better aggregate estimates are available to the public, I have not found them. (Officials in the oil and gas divisions at the Departments of Revenue and Natural Resources have charitably stated that these estimates are "in the ball park.")

Again, thank you very much for your return to this arena and the privilege of working with you. Please let me know if you have any questions, or if I can provide additional information.

Sincerely,

Richard A. Fineberg

cc: Sen. Rick Halford

From the desk of

Richard A. Fineberg
P.O. Box 416 Ester, Alaska 99725
(907) 479-7778 • Fax: 479-7770 • E-mail: fineberg@alaska.net

Via Fax

September 19, 1999

Senator Rick Halford
Chair, Join Special Committee on Mergers
c/o Legislative Information Office
Anchorage, AK 99510

Dear Senator Halford:

I am writing to tell you the reasons why I believe it is a matter of utmost importance to the history of the State of Alaska that the Legislature convene a Special Session as soon as possible to deal with the proposed ARCO-BP merger. Before I make this argument, I want to express my appreciation for your efforts to get your arms around the key issues. As you may recall, my basic education in the arcane world of oil and gas came in three stages: as a freelance reporter covering pipeline construction and start-up (1975-78), as a policy analyst at OMB (1984-86) and as Senior Advisor to the Governor on oil policy (1987-89). Since then, I have spent a decade focusing primarily on North Slope economic and environmental issues, consulting primarily for government and non-profit organizations. This background gives me some sense of the intricacies of oil and gas policy, as well as an understanding of the time and effort it takes to develop the familiarity prerequisite to informed policy deliberations. As you and other political leaders attempt to deal with the problem Alaska now confronts, I have been inspired to see figures from an earlier day — most notably former Governors Hammond and Hickel — returning to offer the benefit of their experience at this crucial time. As you may recall, shortly after the merger was announced these two perennial political foes united to suggest a Special Session on the merger to the House Special Committee on International Trade.

In the last few days, I have been offered two glimpses into the manner in which the State's merger policy deliberations have unfolded. First, I was given the opportunity to review and consider some of the key points covered in the Aug. 27 Joint Special Committee meeting with the Governor (accompanied by the Attorney General for much of the session, and by other staff from the Divisions of Oil and Gas Audit [ADOR] and Oil and Gas [ADNR]). Second, on Friday afternoon I had a long meeting with my old friend and mentor, Revenue Commissioner Wilson Condon. What

I have been able to learn indicates that the concerns that many of us had after the Governor's peculiar policy statement Aug. 23 were well founded — and that we are rapidly approaching the point at which decisive action must be taken to enlist FTC support to deal with the problems posed by the proposed merger. One thing that is crucial at this time is that you and other members of the Legislature carefully distinguish BP's reassuring statements from the actions that any company's managers and directors ultimately must take to represent their corporate interests. The oil and gas industry and the State of Alaska both seek to maximize their respective shares of the net revenue "take." Therefore, at the end of the day, the State of Alaska must part company from its industry partners, who are responsible to their shareholders to maximize their portion of the same North Slope revenues. In the following paragraphs I will summarize five topics of concern, all of which flow from this basic understanding.

1. Many of us were surprised by the Governor's statement August 23 that he would seek posted North Slope facilities charges. How would this work? What charges would be posted? Where would they be posted, and under whose auspices? The Attorney General told me after the speech that he had no idea how the Governor intended to accomplish his stated goal; I understand you were advised Aug. 27 that some on the Governor's team think it is "impossible" to attain that goal. Commissioner Condon stressed the importance of divestiture of North Slope acreage and production, but he did not enlighten me as to how the State of Alaska wants field facilities charges to be posted. When key members of the Merger Review team and those who would have to implement that policy cannot tell us what a purported cornerstone of the Governor's policy statement means, how can members of the Joint Special Committee or the public have confidence in the outcome of the negotiations between the Governor and BP officials that are now taking place?

2. Let me turn now to a second problem that may require additional attention — the $2.75 per-barrel reported difference between the royalty prices reported by ARCO and BP in June 1999, which your Committee questioned in its Aug. 20 letter to the Attorney General. You were advised Aug. 27 that June was an isolated and extreme example of a smaller gap that has existed for the last three years. As I understand it, you were told that the gap is caused by BP's higher tanker charges; the implication of the Administration's explanation was that there is no serious problem because the June 1999 difference can be explained.

Of course those differences can be explained; if the filed royalty reports couldn't be justified, those who filed the reports could go to jail.

What is necessary is to take the explanation to the next level. The rationale presented Aug. 27 — that BP's tanker charges are significantly higher than ARCO's due to different royalty settlements — begs this question: In any given month, are BP's charges in line with international tanker rates for that month? A second question is this: since the Asia market is relatively new and the major impetus to repeal the Export Ban was to reduce ANS tanker charges, should we be concerned about tanker costs on that route that are twice the West Coast charge? In view of a 20-year history of audit controversies, I find it somewhat disturbing that you were also advised Aug. 27 that BP's filed tanker charges may have been too high since the 1991 royalty settlement, but that the audit cycle runs four to six years behind the actual filing, so officials do not know for sure exactly how great those discrepancies might be. In other words, the State of Alaska suspects it is being short-changed, but we don't know by how much.

I do not know what information prompted your committee's initial question, or what "spin" accompanied the information you received in response regarding possible tanker over-charges at this time and the efficacy of the State's efforts to correct such problems. But my concerns remain, based on the following:

- (1) tanker overcharges are one element of more than $6 billion the Stateof Alaska has been forced to litigate to collect from our North Slope "partners" over the past 22 years;
- (2) in some instances the industry has not dealt in good faith regarding tankers (in 1989, for example, we sued North Slope producers for fraudulent tanker over-charges; in the early 1990's BP and its subsidiaries illegally barred from Valdez an independent tanker company that planned to transport ANS more cheaply than BP); and
- (3) industry managers may be in violation of their responsibility to their shareholders if they don't push their under-reporting to the maximum allowable limit.

In sum, the overview data you were given on royalty price discrepancies appears to support rather than resolve the questions the Joint Special Committee originally asked. You may be satisfied that the problems I have identified here were clearly laid out for you, along with explanations why managers of our public resources feel comfortable, despite these problems. Otherwise, I believe that this example is one of many that demonstrate the importance of ensuring that you have applied your best efforts to the effects of the proposed merger on this and a host of other important questions that are crucial to the state's revenue picture.

3. A third issue concerns the Administration's treatment of Trans-Alaska Pipeline System (TAPS) issues. In July, seven environmental and public interest groups called for escrow of the money the TAPS owners have collected but were not required to escrow (more than $1.5 billion to date, with an estimated net present value, according to my calculations, of $4.5 to $4.9 billion). The Governor was silent on this subject. Commissioner Condon told me he does not think it would be appropriate to revisit TAPS DR&R issues because those provisions were part of a package settlement the State of Alaska negotiated and agreed to back in 1985. But the Governor stated Aug. 23 that he would seek changes to another part of that same 1985 agreement by seeking reductions to TAPS tariffs. Commissioner Condon did not explain why the State feels it cannot challenge one part of the package (DR&R) but may challenge another ("after-tax margin"). I believe that the argument that individual elements of the settlement package cannot be isolated for analysis erodes our system of checks and balances; using this standard, there is no basis for evaluating any action the Administration presents as part of a settlement "package."

The Governor's statement that he seeks lower TAPS tariffs was heartening. But how much lower should TAPS tariffs be? Unfortunately, without data on the maximum allowable rates under the 1985 setlement agreement and the operation of the annual tariff "true-up" provision, the bottom-line tariff rates don't tell you much. Moreover, the State has testified against a challenge to reduce the same TAPS tariffs before the APUC/RCA. Against this complicated backdrop, I have seen no indication that discussions of TAPS have been leavened by the diligent, independent review of the experts who were retained by the Administration to review merger issues. I believe that focus on North Slope facilities ultimately will fail to bring other companies to the North Slope unless we correct serious problems related to the operation and regulation of TAPS — problems that are by no means limited to tariff rates and DR&R. Whether or not you agree with my viewpoint on TAPS, many informed observers share the concern that independent analysis is particularly necessary for TAPS-related issues because some leaders of the State's merger review team were directly involved in the 1985 TAPS settlement.

4. I am advised that BP officials have stated privately that questions about its proposed ARCO acquisition are nothing more than an environmentalist conspiracy to halt development in Alaska. I consider this claim to be inaccurate, misleading and malicious; I hope it is not an example of what we can expect of BP's attitude toward Alaskans in the future. As a consultant working on a variety of North Slope development

issues over the years, I have probably received more than one-third of my consulting income from environmental groups; that funding is typically acknowledged publicly. If, by chance, the alleged charge is supposed to include myself, I want to state that I deeply resent it and I flatly deny it. I believe I have a clear track record — in state service, as a reporter prior and as an independent consultant subsequently. I like to think that those who have reviewed my work objectively agree that I have always provided the most accurate public information available, that I have endeavored to separate fact from opinion and that I have clearly stated and documented the bases for my opinions. If representatives of BP are attempting to gloss over the concerns of Alaska citizens such as myself with a grossly unfair and inaccurate brush, I hope that your professional training will enable you to see through and quickly reject this divisive and deceptive ploy.

5. Alaska's citizens can expect to find it even more difficult to obtain information about North Slope operations in the future; that's because BP's reporting requirements under the Securities Exchange Act are different from those of a U.S. firm (ARCO's July 16 *Proxy Statement / Prospectus,* pp. 53-55). And as a result of the proposed merger, it will also be more difficult for Alaskans to use the courts to redress any problems that may arise (*Proxy Statement / Prospectus,* p. 135). I have tried —with limited success — to glean information from and then interpret those documents that BP does file (see, for example, my December 1998 report to Oilwatch Alaska, *How Much Is Enough? Estimated Industry Profits from Alaska North Slope Production and Associated Pipeline Operations, 1993-1998);* I have also had the opportunity to participate in and evaluate portions of the litigation the State has been forced to engage in to obtain approximately $6 billion in settlement of underpaid State royalties and taxes. On the basis of this experience, I can only hope that those of you who are responsible for merger review have taken steps in both areas to remedy the problems that ARCO identified for its shareholders in the merger prospectus.

The points I raise here do not comprise a complete laundry list or policy guide; rather, these examples should be taken as indications of work yet to be done regarding this important issue. With so much at stake in the analysis of BP's proposed acquisition of ARCO, I believe those of you who will shape State policy for decades to come must devote your best efforts to identification and resolution of the central problems before allowing the merger to go forward. In view of (1) the complexity of the issues, (2) the difficulty one encounters obtaining appropriate and substantive information

and (3) the imminence of final decisions that will be crucial to the future of the State of Alaska, I strongly urge you to call a Special Session to focus your best resources on the proposed merger at the earliest possible date. With thanks for your good will, your efforts and your consideration, I am

Sincerely,

Richard A. Fineberg

Comments of Richard A. Fineberg

P.O. Box 416, Ester, Alaska 99725 (fineberg@alaska.net)

on provisions regarding TAPS in the Proposed State / BP "Charter for Development"

Anchorage, Alaska — November 19, 1999

I. Introduction

In their headling rush to support BP's quest for speedy ratification of its proposed acquisition of ARCO, State officials seem to be having a difficult time stating accurately even the most basic facts regarding the development of this merger proposal. In my estimation, an erroneous introductory graphic — compounded by the even stranger supporting mis-statements by the Governor and Attorney General at the Anchorage "town meeting"[1] — place an Orwellian, nightmarish pall over the State's lamentably flawed and superficial merger review process. In the hope of raising the level of public understanding of key elements of the proposed State/BP "Charter," my remarks focus on specific aspects of the Governor's merger conditions.

II. Partial Divestiture of TAPS: A "Solution" Guaranteed to Fail?

The State's astounding unwillingness to look objectively at the economic implications of the operation of TAPS is demonstrated once again in the current merger review process. Even though the Governor and Commissioner Shively have both acknowledged publicly that TAPS tariffs are too high and that TAPS poses a barrier to competition (a welcome change after 14 years of denial), the Governor's Aug. 23 demand for reduced pipeline tariffs did not make it into the proposed "Charter for Development." Instead, the Governor settled for limited, partial divestiture. The Governor says this will achieve the same results — lower tariffs and a competitive playing field. I believe the State/BP logic is demonstrably flawed and, consequently, that the TAPS terms in the proposed "Charter" are liable to work to inhibit competition and reduce State revenues.

• The State/BP pipeline divestiture proposal relies on matching ownership in production to ownership in the pipeline. The experience on TAPS and the North Slope demonstrates that it is very difficult — if not impossible — to match TAPS ownership to field production. Even if this could be done, the production percentages are apt to change significantly as reservoirs deplete and new discoveries come into production. The small-percentage TAPS owner is particularly handicapped. The owner with excess space on the pipeline must still bear the burden of the fixed costs. But if the small owner has too much production, it is once again subject to discriminatory practices by the major TAPS owners.

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[1] At the start of the so-called "town meeting" in Anchorage Nov. 16, the State's fifth introductory slide claimed that the Governor's conditions to ensure North Slope competition included "tariff reduction or divestiture on TAPS." In fact, when the Governor finally revealed his stand on the merger to the public in a speech before the Anchorage Chamber of Commerce Aug. 23., he did not identify partial or total divestiture of TAPS as a policy goal. At the Anchorage "town meeting" on the proposed merger Nov. 16, when a citizen questioned whether divestiture was identified as a goal in the Governor's Aug. 23 speech, both Governor Knowles and Attorney General Botelho stated that it was. As I attempted to state in the short time allowed for public comment that night, the written record indicates they spoke in error. In addition to reviewing the Governor's pres release and the written text of his remarks that day, I have asked more than a dozen people who attended that speech, including reporters who listened to the Governor's statements after the speech. Like myself, none of them recall the Governor making any reference to divestiture on TAPS Aug. 23 (just three months ago).

(Amerada Hess and Mobil are examples of companies that sold or traded North Slope interests in the 1990's while holding a minor interest in TAPS.)

• Allowing producers with current production to buy a piece of TAPS does nothing to alleviate the problems of the prospective explorer or lease bidder with no current production and no ownership in TAPS. (Sec. 1.G. — which should not be necessary if common carrier requirements effectively prevent discrimination, as the State and BP claim — appears to do little more than secure for BP minority interest shimpents on TAPS at BP's tariff, which is currently significantly higher than that of any other TAPS owner.)

• The Governor's peculiar way of seeking lower tariffs could easily backfire: Because ARCO has already recouped its investment on TAPS, any new TAPS owner will have even greater incentive to increase tariffs than ARCO, whose present tariff is $0.40/bbl. below that of BP for reasons that have not, to my knowledge, been disclosed to the public. The proposed "Charter for Development" would try to replace low-tariff ARCO with new owners who will have even greater incentive to raise their tariffs than other shipper-owners: to recoup their capital outlay.

The history of North Slope development demonstrates that producer-owned pipelines like TAPS just don't work. The producer-owner has a built-in incentive to keep the tariff high to reduce the state's royalty and severance basis; every time the owner cut the tariff you're slitting your own throat. Here is some of the historical evidence indicating that divestiture of a small interest in TAPS will not guarantee a level playing field:

• In the 1985 TAPS settlement, three of the small owners had to be offered a $0.03 per barrel subsidy just to enter the TAPS settlement agreement because the terms of the settlement anegotiated with major TAPS owners handicapped the small-percentage owners.

• In the 1998 Maritime Overseas court case, an independent tanker owner argued successfully in court that the TAPS owners abused Alaska's tanker laws to keep the independent tanker out of Valdez.

• Minor TAPS owners Amerada Hess and Mobil are two of the six major domestic oil companies that sold production or discoveries capable of production and left Alaska during this decade. In every case but one, the departing company left its property to major TAPS owners ARCO or BP (the sixth sale was to Forcenergy, a small company that soon went into bankruptcy). This pattern suggests that major TAPS owners may use control of TAPS as a barrier to competition, an historical pattern suggested by FTC and Justice Department staff reports.

III. Conclusions

In view of the inherent complexity of the important issues relating to the proposed merger, it is highly unrealistic and unfair to expect members of the public to be able to provide meaningful input on such short notice. In my estimation, before the Governor negotiated the terms of his proposed charter grant to BP, the public should have been involved in the formulation of policy on these and a host of other operational issues that will affect the future of Alaska. Moreover, the blatant mis-statement of fact by the Governor and the Attorney General Nov. 16 (claiming that TAPS divestiture was identified as a State "condition" in August) combines with limited opportunity for public input on a crash time-table to turn the noble concept of the "town meeting" to a shabby and lamentable travesty.

From the standpoint of effects (as opposed to process), secret policy formulation, lack of time for policy review and mis-statement of fact make it extremely difficult (if not impossible) to conduct the kind of analysis that would identify problems such as those summarized here — problems whose significant effects on North Slope competition could swamp benefits that might (or might not) be obtained through other provisions of the proposed "Charter."

From the desk of

Richard A. Fineberg
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(907) 479-7778 • Fax: 479-7770 • E-mail: fineberg@alaska.net

Via Fax

November 26, 1999

Attorney General Bruce Botelho
PO Box 110300
Juneau, Alaska 99811-0300

Dear Mr. Attorney General:

The Administration's slide presentation with which you introduced the proposed "Charter for Development" with BP at the public meeting in Anchorage (and around the state) last week claims that the Governor's conditions for merger approval included "lower tariffs or divestiture on TAPS" (emphasis added). In response to the question of a confused citizen at the start of the Anchorage "town meeting" November 16, you and the Governor both said that TAPS divestiture was always a part of the state's prerequisites to ensure competition on the North Slope. If this is the case, why did the Governor fail to identify partial or total divestiture of TAPS as a policy goal when he revealed his position on the merger at the Anchorage Chamber of Commerce August 23?[1]

To the best of my knowledge, prior to release of the proposed "Charter for Development" November 5 there was no public disclosure that the Governor and BP might seek partial divestiture of TAPS commensurate with newly acquired production shares.[2] Had knowledge of this proposed course of action been available publicly, informed citizens with sufficient background to understand the problems with the direction you have taken would have challenged this proposal.

This letter will not repeat the reasoning and the historical evidence that leads some knowledgeable observers believe partial divestiture on TAPS

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[1] The relevant pages of the Governor's Aug. 23 speech and press release are attached; divestiture of TAPS ownership is not mentioned and the single stated goal on TAPS is lower tariffs. I have asked more than a dozen people who attended that speech, including reporters who listened to the Governor's statements after the speech; none recall the Governor making any spoken reference to divestiture on TAPS Aug. 23.

[2] Outside of government officials, who claim they discussed partial divestiture in secret meetings, nobody with whom I have spoken recalls public discussion of partial divestiture of TAPS as a merger condition prior to release of the proposed "Charter for Development" Nov. 5.

may not reduce tariffs significantly or enhance North Slope competition.[3] Rather, I write to express my concern about your role in the efforts to change the record retroactively to support the Administration's position.

Mistakes happen. But instead of acknowledging the error in the slide when it was called to your attention Nov. 16, both you and the Governor attempted to convince the audience that the slide was correct and the questioner mistaken. That evening, I used some of my allotted three minutes to address this problem; I also tried to bring it to your attention in a brief conversation after the meeting. Despite these efforts to correct the record, at the second Anchorage meeting Nov. 19 the Administration continued to mislead the public using the same slide.[4]

On a statewide radio call-in program Nov. 23, David Boies declared emphatically that the merger settlement accomplished all of the Governor's stated goals. A caller corrected Boies, noting that the proposed Charter clearly failed to meet at least two of the six conditions the Governor announced Aug. 23 as necessary conditions for merger approval — conditions regarding TAPS tariffs and North Slope acreage selection. That caller was former State Senator Chancy Croft, a Democrat, a Knowles supporter and — perhaps most importantly — an attorney who played a central role in establishing state oil policies as a legislator in the 1970's.

Based on the record summarized here, it is difficult to avoid the conclusion that the Administration has misled the public by changing the merger policy goal on TAPS retroactively. Further, the Administration's refusal to own up to this obvious mistake mirrors the discovery by the press last week that the Administration's unseemly haste to wrap up merger negotiations stems not from a deadline imposed by the FTC, as you asserted in the Anchorage meeting Nov. 16, but from the Governor's desire to accommodate BP.

As a matter of principle, Bruce, I believe that political leaders cannot change the written record without eroding — with serious consequences — the bases for public trust in their government. More narrowly, if that

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[3] For the outline of the case against partial divestiture and in favor of total divestiture on TAPS, please see the written comments I submitted Nov. 19 and the testimony you have received from others familiar with the manifest failures of the TAPS pipeline rate-setting system.

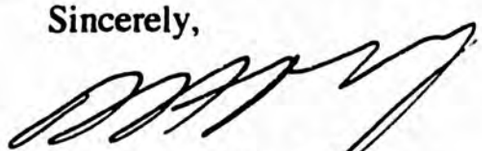
[4] While three representatives of the administration stood by the position that partial divestiture on TAPS was always a goal of the State, none of the three could cite an instance when that condition was disclosed to the public as an alternative to (or means for securing) lower TAPS tariffs.

written record can be changed by revising goals afterwards, you will always be able to claim that your negotiations were successful. It was to make these points that I signed up to testify again last Saturday. I understood that people who testified at the first meeting might not be allowed to speak again so that everybody could be heard for three minutes. But when the hearing concluded 30 minutes early, I was surprised that you and the Governor denied my request to speak briefly, despite the fact that time remained and nobody else was waiting to be heard.

When we met in the 1980's, I sought you out to make you aware that the Department of Law's public disclosures of confidential oil and gas litigation matters failed to achieve high standards of accuracy. For the next several years, you and I worked together as state bureaucrats to further public interests and improve the state's administrative process for dealing with confidential oil and gas issues. After I left state service, I began documenting my concerns in published reports. Since then, we have differed on specific issues, ranging from policy decisions to the consultants the state has used over the years on TAPS and is now using in the current merger settlement. When you have, on occasion, blatantly mis-stated the record, I have tried to tell myself that we still share similar values and goals, but that mistakes inevitably happen when people are very busy. The events of the past two weeks have deeply shaken that belief.

In my estimation, the Knowles Administration's failure to insist on the highest standards of honesty and accuracy during recent deliberations casts a nightmarish, Orwellian pall over the state's flawed and superficial merger public review process. By mis-stating the record and then by refusing, when questioned, to acknowledge and correct your error, I believe that you and the Governor have debased the public process and failed the public trust. It saddens me to think my former colleagues would dissemble in public in pursuit of the selected policy objectives of their boss.

Sincerely,



Richard A. Fineberg

Attachments:
Administration's "Powerpoint" Slide #5 (11/99)
Excerpts from Governor's 8/23/99 speech and
Press Release #99-174

From the desk of

Richard A. Fineberg
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December 23, 1999

Mr. Robert Pitofsky, Chairman
Federal Trade Commission
600 Pennsylvania Ave., NW
Washington, DC 20580

Dear Chairman Pitofsky:

Re: Proposed Merger of BP Amoco and ARCO

In this letter I argue that the Federal Trade Commission should reject the proposed merger between BP Amoco (BP) and ARCO unless BP divests its interest in the Trans-Alaska Pipeline System (TAPS) and other common-carrier feeder pipelines on the North Slope. The proposed "Charter for Development" between the State of Alaska and BP, as amended Dec. 2, 1999 (the "Charter") is liable to increase BP's share of TAPS, thereby exacerbating — rather than curing — the demonstrated anti-competitive effects of TAPS. This analysis is focused on competition in Alaska's oil patch and does not depend on judgments regarding West Coast (Lower-48) crude and refined product markets. However, information presented here may support arguments that the proposed merger's restructuring of Alaska supply and delivery systems would have serious anti-competitive effects on Lower-48 markets.

I have observed Alaska oil and gas developments during the three decades since the discovery of the super-giant Prudhoe Bay oil field. As a reporter during the 1970's, I wrote extensively on the construction of the Trans-Alaska Pipeline (TAPS). From late 1986 through late 1989, I was privileged to deal with oil and gas issues as a special advisor to the Governor of Alaska. Since that time, I have consulted (primarily for government and non-profit organizations) on economic and environmental aspects of North Slope development. These experiences led to my 1997 report, *The Big Squeeze: TAPS and the Departure of Major Oil Companies Who Discovered Oil on Alaska's North Slope;* a copy of that report, which provides background on the manner in which TAPS functions as a barrier to North Slope competition, is attached.[1] This letter is limited to pipeline issues. However, like many other Alaskans from whom you have heard, I also

[1] My resume, as well as other reports, commentary and information on the proposed merger, have been submitted to the Bureau of Competition.

oppose this merger on the basis of its other anti-competitive consequences, as well as on broad social policy grounds.

Along with other critics of the current Governor's proposed Charter, my views oppose the considerable knowledge and experience the State has brought to the table in support of its position. As you evaluate these divergent views, please note that many observers have concluded that the State of Alaska's posture regarding pipeline tariffs has been pliable rather than aggressive since a sudden shift in Alaska's policy that led to the settlement of the TAPS rate case in 1985,[2] and that many of the people who played significant roles in the 1985 TAPS settlement for the State of Alaska now form the current Governor of Alaska's merger policy team.[3] The record demonstrates that Alaska officials have been unwilling to consider viewpoints opposing their chosen policies; to this end, they have obscured key points related to pipeline operations on various occasions.[4]

Four items from the recent history of North Slope development clearly demonstrate that TAPS may impact North Slope competition:

• 1. During the 1990's, 14 out of 21 companies that produced oil on Alaska's North Slope ranked among the nation's top-20 domestic liquids producers. In terms of North Slope volume, all were small producers except ARCO, BP and Exxon, who controlled more than 92% of North Slope production and a similar share of TAPS. At the end of this decade,

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[2] A particularly revealing example is the colloquy between U.S. Rep. Norman Sisisky and a representative of the Alaska Attorney General in U.S. House of Representatives, Committee on Small Business, *H.R. 245 and Trans-Alaska Pipeline System Tariffs* (Washington, D.C.: GPO, 1985), p.157 (quoted in *The Big Squeeze*, pp. 4.17 - 4 .18).

[3] In February 1985, the present Alaska Commissioner of Natural Resources (then Chief of Staff to the Governor) summarily terminated an internal review of the TAPS settlement; a contract attorney who has played a central role in the current merger proceedings has represented Alaska in pipeline matters at FERC for the past 15 years; in 1982 the contract attorney was recommended for pipeline counsel duties by the present Alaska Commissioner of Revenue (then Alaska's Attorney General).

[4] For examples, see Richard A. Fineberg, *The 1985 TAPS Settlement: A Case Study in the Effects of Confidentiality on Information Available to Decision Makers in Oil and Gas Revenue Disputes* (prepared for the Alaska State Legislature, Feb. 5, 1990).

More recently, in responding to *The Big Squeeze* in 1997, the Attorney General of Alaska mis-stated the thesis of the report, which was that "the major owners of the Trans-Alaska Pipeline (TAPS) — ARCO, British Petroleum (BP) and Exxon — may be strangling their competition in the same manner that the Rockefeller Trust did . . ." (*The Big Squeeze*, p. ES-1; emphasis added). The Alaska Attorney General omitted the word "major" from his statement of the fundamental premise and then proceeded to flail at this straw-man of his own creation, stating: "The report observes that Amerada Hess . . . sold its production interests on the North Slope. But Amerada Hess owns part of TAPS. Clearly, whatever caused Amerada Hess to sell its production interests, it was not conduct by its TAPS affiliate. . . ." (letter from Attorney General Bruce Botelho to Jim Sykes [Executive Director, Oilwatch Alaska], Nov. 7, 1997, pp. 4-5 [copy attached]).

if the ARCO-BP merger is completed as proposed, only seven of those companies will still be producing. In eight out of nine major transactions in which large domestic liquids producers abandoned North Slope production or discoveries capable of production, the acquiring company was major TAPS owner ARCO or BP. (In the only exception to this pattern, in 1997 Marathon transferred Prudhoe production to Forcenergy, a smaller company that subsequently entered bankruptcy.)[5]

• **2.** In 1996 the President of Conoco — the only company other than ARCO or BP to operate a North Slope field during the 1990's — spoke of Conoco's decision to leave the North Slope as follows:

> We realized we had to have more focus, so we began selling, buying and exchanging properties. For example, we traded all our Milne Point properties in Alaska to BP and did the same thing in the North Sea for increased ownership in Britannia. It broke my heart to trade Milne Point, but we had to do it. All the value of that property was taken away from us in the pipeline tariffs. It was a valuable strategic lesson — just look at why the producers in the Caspian Sea are so worried *[emphasis added]*.[6]

• **3.** A 1996 University of Wisconsin master's thesis concluded that the 1985 TAPS Settlement Agreement allowed excessive tariffs that enriched the TAPS owners at the expense of the State of Alaska while inhibiting competition on the North Slope. According to that analysis, because the major North Slope producers also own TAPS and pay TAPS tariffs to themselves, they do not suffer if tariffs are too high — rather, they benefit from reduced royalty and severance tax payments and

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[5] For a list of North Slope producers during the 1990's, see *The Big Squeeze*, Table I-3, p.10; for more on the pattern of departures, see "TAPS and North Slope Common Carrier Feeder Pipelines," in *BP Amoco Takeover of ARCO: Alaskans Are Concerned* ("Backbone Briefing Book," Oct. 1999 [on file with FTC staff]).

[6] "Getting to the Future First," *Hart's Oil and Gas Investor*, August 1996 (Vol. 16, No. 8), p. 41. Commenting on the Conoco statement, the Alaska Attorney General said, "the president of Conoco reportedly said that TAPS tariff issues were a significant factor in . . . . (its decision to leave Alaska, but Conoco) never expressed concern about the level of TAPS tariff rates. . . ." (Botelho letter to Sykes, *ibid.*, p.4; emphasis added).

Last month Conoco's Dunham repeated his concerns about TAPS tariffs. According to news reports, Conoco would consider buying exploration and production assets in Alaska at this time only if it could "avoid the pipeline pitfalls that forced the company to withdraw from the state in 1993." Dunham said again that Conoco left Alaska because TAPS tariff increases were eating into its profits and would consider returning only "if we had a proportionate ownership of the pipeline" (Alexei Barrionuevo, "Conoco Ponders Pipeline Barrier to Alaska Re-Entry," Dow Jones Newswires, Nov. 10, 1999).

diminished competition. This study quantified the following effects of the 1985 settlement agreement (expressed in 1995 dollars):

- Over the life of the 1985 Settlement Agreement, tariffs exceed actual costs (including reasonable profit) by an average $1.75 /bbl.;
- Excess tariffs reduce Alaska state revenues by $4.5 to $9.2 billion and federal tax revenues by $1.8 to $2.7 billion;
- the tariff's liberal and accelerated collection of funds for future dismantling of TAPS (DR&R) allows the TAPS owners an excess of $9 to $13 billion over the life of the line.[7]

• **4.** In 1997, the Alaska Department of Law disclosed that the State of Alaska's approach to pipeline tariffs was to focus on the tariff's total revenue requirement; therefore, the State of Alaska did not monitor Valdez terminal operations to ensure that competition was not adversely affected by practices such as:

- charges (such as Valdez Terminal storage charges) imposed by one TAPS owner that might affect another company's competitive position;
- charges or conditions imposed on tankers calling at Valdez that might affect the competitive position of the company or companies using that tanker.[8]

After a three-week court trial in 1998, an Alaska court awarded an independent tanker owner a $10 million judgment in response to a complaint that the Alyeska Pipeline Service Co. had illegally imposed financial conditions on its tanker, preventing the ship from calling at Valdez. That vessel would have been the only tanker in the TAPS trade not owned or chartered directly by a major North Slope producer.[9]

This summary suggests that TAPS has been operated to the detriment of competition on the North Slope. I believe the pipeline provisions in the

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[7] Antony Gordon Scott, *The Trans-Alaska Pipeline System: The Consequences and Causes of Regulatory Failure* (University of Wisconsin at Madison [Master's Thesis], 1996), pp. i-ii.

[8] Letter from Elizabeth J. Kerttula and Tina Kobayashi (Assistant Attorneys General, State of Alaska) to Richard A. Fineberg, "Re: 1995 Tariff Public Records Request (Our File: 663-97-0428)," Aug. 2, 1997. For an example of the manner in which storage charges at Valdez posted in the TAPS tariff might affect a small producer, see *The Big Squeeze*, pp. 5.26-5.27.

[9] "Memorandum of Decision and Order," in *Maritime Endeavor Associates v. Alyeska Pipeline Service Co.* (Alaska Superior Ct., Case No. 1JU-95-1141 CI), Sept. 30, 1998, pp. 20-21. See also: "Complaint," *Maritime Endeavor Associates v. Alyeska Pipeline Service Co., et al.* (including BP America and five other BP affiliates), (U.S. District Court at Juneau, Case No. J97-010 CV), May 27, 1997, *passim*. (Subsequent to the verdict in the Alaska Superior Court case, the Alaska Superior Court decision was vacated and the federal antitrust action was dismissed.)

proposed Charter are unlikely to prevent BP's control of pipeline operations from inhibiting future North Slope competition. For starters, the proposed Charter may not lead to the TAPS divestitures the state envisions.[10] Even if ownership of TAPS and feeder lines could be matched to production, this temporary fix would not promote competitive activities such as (a) exploration by a prospective developer with no oil or share of TAPS or (b) development of a discovery of unknown quantity by non-TAPS owners.

Although Alaska officials have finally acknowledged that TAPS serves as a barrier to competition,[11] the proposed Charter does not reach the root of problem — the identity between North Slope producers and TAPS ownership. Pipeline rate regulation works when shippers to seek low tariffs. But when producer-owners ship their own oil through TAPS, high tariffs reduce their royalty and severance payments on production while raising costs for non-owner competitors, who must pay all shipping costs out of pocket. Alternatives that could enhance competition through lower tariffs (such as divestiture of TAPS to a third-party master-limited partnership or a quasi-public entity) do not appear to have been seriously explored. Even if you believe that partial divestiture will serve to enhance competition, unless more than 22% of North Slope production is divested to a single buyer purchasing a commensurate interest in TAPS, the terms of the proposed Charter (attempting to matching pipeline ownership to production), will result in an increase to BP's present 50% share of TAPS.

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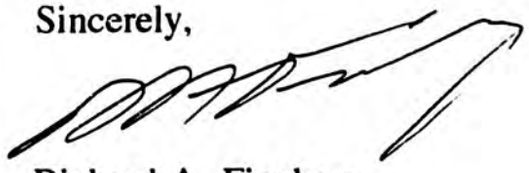
[10] The Alaska representative of one company reportedly interested in North Slope development has said his firm is not interested in acquiring a share of TAPS. One reason prospective developers may not wish to buy into TAPS is the future dismantling liability. More than 98% of the TAPS DR&R requirement was collected by the present owners. But under the terms of the 1985 tariff settlement, those funds were not placed in escrow, creating an unfunded liability for prospective buyers that could consume much of the pipeline's projected net revenue. (Dismantling is estimated to cost approximately $2.2 billion in 1998 dollars, compared to net operating revenues of approximately $3.0 billion between now and 2015. Richard A. Fineberg, *Overcollection and Failure to Escrow TAPS DR&R Funds — Imputed Present and Future After-Tax Value to TAPS Owners of Excess DR&R Collections Under TSM* [report to the Alaska Conservation Alliance, June 24, 1999; on file with FTC staff].)

[11] See: "Gov. Tony Knowles remarks, Anchorage Chamber of Commerce on BP-ARCO Acquisition" (Anchorage, Alaska, Aug. 23, 1999), p. 5, and testimony of Alaska Commissioner of Natural Resources Commissioner John Shively before the Joint Special Committee on Mergers of the Alaska State Legislature (Juneau, Alaska, Sept. 24, 1999).

Any resolution of the proposed merger that enhances BP's position on the North Slope or the West Coast[12] is liable to augment that company's power to inhibit competition in Alaska, thereby contributing to continuation of the dramatic decline of producers, operators, potential developers and explorers witnessed on the North Slope during the 1990's. One of the stated primary purposes of FTC merger review is "to assure that competition not be reduced one iota;" FTC's preference is for clean, up-front divestitures to parties who understand what they are buying.[13] Accordingly, I believe the infirmities of the pipeline provisions of the State of Alaska's proposed Charter agreement with BP constitute compelling and sufficient grounds for rejection of the proposed ARCO-BP merger unless BP agrees to divest its 72% of TAPS (and North Slope common-carrier feeder pipelines) to a private or quasi-public entity with no exploration or production interest on the North Slope.

Sincerely,



Richard A. Fineberg

enc.

cc: Commissioner Sheila Anthony
Commissioner Thomas Leary
Commissioner Orson Swindle
Commissioner Mozelle Thompson

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[12] While this analysis focuses on TAPS and competition in Alaska, it should be noted that the North Slope crude is marketed primarily on the West Coast, where it constitutes a major supply source, and that the West Coast is dominated by a small number of suppliers and refiners who operate through a web of long-term purchase agreements and short term contracts. Under these conditions, the acquisition of ARCO's West Coast refining and distribution system could give BP added power over its Alaska competitors, while enhanced control over TAPS and the Valdez Marine Terminal could increase BP's power over West Coast (Lower-48) markets.

[13] From the remarks of Richard G. Parker, (then) Senior Deputy Director, Bureau of Competition, Federal Trade Commission, before the International Bar Association, Barcelona, Spain, Sept. 28, 1999.

From the desk of

Richard A. Fineberg
P.O. Box 416 Ester, Alaska 99725
(907) 479-7778 ◦ Fax: 479-7770 ◦ E-mail: fineberg@alaska.net

January 25, 2000

Senator Rick Halford, Chairman
Joint Special Commitee on Mergers
Alaska State Legislature
Juneau, Alaska 99811

Dear Senator Halford and Members of the Committee:

The reportof the Legislature's expert consultants and the two-day hearings your committee conducted in the Senate Finance chambers last week outline many of the significant public questions for Alaska posed by the proposed merger. I am sure that many people share my appreciation for the extensive time and effort invested by the Joint Special Committee in reviewing the implications of the proposed merger on behalf of the Legislature and the public.

The materials generated through the efforts of your committee provide ample evidence that the consultants retained by your committee on behalf of the Legislature have raised important questions that the Administration's proposed agreement with BP do not resolve. In addition to useful information and opinions expressed at the hearings last week, the background and exceptionally clear focus of your consultants helped spotlight important conclusions that emerged from last week's hearings and the report:

1. Although ARCO is operating quite profitably (and the North Slope has always been a viable profit center for ARCO), the proposed Charter proposes to break up ARCO's North Slope interests by transfering a portion of those assets to BP, with the remainder going to two new, smaller North Slope entities; it is highly unlikely that this division of ARCO Alaska into three smaller parts will produce competition to BP comparable to that provided historically (nd presently) by ARCO.

2. The Charter assumes that BP will, through these myriad complicated transactions, endeavor to replace ARCO by creating viable competition for itself on the North Slope; this is something BP cannot be expected to do.

3. Historically, companies with interests smaller than those of ARCO have not fared well on the North Slope.

4. The proposed Charter represents a legal and administrative effort to restructure the industry — something that is best left to the marketplace.

5. The Charter requires BP to make available 22.3% of TAPS at a price that approximates net present value of future income; future dismantling represents an unfunded liability to prospective buyers; this is one of many specific details on which the plan of the proposed Charter for Development could flounder.

6. Surprisingly, at this late date there is still confusion over how the actions of the FTC will relate to the proposed Charter, as well as a difference of opinion between your experts and those retained by the Administration concerning whether the proposed Charter is an adequate substitute for a consent decree. I think the concerns of your independent experts reflect and fit with recent decisions and policy statements of the FTC officials more accurately than the defense of the proposed Charter by the Administration's attorneys and the consultants they retained.

Finally, fundamental public policy questions raised by developments during the past year underscore the importance of the antitrust considerations discussed at the hearings and in the report of your expert consultants. For example: BP and ARCO developed and completed their merger plan over a three-month period between the end of December 1998 and the end of March 1999 without contacting their supposed partner in development, the State of Alaska. In the aftermath of this unpleasant surprise, at the Administration's inadequate public hearings in November we were treated to the sad spectacle of individuals who trooped to the podium to proclaim their complete depndence on BP as they asked the State of Alaska to cede still more power to the company that controls the pace of North Slope development. In my estimation, these events foreshadow the manner in which decisions about the course of development will be made in the future unless BP's power on the North Slope is curbed rather than augmented.

In view of the importance of the antitrust issues and the policy implications posed by the proposed ARCO-BP merger, to fulfill its mandate I believe your committee must find a way to let its colleagues, state and federal administrative decision-makers and the public know (1) that the consultants retained by the committee were not asked to support one position or another, but rather were asked to review the situation and give their unbiased opinions; and (2) that after hearing from all parties, the committee has full confidence in the work and the conclusions of its experts.

Sincerely,

Fluetsch

Subject: Oil Hedging
Date: Tue, 14 Sep 1999 10:13:09 -0800
From: "Bradley J. Fluetsch" <bfluetsch@gci.net>
Organization: Raven Asset Management
To: "'senator_rick_halford@legis.state.ak.us'" <Senator_Rick_Halford@legis.state.ak.us>

Senator Halford

I was glad to see that someone in state government willing to look at hedging Alaska's oil exposure. Recently KIMO/KJUD did a piece on oil hedging based on some material I provided them. Attached is the material I sent them. If I can be of any assistance to you, please call.

Bradley J. Fluetsch, CFA

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oil hedging_.doc	**Name:** oil hedging_.doc **Type:** Winword File (application/msword) **Encoding:** base64 **Download Status:** Not downloaded with message

The Administration and Legislature: Speculating With Your Future - Oil

Just three short months ago the Alaska Legislature met with their oil experts and predicted doom for the State. All we could expect for oil prices, they said, is for a price of between $12 - $16 per barrel, with production declining, and, with it, the State's revenue stream. The cry of government quickly became, "We need to diversify our revenue sources."

Today, with prices at $19 - $21 per barrel, the Legislature is willing to gamble the stability of our primary source of income in hope of "mo money." Yet in doing so, they risk losing the opportunity to lock in today's higher prices and protect the State's budget against another price decline.

Those of us who are in the investment industry are familiar with this pattern. We call it fear and greed. Think of the recent "day trader" phenomenon that's been making the news, or better yet, that futures trader in Singapore who brought down one of England's oldest banks. It is a mindset that can paralyze your ability for rational thinking.

Looking at the State of Alaska's dependence on the value, (price multiplied by volume), of oil produced, it would seem that we should do something NOW to lock in a stable budget for the next five years while oil in the spot market at over $21 per barrel. So, is there anything the State can do?

The answer is, yes, there are many financial transactions that the state could enter into to lock in today's higher prices. The Institute of Social and Economic Research, ISER, at the University of Alaska Anchorage has identified a number of these transactions and presented them to the Legislature for its consideration.

Now, these transactions are not some kind of weird, arcane financial wizardry created by some nerd in a Harvard laboratory. They are relatively common, prudent, simple transactions that most American farmers understand and use regularly to protect themselves and their families. Oil companies, too, enter into these transactions to protect themselves and their profits. Mexico, Venezuela currently hedge their oil price exposure because their governments budgets cannot stand the volatility. Saudi Arabia is evaluating hedging the oil prices to smooth their volatile budget. In fact, nearly every Fortune 500 company on a daily basis uses these transactions. It would surprise me if BP and ARCO DID NOT hedge their North Slope production.

The name for this type of transaction is hedging. And hedging is simply the process of selling the future delivery of commodities (like grain, gold, oil, stocks, etc.) or cash flows (Treasury Bills, CD interest payments, etc.) when the price is high, or buying now the future delivery of commodities or cash flows when the price is low.

Here's an excerpt from the investment textbook I use in a course I teach at University of Alaska Southeast in Juneau. It's from *INVESTMENTS,* Fourth Edition, by Bodie, Kane and Marcus and can be found on page 700:

> Hedging and speculating are two polar uses of futures markets. A speculator uses a futures contract to profit from movements in futures prices, a hedger to protect against price movement.

Now, don't get the wrong idea, "polar" in the quote above has nothing to do with Alaska; in this definition, polar means opposite, as in at the opposite ends of the spectrum. So, if, as in the definition above, hedging is protecting against a an adverse price movement, then the opposite is someone or group who speculates (read "gambles") that the price is going to go their way – and in the Legislature's case, that way is up. In other words, one could say that the Legislature is speculating in the spot market, because they are not hedging -- protecting the State's budget -- in the futures market.

Again, the underlying commodity is not important: oil, wheat, frozen concentrated orange juice, gold, Dollars or Yen, the transaction is the same.

As a producer and owner of a commodity, the State is "long" oil. Which means we own it and are subject to its price movement in the spot market. One is required to understand Alaska's tax code in order to determine specifically when and how the tax is applied to what volume of oil. Due to the volatility in Alaska's revenue, it appears that the spot market is the pricing source since its volatility is most similar to our revenues.

Now, let me give you an example what the State could gain if it hedged its oil revenue:

Assume we produce 100 barrels oil per year, so if the price per barrel is $15, we get $1,500 in cash. Okay, let's also assume our State budget is coincidentally $1,500.

All right, if the price is $20 per barrel, the State then collects $2,000 and we would deposit $500 in the constitutional budget reserve. If the price were $10 per barrel, the State would collect a $1,000 and would have to draw on the constitutional budget reserve.

Gee, does this begin to sound familiar?

Now, the hedging transaction. Our goal in this is to minimize the change in what the State collects and get at least $1,500.

At $20 per barrel in the spot market, the State would sell one-half of next year's anticipated 100 barrels of production at $19.00 per barrel. This locks in, hedges, a known "high" price right now. So, what happens next year if the price goes down to $12, or goes up to $25?

Price goes down

50 barrels at $19 per	=	$950
50 barrels at $12 per	=	+$600
Total State Revenue	=	$1550

Price goes up

50 barrels at $19 per	=	$950
50 barrels at $25 per	=	$1,250
Total State Revenue	=	$2,200

Okay, in both cases we accomplish the goal. However, the question you have to ask yourself (or your friendly, local, neighborhood legislator) is, "Is the certainty of making the State budget, given the distinct possibility the price of oil could fall to $12 per barrel, worth giving up of the opportunity to make another $300 (100 barrels at $25, or $2,500, less the actual receipts of $2,200)?

Given the uncertainty of oil prices and the inability of accurate predictions, I think the certainty is more than worth the opportunity for a few extra bucks, especially if not making the budget means the Legislature will raid our Permanent Fund or impose an income tax.

As I previously said, this is not cutting edge finance. Farmers hedge their production annually. Those who export hedge their currency risk. Those that produce raw commodities hedge much of their production against unfavorable price movement. ***This is standard business practice.***

So, please, Legislature, take another look at the ISER report and direct the Administration to start managing our resources like responsible business leaders. We have investment professionals who can manage the oil price risk; we just need to do it!

Bradley J. Fluetsch, CFA
Raven Asset Management, LLC
801 West 10th
Suite 305
Juneau, AK 99801
(907) 586-8945

FOSTER

Subject: BPA ARCO Merger
Date: Sat, 03 Apr 1999 12:38:37 -0800
From: Jerry-Geri Foster <jerry-geri@gci.net>
To: Governor and Senate

Allow me to share with you my thoughts on the BPA ARCO merger.

What's good for Alaska

1. The elimination of redundant (and non-value adding) activities throughout BPA ARCO should lead to a lower cost structure. Specifically, ARCO services a corporate headquarters in LA, and a research center and international headquarters in Plano, Texas -- the elimination of these offices results in significant cost savings.
2. Lower lease operating costs here in Alaska (due to cost savings) would improve the economics of Alaskan projects relative to the BPA worldwide portfolio.
3. Elimination of senior ARCO management is a plus given their horrendous track record of costly decisions (e.g., Anaconda, Henderson Clay, Union Texas Petroleum, etc.). A recent oil journal referred to these decisions as the largest systematic destruction of wealth in the history of corporate America. On the flip side, Johne Browne's business performance is quite impressive.
4. The Alaskan oil field jobs that remain should be more stable.

What's not so good for Alaska

1. The lack of competitors in lease sales.
2. The lack of corporate and cultural diversity. Diversity leads to new ideas and risk taking; essential ingredients in the oil and gas business.
3. Multiple and strong competitors often evaluate "what's best for Alaska" during heated debates and discussions. The thinly veiled threat is that one competitor will provide information to the state which shows that the other competitor's position isn't in Alaska's best interests. With less competition the state will be almost solely responsible for understanding and articulating its own position -- a job it can scarcely do now given its staffing levels. AOGCC & DNR petroleum professionals do a yeoman's job, but it's simply not going to be enough in the future. 4. The immediate job losses will not only be the 400 positions announced, but also the ripple effect in the oil field contractor community and the economy in general. Also, BPA announced 6,000 lost jobs at the outset of the Amoco merger; now that number is in excess of 10,000. What assurances do you have that BPA won't up the job cuts at a later date?

What's uncertain for Alaska

1. Alaska will compete for funding on a global basis. It's too complex to predict if this will benefit or hurt Alaskan oil and gas projects because it involves the economics (subject to unpredictable oil price fluctuations) and changing politics throughout the world.
2. Whether the political alignments BPA will try and formulate (e.g., native corporations, oil and gas service providers, etc.) in order to get consensus for this merger, will create win-win or win-lose situations in the eyes of Alaskans and their legislators.

What's Alaska to do?

Move rapidly to beef up the AOGCC with a number of Alaskan oil and gas professionals with the skills more akin to those found on the Texas Railroad Commission. You'll need people the caliber of Pat MaGuire (Best Reservoir Engineer in Alaska) and Harold Heinze (former ARCO Alaska President) in this watchdog organization to effectively protect the state's interests. You want more scientists and accountants in this organization, not politicians (unless they have a technical background).

Alaska is fortunate to have petroleum experience in the political realm with Joe Green, John Shively and Wilson Conden, but politics are transitory and you cannot expect this kind of understanding to be around forever. Alaska's legacy must be an institution which transcends politics. If the AOGCC is not appropriately strengthened, then Alaska is flying blind. If Alaska strengthens its AOGCC as I've outlined, then I would very much support the BPA ARCO merger

Personally and professionally, the BPA ARCO merger is positive for me. My petroleum background, workstyle and performance rankings should fit nicely with the new BPA Alaska organization. I'll have access to technical experts and resources throughout the world whereas now with ARCO I'm quite limited. I'm accepting the risk of losing my job, in exchange for a more business-like and accountable organization. On balance I support this merger from a personal viewpoint.

Thanks for listening,

Jerry Foster
2540 Brandy Cir.
Anch, AK 99516
District: 10-237 Party: R Sex: M

Short Bio
Born in Fairbanks (wife born in Juneau, kids born in Anchorage)
'82 Honors Graduate UAF Petroleum & Geological Engineering
Outstanding Petroleum Engineering Alumni UAF
Licensed Professional Engineer State of Alaska in Petroleum Engineering
Former Board of Directors Society of Petroleum Engineers Alaska Section
+17 years ARCO employee

Foster

Subject: BPA-ARCO Acquisition Speech
Date: Mon, 23 Aug 1999 20:34:33 -0800
From: Jerry-Geri Foster <jerry-geri@gci.net>
To: Everyone

BPA-ARCO Acquisition
Speech by Gov. Tony Knowles
8-23-99

I just got done watching your speech (in its entirety) to the Anchorage Chamber on the Channel 11 evening news -- as a 40-year Alaska resident, a construction worker on the Trans-Alaska pipeline, and a licensed professional engineer in petroleum engineering who cares deeply about this state, I was moved. I'd like to think that I know a lot about this state, its people, and this industry, but frankly, I learned a lot tonight and your speech left me speechless. Outstanding!

Now the real work begins. Your areas of focus and negotiation are accurate; however, BPA as an entity has been doing for decades, what you're about to do over the course of a couple of months -- that being negotiations. At ARCO we prided ourselves at beating BPA in most technical arguments, but we were at times in awe of their negotiating skills. Your negotiating team will need all the skill, strength and fortitude that they can muster. Good luck!

I appreciate your insight that an additional company is needed on the north slope. I've heard Anadarko referred to as a "mini-ARCO" in some professional circles. Be that as it may, I believe that BPA will now start sending signals (some not so subtle) that many of your mandates are untenable. I also believe that the prize in Alaska is so large for BPA that you could have gone further and not jeopardized the financial viability of the acquisition. Each state mandate cuts into their profit margin, but remember it's still a PROFIT margin.

BPA will continue to anchor into $11 Brent crude prices as their desired financial floor. This will be their justification to "over-cut" Alaskan jobs; don't but it! The average crude price for Brent has never averaged less than $11 for more than a very brief period of time. If you want to save Alaskan jobs for now and the future, demand that BPA staff their operations at 100% of their business plan -- they are NOT planning on doing that currently. Inadequate staffing leads to inadequate funding as understaffed projects cannot be matured enough to compete for global funding.

I want BPA to eliminate the duplication in Alaska's oilfield operations, but not the muscle. I also have a self-serving belief that job losses should fall disproportionately on non-residents. Non-resident oil workers take wages from Alaska without paying a dime to support essential state services. As I've stated in previous e-mail, the job cuts are targeted at a population of mostly Alaska residents, while significant non-resident BPA/ARCO/contractors are thought to be largely non-impacted by layoffs. Please have Commissioner Flanagan investigate ways to minimize job losses to Alaskan families. The slick campaign ads and BPA rhetoric about "generous severance packages", "most ARCO employees will have jobs", etc., cannot hide the pain and angst of removing at least 400 highly technical and highly paid jobs from our workforce.

I look forward to watching you work with the legislative committees, the congressional delegation, and ordinary Alaskans as we all search out the "win-win's".

Again, thanks for a great speech.

Jerry Foster
2540 Brandy Cir.
Anch, AK 99516

Foster

Subject: BPA-ARCO Acquisition
Date: Sun, 23 Jan 2000 14:11:43 -0800
From: Jerry-Geri Foster <jerry-geri@gci.net>

Below is a note I sent to the FTC in December. Please note that if the merger went through, I would be rewarded financially with a handsome severance package. It's in my financial interest to support this merger, but there's no way that I can support something which has so much downside to Alaska. As always, you're all doing an outstanding job in Juneau.
Thanks for listening. Jerry

BPA-ARCO Acquisition
12-21-99

The proposed acquisition of ARCO by British Petroleum-Amoco, while a good deal for BPA, is a poor deal for Alaska and west coast energy consumers. Further, the Charter For Development negotiated by Alaska and BPA is inadequate and should be strengthened significantly or scrapped completely.

In my humble opinion, this acquisition is the result of some very poor and self-serving decisions by ARCO's CEO Mike Bowlin. Prior to the most recent drop in oil prices, ARCO acquired Union Texas Petroleum (UTP) and paid a ridiculous premium. Further, ARCO workers close to the deal complained bitterly that ARCO management did not do "due diligence". Less than a year after the deal, hundreds of millions of dollars were written off the books. Clearly Mike Bowlin and his group made a terrible mistake.
During the period of low oil prices, Bowlin proclaimed that ARCO would remain independent at the same time he was shopping the company to BPA. Many felt that Bowlin was on the way out for his blunders, but by selling ARCO to BPA (at historically low oil prices no less), he would leave with tens of millions of dollars in his pocket and shareholders would be happy.
Bowlin's big lie still haunts him now that oil price has rebounded and ARCO is making record profits; that being that ARCO is not viable without BPA. ARCO's recent profits are a clear sign that this company can thrive.
Further elimination of massive overhead burden at the LA corporate headquarters and the research center in Texas would set ARCO up as a profitable company for many years. ARCO spun off its Houston company (VASTAR); that company is now the industry leader in all the Gulf of Mexico for exploration success and low cost production.

In Alaska, ARCO is the low cost operator. Where there are direct comparisons between BPA and ARCO, ARCO comes out on top. By acquiring ARCO and putting the blended Alaska assets into BPA's worldwide portfolio, Alaska assets will certainly suffer. They will be treated like cash cows with minimal investment. The result is clearly an escalation in costs of production, less oil recovery and ultimately higher costs at the pump. It's my opinion that you could gain cost reductions without investment reductions by getting ARCO to assume operatorship at Prudhoe Bay instead of BPA. ARCO's portfolio is heavily weighted towards Alaska, as such, they will not rape and run from this asset.

The Charter for Development negotiated between Alaska and BPA is fatally flawed. First and foremost, BPA will continue to control the pace of development at Kuparuk and Alpine unless either the operating agreements are changed, or unless BPA's working interest is below 12%. If BPA throttles back development at Kuparuk (which they currently do) and Alpine, then oil recovery will not be maximized and petroleum resources on the North Slope of Alaska will not be fully developed.

This proposed acquisition is very monopolistic in terms of the Alaska assets; there's no way this lessening of competition will result in more cost-efficient energy to the American consumer.

Jerry Foster
2540 Brandy Cir.
Anch, AK 99516
907-345-3837
Born and raised in Alaska
BS Petroleum Engineering - Univ. of Alaska
18-year ARCO employee

FOSTER, GERALD W
2540 BRANDY CIR
ANCHORAGE AK 99516
District: 10-237 Party: R Sex: M

Gage

Subject: BP/ARCO Merger - Comments on "Charter"
Date: Wed, 1 Dec 1999 16:04:34 -0600
From: Bob_Gage@murphyoilcorp.com
To: Senator_Rick_Halford@legis.state.ak.us,
Representative_Joe_Green@legis.state.ak.us,
Senator_Johnny_Ellis@legis.state.ak.us,
Representative__Beth_Kerttula@legis.state.ak.us,
Representative_Jim_Whitaker@legis.state.ak.us

Bob Gage@MOC
12/01/99 04:04 PM

Gentlemen:

The following is submitted to you by me solely as an individual. It is my understanding that you comprise the legislative committee concerned with the BP/ARCO merger.

I am a landman employed by Murphy Exploration & Production Company. As such, it has been my privilege to make comments to the Attorney General's office with regard to the proposed "Charter" between the State of Alaska and BP Amoco.

It has today been noted that, along with the FTC, the legislature has been expressing concerns about the BP/ARCO merger. As a concerned citizen (of the U.S., not Alaska) and an employee of a company with interests in Alaska, I felt I should suggest to you that, if you have not already been made privy to them, it might be wise for legislators to seek access to all the various comments which the Governor's review team presumably has received.

I certainly am not so foolish as to think that the comments made from here cover all matters possibly of concern to Alaska. However, judging from the press items seen to date, it seems to me that some things of importance from an exploration and production standpoint may be being overlooked or not understood as being significant. It is on that basis that my suggestion.

Respectfully yours,

William R. ("Bob") Gage, Jr., CPL
(504) 561-2578
Bob_Gage@murphyoilcorp.com

June 1, 1999

JUN 07 1999

Honorable Senator Rick Halford
P.O. Box 670190
Chugiak, Alaska 99567-0190

Dear Honorable Senator Halford:

I am concerned that the BP-Amoco ARCO Merger will create a corporate powerhouse capable of determining the future of Alaska's oil and gas revenues. In consideration of the merger, I request you require that British Petroleum, ARCO and EXXON divest all their interest in the Trans-Alaska Pipeline (TAPS).

I am also concerned that the major owners of the TAPS (British Petroleum, ARCO and Exxon) may be using the pipeline to strangle their competition, effectively stealing billions from Alaskans and the public trust. Our General Fund and Permanent Fund depend heavily on resources managed to maximize revenue by ensuring open competition on a level playing field. Currently ARCO, BP and EXXON produce 95% of all North Slope Oil and retain shipping profits from TAPS, as well as any overcharges allowed by the complicated scheme for settling tariffs that govern TAPS. For North Slope producers who are not TAPS Owners , all costs associated with the pipeline are true, out-of-pocket costs. The State as royalty and tax collector is the primary victim of this arrangement. TAPS tariff overcharges reduced the value of North Slope's contribution to the State of Alaska Treasury and the Alaska Permanent Fund by approximately $20 billion dollars by the end of 1995. These revenue losses to the State do not include the windfall to the TAPS Owners resulting from a generous provision of the 1985 TAPS Settlement Agreement between the State and the TAPS Owners that has allowed the TAPS owners access to more than $3 billion they have supposedly collected for dismantling the pipeline at some future date. These losses do not reflect the possible revenue consequences to the State of Alaska of lost production due to the anti-competitive effects of TAPS tariff management.

By requiring that British Petroleum, ARCO and EXXON divest all their interest in TAPS, the State could acquire TAPS and set up a state pipeline corporation similar to the Railroad Corporation. Alyeska Pipeline could be retained as the operating agent. This would reduce TAPS tariffs significantly, provide greater pipeline revenues for communities through which the pipeline passes and ensure TAPS owners do not stifle competition. TAPS dismantling, removal and restoration funds should be collected from British Petroleum, ARCO and EXXON and escrowed for the future costs of dismantling, removal and restoration.

Sincerely,

Deborah Welborn

Kiernan

Subject: test1
Date: Tue, 12 Oct 1999 04:03:49 -0700 (PDT)
From: John Kiernan <jjkiernan6@yahoo.com>
To: Alaska State Senate

Profits earned in Alaska should be taxed to the benefit of the State of Alaska and not to the benefit of the U.S. Federal Government or Her Majesty's UK Government. Since 1776 we have not been part of the Great British Commonwealth. Yet today we allow a U.K. company to take the wealth of Alaska back to London.

While the State of Alaska has been taxing BP at a very low corporate tax rate of just 3%, and the U.S. Federal Government using a multiple tiered strata system of taxation based upon the amount of profit earned, can tax as high as 35%. the UK Corporation Tax, which is charged at the same rate on both income and capital gains, whether distributed to shareholders or not, is levied at the rate of 30%. So whatever the U.S. Federal Government does not grab the UK Government gets. The remaining 70% after the U.K corporate tax has been deducted can then be distributed among local U.K. shareholders.

A company which is resident in the UK is liable for Corporation Tax on its worldwide income and capital gains. A company is resident in the UK if it is incorporated in the UK, or its central management and control is located in the UK. British Petroleum is such a company. It therefore funds, via the taxes it remits, Her Majesty's UK government. Likewise it funds the U.S. Federal Government with Federal Corporate taxes. It could instead, fund the State of Alaska if we would simply increase our own corporate tax rate. Better still let us become the owner state we sometimes like to think we are and keep all the profit here in Alaska.

Subject to the provisions of the law of the United Kingdom regarding the allowance as a credit against United Kingdom tax of tax payable in a territory outside the United Kingdom, United States tax payable under the laws of the United States and in accordance with the present Convention, shall be allowed as a credit against any United Kingdom tax computed by reference to the same profits or income by reference to which the United States tax is computed.

If therefore the State of Alaska increased its corporate tax rate to 30%. That 30% would be fully credited towards the 30% UK corporate tax due from BP. It would mean a much reduced income for her Majesty's UK Government(they also tax profits above the corporate tax level which are distributed to local shareholders) and also of course for the U.S. Federal Government. Facing a much reduced income from Alaska's oil resources the U.S. Federal Government might then be much more anxious to develop ANWAR.

Instead of BP being allowed to buy out ARCO and take all of the profits minus taxes back to the U.K. Alaska should buy out ARCO. The U.S.A. could then collect taxes on profits earned from world wide sources of oil production, just as the UK Government does now. Further no one company should be able to decide and have the power to shut down Alaska's oil

production and thus penalize the state's tax income. Alaska needs to own ARCO and get BP to shift elsewhere.

Little fleas have bigger fleas upon their backs to bite them, and so on, and so on, and so ad infinitum! The State of Alaska and not the U.S. Federal or UK Governments should be the main beneficiary from Alaska's oil Production. It is time to shake off the fleas, the mosquitos and the blood suckers, thoroughly fumigate the system and begin to enjoy our own oil wealth.

Let us really become an owner state and keep the wealth here in Alaska. Alaska should buy out ARCO.

John J. Kiernan
8211 Berry Patch Drive
Anchorage AK 99502-7259
1-907-248-5008

Kiernan

Subject: [Fwd: Fw: Let's really become the OWNER State we like to think we are!]
Date: Mon, 18 Oct 1999 15:58:19 -0800
From: "George M. Hansen" <wwgeorge@alaska.net>
Organization: Hansen Enterprises
To: Senator_Tim_Kelly@legis.state.ak.us, Senator_Rick_Halford@legis.state.ak.us, Senator_Loren_Leman@legis.state.ak.us, senator_jim_duncan@legis.state.ak.us, Senator_Jerry_Ward@legis.state.ak.us, Senator_Drue_Pearce@legis.state.ak.us, Senator_Dave_Donley@legis.state.ak.us

There must be some worthwhile thought here. Kiernan does know the British government having lived there forty years.

Subject: Fw: Let's really become the OWNER State we like to think we are!
Date: Sun, 17 Oct 1999 23:37:44 -0700
From: "John Kiernan" <jjkiernan6@email.msn.com>
To: <robert_bloomfield@natchiq.com>, <remerson@ptialaska.net>, <wwgeorge@alaska.net>, <nrhogge@prodigy.net>, <ivey@gci.net>, <cary@alaska.net>, <kty@gci.net>, <owenak@worldnet.att.net>, <mradford@alaska.net>, <Alaskaod@alaska.net>

-----Original Message-----
From: John Kiernan <jjkiernan6@email.msn.com>
To: Governor@gov.state.ak.us <Governor@gov.state.ak.us>
Date: Sunday, October 17, 1999 11:33 PM
Subject: Fw: Let's really become the OWNER State we like to think we are!

-----Original Message-----
From: John Kiernan <jjkiernan6@email.msn.com>
To: Governor@gov.state.ak.us <Governor@gov.state.ak.us>
Date: Sunday, October 17, 1999 11:02 PM
Subject: Fw: Let's really become the OWNER State we like to think we are!

Since 1776 we have not been part of the Great British Empire. Yet today we allow a U.K. company to take the wealth of Alaska back to London for distribution to its shsreholders. Other countries have laws that reguire all companies to be at least 60% owned by the local people. Why are we so lax in protecting the financial interests of our own people? Why do we allow this?

Further profits earned in Alaska should be taxed to the benefit of the State of Alaska and not to the benefit of the U.S. Federal Government or Her Majesty's UK Government. While the State of Alaska has been taxing BP at a very low 3% corporate tax rate.The U.S. Federal Government using a multiple tiered strata system of taxation based upon the amount of profit earned, can tax as high as 35%. UK Corporation Tax, which is charged at the same rate on both income and capital gains, whether distributed to shareholders or not, is levied at the rate of 30%. So whatever the U.S. Federal Government does not grab the UK Government gets. The remaining 70% after the 30% U.K corporate tax has been deducted can then be distributed among local U.K. shareholders.

A company which is resident in the UK is liable for Corporation Tax on its worldwide income and capital gains. A company is resident in the UK if it is incorporated in the UK, or its central management and control is located in the UK. British Petroleum is such a company. It therefore funds, via the taxes it remits, Her Majesty's UK government. Likewise it funds the U.S. Federal Government with Federal

Corporate taxes. It could instead, fund the State of Alaska if we would simply increase our own corporate tax rate. Better still let us become the owner state we sometimes like to think we are and keep all the profit here in Alaska.

Subject to the provisions of the law of the United Kingdom regarding the allowance as a credit against United Kingdom tax of tax payable in a territory outside the United Kingdom, United States tax payable under the laws of the United States and in accordance with the present Convention, **shall be allowed as a credit against any United Kingdom tax** computed by reference to the same profits or income by reference to which the United States tax is computed. **If therefore the State of Alaska increased its corporate tax rate to 30%. That 30% would be fully credited towards the 30% UK corporate tax due from BP.** It would mean a much reduced income for her Majesty's UK Government (they also tax profits above the corporate tax level which are distributed to local shareholders) and also of course for the U.S. Federal Government. Facing a much reduced income from Alaska's oil resources the U.S. Federal Government might then be much more anxious to develop ANWAR.

Instead of BP being allowed to buy out ARCO and take all of the profits minus taxes back to the U.K. Alaska should buy out ARCO. The U.S.A. could then collect taxes on profits ARCO earns from its world wide sources of oil production, just as the UK Government does now via BP.

No one company should be able to decide and have the power to shut down Alaska's oil production and thus penalize the state's tax income. Alaska needs to own ARCO and the oil pipeline. BP can shift elsewhere or stay as it wishes but it ought not be given or possess control of our resources or means of distribution.

Little fleas have bigger fleas upon their backs to bite them, and so on, and so on, and so ad infinitum! The State of Alaska and not the U.S. Federal or UK Governments should be the main beneficiary from Alaska's oil Production. It is time to shake off the fleas, the mosquitos and the blood suckers, thoroughly fumigate the system and begin to enjoy our own oil wealth. Let us really become an owner state and keep the wealth of Alaska here in Alaska instead of sending it to London. Alaska should buy out ARCO.

John J. Kiernan 8211 Berry Patch Drive Anchorage AK 99502-7259 1-907-248-5008

Latchem

Subject: FW: Two Sides of the Story
Date: Thu, 1 Apr 1999 08:42:46 -0900
From: Ray Latchem <rlatchem@fngas.com>
To: Charlie Helm <chelm@fngas.com>, Keith Hand <khand@fngas.com>,
Shannon Latchem <slatchem@fngas.com>,
"'Andrew, Jim'" <Jim.H.Andrew@CAN.CONOCO.COM>,
"'Braden, John'" <jbraden@mail.arco.com>, "'Durrell, Brian'" <bdurrell@durrell.com>,
"'Feller, Rick'" <rfeller@ciri.com>, "'Foreman, Norman'" <Norman_Foreman@Rosewd.com>,
"'Gilbertson, Marguerita'" <fbm@ptialaska.net>, "'Latchem, Edna'" <ayliffe@intersurf.com>,
"'Kelly, Mike'" <mpkelly@gvea.com>,
"'Lundquist, Andrew'" <Andrew_Lundquist@energy.senate.gov>,
"'Mandell, Dennis'" <dmandell@kpmg.com>, "'Mayberry, Mary'" <coldwell@alaska.net>,
"'Muse, Tom'" <tpmuse@aol.com>, "'Otis, Buzz'" <botis-gni@mosquitonet.com>,
"'Parker, Dave'" <dparker@aga.com>,
"'Pearce, Drue'" <Senator_Drue_Pearce@legis.state.ak.us>,
"'Riddle, Marvin'" <mdriddle@gvea.com>, "'Ploen, Mark'" <qtenv@qualitechco.com>,
"'Platt, Jim'" <JPlatt@SecurityDBS.com>, "'Schierhorn, Joe'" <schierhorn.joe@nrim.com>,
"'Sinclair, Dave'" <sinclair@alaska.net>, "'Stevens, Jimmy'" <jctwest@swbell.net>,
"'Strickland, Dave'" <dstrickland@nabors.com>,
"'Taraba, Gary'" <Gary_Taraba@Rosewd.com>, "'Treadwell, Mead'" <meadwell@alaska.net>,
"'Weeks, Jim'" <jweeks@eastnet.com.cn>, "'Wiggin, Mark'" <mcw7@duke.edu>

> *-----Original Message-----*
> *From: Sievert, Sharon SR [SMTP:Sievert.Sharon.SR@bhp.com.au]*
> *Sent: Thursday, April 01, 1999 4:05 AM*
> *To: Paver, Howard H; Griggs, Paul PM; 'Dave Edmunds'; 'Betty Jinks';*
> *Regan, David DG; 'Amjad Bseisu - U.K.'; 'Harold Inman'; 'Steve*
> *Barakis'; robbie.gulledge@bus.utexas.edu*
> *Subject: Two Sides of the Story*
>
> *April 1, 1999*
>
> *To: All ARCO Employees*
>
>
> *Today we are announcing that ARCO will merge into BP Amoco in a*
> *transaction*
> *expected to conclude by 12/31/99.*
>
> *As you can well imagine, none of us finds it easy to contemplate*
> *hauling down*
> *the ARCO flag, which for decades has symbolized achievement,*
> *innovation,*
> *environmental stewardship, and social responsibility.*
>
> *Given ARCO's legacy, executive management, the Board and I personally*
> *felt a*
> *strong draw to remaining independent, but we also believed that it was*
> *critical for us to review all alternatives during these very*
> *challenging times*
> *in our industry. Consequently, we did explore every course of action,*
> *from*
> *continuing as an independent company to combinations with companies of*
> *all*
> *sizes. In the*

> end, we decided that a combination with BP Amoco could be the most
> attractive
> option. Once we reached that conclusion, I approached BP Amoco to
> explore
> whether the transaction would be worth the costs associated with such
> a move.
>
> The offer that was presented and accepted by our Board of Directors is
> an
> exchange of .82 BP Amoco shares for each share of ARCO stock. This
> exchange
> represents a 26% premium to our share price at the date pricing was
> agreed
> upon. We have determined that this value exceeds what we could
> achieve on a
> stand-alone basis or with other likely partners.
>
> The merger with BP Amoco is compelling for a number of reasons.
> First, we
> believe the company that emerges will be the preeminent player in the
> energy
> industry. BP Amoco's worldwide scope and excellent balance sheet will
> strengthen our operations and assets. BP Amoco will fill a significant
> gap in
> their refining and marketing asset base and round out their
> international E&P
> portfolio. In Alaska, the combination will create both economies of
> scale and
> efficient alignments, giving Alaska a crucial edge in an increasingly
> competitive worldwide market.
>
> Finally, and -- in my view -- critically important, our two companies
> share a
> commitment to clean energy.
>
> I know this is and will be a very difficult time for most of you. Most
> of you
> will be asked to stay with BP Amoco, but after the close of the
> transaction,
> many will lose their positions. We will work with BP Amoco to ensure a
> smooth
> resolution of all personnel issues. Those asked to leave will be
> eligible for
> a severance package. More information about the package will be
> released in
> the near future.
>
> I ask you for your support and best professional efforts as we move
> forward to
> complete this transaction.
>
> Mike Bowlin
> Chairman of the Board and Chief Executive Officer
>
> **********
> ********
> **********
> ARCO CEO eligible for exit package worth millions
> (Reuters; 03/30/99)
>
> WASHINGTON (Reuters) - The chief executive of Atlantic Richfield Co.

> would
> walk away with three times his base salary, or $2.94 million, plus a
> $1.25
> million bonus and other benefits, if he loses his job through a merger
> with BP
> Amoco Plc, according to a regulatory document.
>
> ARCO confirmed Monday it was in talks with BP Amoco Plc. aimed at
> forming the
> world's second-largest oil company. Investment banking sources have
> said the
> two boards will both meet Wednesday to approve the estimated $25
> billion
> deal.
>
> In a proxy filed March 24 with the U.S. Securities and Exchange
> Commission,
> ARCO said Mike Bowlin, 55, would also receive the highest of the last
> three
> years' bonus if the event he loses his job because of a change of
> control.
>
> The highest of the last three years' bonus was in 1997 when he
> received $1.25
> million, the proxy showed.
>
> In 1998, ARCO paid Bowlin a salary of $980,000, down from $1,017,693
> paid in
> 1997 and awarded him a bonus of $740,000.
>
> Bowlin is also eligible for an amount equal to the pro rata target for
> the
> year in which the termination occurs. Bowlin's target award is
> $833,000. His
> 1998 bonus was 0.89 times his target award.
>
> Bowlin, who also serves chairman of the Los Angeles, Calif., based
> company,
> will receive 36 months of coverage under the company-sponsored health,
> dental
> and life insurance plans.
>
> Unvested stock options and restricted stock will immediately become
> vested in
> the event of a change of control, the company said in the proxy.
>
>

MARTINEZ

Public Opinion Message

1654 Juneau Drive #A
Anchorage, AK 99501-5623
April 13, 1999

The Honorable Drue Pearce
Senate President
Alaska State Legislature
Via Fax: (907) 465-3872

Dear Senator Pearce

I applaud the steps Governor Knowles is taking to fully understand how to deal with the BP acquisition of ARCO. I encourage you to continue to do the same thing. I am concerned about the acquisition and, experts or not, your voice is needed now to fill the void created by a lack of a unified State position.

Please do not give in to BP. Think of the State's interest. Alaskan's cannot stop the merger, but I expect you to defend and protect our interests. Do not give in to everything BP wants. Alaska must get something from this deal.

Sincerely,

Carol Lynn Martinez

Carol Lynn Martinez

Maier-Sell

Subject: BPA / ARCO Alaska Joint Special Commission on Mergers
Date: Thu, 10 Jun 1999 16:10:22 -0800
From: Russ <sell@alaskalife.net>
To: Senator_Rick_Halford@legis.state.ak.us, Senator_Drue_Pearce@legis.state.ak.us, Senator_Johnny_Ellis@legis.state.ak.us, Representative_Joe_Green@legis.state.ak.us, Representative_Brian_Porter@legis.state.ak.us, Representative_Beth_Kerttula@legis.state.ak.us, Representative_Jim_Whitaker@legis.state.ak.us

June 10, 1999

Ladies and Gentlemen of the Alaska Joint Special Commission on Mergers:

Please take a moment to read this e-mail attachment before going into public and executive session in the morning. This thumb nail sketch may offer all of you an opportunity to help our statewide community become more self reliant, estimable, educated and productive..

The development of our next, and future profession and technical generations made up of Alaska's youth will need all the support that can be offered.

A complicated concept? Not hardly, a constitutional amendment if necessary would be one of the very best legacies of this states short history. It could affect generations well beyond ours. Who would vote against a generation ready to succeed?

Give it a three minute read and some "out of the box" discussion among your peers.

Thanks for your time and consideration,

Russell and Rebecca Maier-Sell
Anchorage

I am a parent of children who wish to go to university here in Alaska. They are wonderful kids that struggled through a high school system full of 'at risk' behaviors,
poor counceling, and peers who are, for the most part, dis-engaged from learning beyound short sighted, rudimentary work skills, that give them a pay check rather than
another failing grade.

Many children lack the desire to learn and grow beyond high school. Each child should have more
exposure to educational opportunities at an earlier age which would enable the child to grow, to
further positive self esteem, and personal success when they might have felt that he/she could not or would not be able to.

As I watch the merger between BPA and ARCO, Alaska unfold, I can only think of the many obstacles each business and the State of Alaska have before them. One such obstacle
is the State of Alaska's law that allows one company to acquire only so much lease acreage and maintain its control. With a merger and acquisition containing
such large amounts of leased acreage we can find a (opportunity) solution to this problem allowing BPA's enterprise to flourish while helping our state further the needs of
children's education from King Island to Anchorage.

I propose that BPA, the state, and the University of Alaska work with all interested parties to establish a Resource Enterprise Trust for the purpose of managing present an future lease acreage's in the custody of BPA/ARCO.

Lease holdings which are currently producing and or under a current internal budget review for development would be left intact. Those lease holdings without a firm development action plan and future lease holding purchased from State of Alaska offshore/onshore lease sale offerings, which would exceed the legal acreage cap, would be placed in the trust established and administered by fund trustees. All lease holdings within the trust scheduled for a development action plan would have a trustee budget approval there by permitting access with well head production being the required goal.

An administration fee would be paid by the stake holders to the Resource Enterprise Trust based upon the value of the acreage at the time of bid opening. Once the acreage is under development and producing oil and/or gas a pre-negotiated royalty would be paid to the trust based upon the value of the product at the well head prior to any other royalties or encumbrance, much like the state receives now.

The composition of the trustees would at least include members from the University administration, stake holders, and the general public. Balance within the trustee group is essential for the stake holders to proceed with the best interests of all in mind. As operators of a large business enterprise it will be necessary to seek out and maximise profit while accommodating the needs and goals set forth by the trust.

Implications are far reaching and the benefits to all are great.
It may very well compliment those efforts of our congressional representatives in their quest to remand land to the University system.
Educational programs reaching statewide to the middle school level could be funded possibly giving each child purpose and pride in attending programatic college courses during grades 7-12. BP scholarships could be matched, and further partnership with BPA in research, business development and technical trade schooling would only be the beginning.
Would not a similar educational partnership with other forward thinking companies be fantastic?

It is a win win situation. BPA has already announce that they were going to increase charitable giving...possibly this could be one way of moving that community spirit to another level...great PR across the board!

If you should have any questions, lease feel free to contact me at work 907-563-8305 or 907-562-7079 or at home 243-5996.

I have sent this concept out via email to Senator Stevens and Murkowski, Congressman Young, Senator Leman, Pearce, Miller, Taylor, Representatives Berkowitz, Philips, Bundy, Davis, Porter, Bruce Botelho in law, Revenue Commissioner Condon, John Shively at DNR and the Office of the Governor.

Very truly yours,

Russell M. Sell
Anchorage
sell@alaskalife.net

FEB Mishko

Subject: British Petroleum - Employment of Alaskans
Date: Fri, 9 Apr 1999 17:06:38 -0800
From: "J & B Mishko" <mishko@alaska.net>
To: <senator_stevens@stevens.senator.gov>, <email@murkowski.senator.gov>,
"Don Young" <Don.Young@mail.house.gov>,
"Governor" <governor@gov.state.ak.us>, <fran_ulmer@gov.sate.ak.us>,
"Attorney General - AK" <Bruce_Botelho@law.state.ak.us>,
"Director of Natural Resources" <John_Shively@dnr.state.ak.us>,
<wilson_condon@revenue.state.ak.us>,
"State's Wash DC office" <jwkatz@sso.org>,
<Senator_Robin_Taylor@legis.state.ak.us>,
<Senator_Kim_Elton@legis.state.ak.us>,
<Senator_Jerry_Mackie@legis.state.ak.us>,
<Senator_John_Torgerson@legis.state.ak.us>,
<Senator_Jerry_Ward@legis.state.ak.us>,
<Senator_Drue_Pearce@legis.state.ak.us>,

BP typically bargains into the deal use of local employees; even in the most backward third world countries.

In most places the limiting factor is the availability of qualified workers.

Here and now in Alaska we have Issued Permanent Fund Dividend checks to more qualified employees than Bp may even have a place for until the Natural Gas is developed.

As they consolidate the two major field operators BP and ARCO Alaska into one organization they will have to decide which employees to keep and which ones to let go.

BP could employ Alaskans or Texans or anyone. It only matters to them if we make it matter.

Ask yourself? Do you think the one week on and one week off employees tend to live in Alaska or in the lower 48.

Given a choice employees living out of state or planning to leave the state as soon as the work runs out prefer longer schedules. They do not want to spend their wages on airfares. They don't spend them anywhere in the state except while waiting in the airport.

Longer schedules encourage non Alaskan employees.

The shorter 1 X 1 schedule, has been a mainstay of the Alaskan employee who has a family and plans to stay for the long haul. As our Alaskan employees worked their way up the ladder into the better jobs the lengths of time on and off the slope grew shorter.

There must be a way that such schedules for BP employees and their sub contractors could become standard practice.

Ask yourself what the picture in our state would have looked like if we had made this a standard practice long ago.

1. More oil money spent in the state
2. More entry level jobs in state with sub contractors
3. More people who would stay to retire where their friends and relatives live in Alaska.
4. More oil field employees developing other small businesses in Alaska because they expect to stay for the long run.

I believe the deals are being made now while we still have a say in the details of the change to one dominant oil company in the state.

MISHKO, BETH A
PO BOX 4563
SOLDOTNA AK 99669-4563
District: 09-213 Party: A Sex: F

MISHKO, JOHN B
PO BOX 4563
SOLDOTNA AK 99669-4563
District: 09-213 Party: R Sex:

Porto

Subject: BP Agreement
Date: Fri, 17 Dec 1999 08:14:31 -0900
From: "Vince Porto" <portov@ak.net>
To: "Tony Knowles" <office_of_the_Governor@Gov.state.ak.us>,
"John Shively" <johns@dnr.state.ak.us>, <Bruce_Botelho@law.state.ak.us>,
<Representative_Alan_Austerman@legis.state.ak.us>,
<Representative_Albert_Kookesh@legis.state.ak.us>,
<Representative_Allen_Kemplen@legis.state.ak.us>,
<Representative_Andrew_Halcro@legis.state.ak.us>,
<Representative_Ben_Grussendorf@legis.state.ak.us>,
"Representative Beth Kerttula" <Representative_Beth_Kerttula@legis.state.ak.us>,
<Representative_Beverly_Masek@legis.state.ak.us>,
<Representative_Bill_Hudson@legis.state.ak.us>,
<Representative_Bill_Williams@legis.state.ak.us>,
<Representative_Brian_Porter@legis.state.ak.us>,
<Representative_Carl_Morgan@legis.state.ak.us>,
<Representative_Carl_Moses@legis.state.ak.us>,

Your agreement with BP marked a sad day for this State. It is shameful that the FTC is more concerned for the citizens of Alaska than our governor. You may have support for you $enate run from BP - - but you'll have little voter support.

First Clinton sells the White House - now Knowles sells Alaska. I work in the oil industry. Your press releases DO NOT portray what industry employees think - I ask you to quit spreading the propaganda. We want to get back to work - YES! But we do NOT want our state sold out. Don't mix the facts and 'spin' your 'truth'. Tony Knowles is selling out our $tate.

Sadly,

Vince Porto 3065 Bettles Bay Loop
Anchorage

PORTO

Subject: BP Merger - Please stop the travesty
Date: Thu, 1 Apr 1999 19:24:56 -0900
From: "Vince Porto" <portov@aonline.com>
To: <Senator_Rick_Halford@legis.state.ak.us>

Dear Senator Halford;

I stand firmly against the proposed merger and wish to share some of my reasoning with you. Thanks in advance for your consideration and time. Please do all you can to avoid this Alaskan sized travesty.

Pro's and Cons for BP's buyout of ARCO.....

Pro's;

BP will make lots of money

ARCO Senior management will bury their mistakes which force this sale

ARCO Senior management will assure themselves of golden parachutes

Cons;

IT IS BAD FOR AMERICA - -

20% of America's domestic production will be fully controlled by ONE foreign corporation. America's National Security and economy will take a distant third seat to both BP's internal profit demands and Britain's national security/ domestic economy.

The 'low price leader', for gasoline sales on the West Coast will be eliminated.

The industry leader in 'Clean Fuels' will be eliminated.

The industry leader in 'twin hulled' tanker design and usage will be eliminated.

IT IS BAD FOR ALASKA - -

The source for 85% of Alaska's tax revenue will be fully controlled by ONE foreign corporation. They will dictate terms to Alaska.

Access to NPRA by competitors will be virtually eliminated. Smaller satellite fields depend on existing infrastructure to bring the Projects' economics within reach. Access to that infrastructure (Kuparuk, for example) will be fully controlled by ONE foreign corporation.

ONE foreign corporation will dominate refinery access for ANS crude on the West Coast. Future Alaskan development will be influenced by the refining capacity under BP's control.

ONE foreign corporation will control Competitive bidding for exploration tracts on the entire Western North Slope. Without economical access to North Slope facilities - - why bid?

ONE foreign corporation will control more than 70% of the Alyeska pipeline. BP's operation of the pipeline and their control of transportation costs and throughput will influence pipeline tariffs (and eliminate competition). Example; BP decides to allow ANS production to decline - higher per barrel tariffs result. Pump Stations coming on or off-line are easily manipulated by changing throughput - tariffs vary accordingly. Deciding to put Pump Stations in 'warm storage' or 'cold storage' or to remove them completely - will be fully controlled by ONE foreign corporation.

High paying jobs will be lost throughout the state.

When the Income Tax comes, less statewide income means - - THOSE LEFT WILL PAY MORE.

The leader in 'twin hulled' tanker design and usage will be eliminated. When will we get safe transport of crude?

The timetable for bringing clean natural gas to world markets will be driven solely by ONE foreign corporation. ARCO signed the ANS Gas Project Sponsor Agreement in August of 1998 along with Phillips and other major players within the industry - - BP chose not to participate. Gas is Alaska's future - - BP chose not to participate - - instead, they now plan to dictate.

IT IS BAD FOR ANCHORAGE - -

MANY hundreds of high paying jobs will be lost from this City. These losses will add to the 750 that BP 'ran off' earlier this year and the thousands more that were lost from drilling contractors within Alaska.

Commercial vacancy rates will increase.

The base for Property Taxes will decrease - - THOSE LEFT WILL PAY MORE.

The housing market will probably return to the 1989 level -or worse. Remember all of the 'for sale' signs, empty buildings and the obliterated value of homes?

IT IS BAD FOR THE NORTH SLOPE BOROUGH - -

When terms are dictated by a monopoly - - ALL BUT THE MONOPOLY WILL LOSE

IT IS BAD FOR THE ENVIRONMENT - -

The ability to review and judge 'comparative' environmental success will be lost - - all we'll know is what we're told from the ONE source.

IT IS BAD FOR PEOPLE - -

Finding another 'oil patch' job in a ONE Company town that is blowing people out the doors will be futile. Lower '48 relocation will be forced upon us. Lives, marriages and families will be devastated.

****

Thanks again for your consideration, with Best Regards,

Vincent Porto

PORTO, VINCENT C
3065 BETTLES
ANCHORAGE AK 99515
District: 17-347 Party: R Sex: M

Smay

JAN 26 2000

SENATOR JERRY WARD

ALASKA STATE LEGISLATURE

TO: Senator Rick Halford

FROM: Senator Jerry Ward

DATE: January 25, 2000

RE: BP/ARCO Merger

I am enclosing a copy of a letter from Mr. Robert Smay regarding the BP/Arco merger for your review. Mr. Smay is a constituent from my district. His address is:

Mr. Robert Smay
PO Box 110235
Anchorage, Alaska 99511

January-May: STATE CAPITOL • JUNEAU, AK • 99801-1182 • (907) 465-4940 • FAX (907) 465-3766
ANCHORAGE: 716 W. 4th AVE. • STE. 450 • ANCHORAGE, AK 99501 • (907) 269-0106 • FAX (907) 269-0109
KENAI: 145 MAIN STREET LOOP • KENAI, AK • 99611 • (907) 283-7996 • FAX (907) 283-3075
Chairman, Senate Transportation Committee • **Chairman**, Senate State Affairs Committee
Senator_Jerry_Ward@legis.state.ak.us

Smay

What Do You Think:

I Support .5¢ & R #28 & Your Effort to Cut Waste in Government & to Live within our Income, and your Vote Permanent Fund. Thanks.

B.P & Arco. I feel that the state should ask B.P to set up a $50,000,000 Trust Fund to Train alaskins to Work on North Slope & the interest off it used for Training alaskins. also Help to set up a Trade School for all Workers in anchorage Fairbanks & K

R J Smay

Please add me to your e-mail list. My e-mail address is_____

STIFF

POH
Attn: Senator Pearce
Rep. Porter

As an Alaskan, I am very concerned about the BP acquisition of ARCO. Please protect Alaska's interests by lobbying against this merger. The stakes are high and Alaska will lose if BP wins.

Sincerely

Heidi Stiff

Swenson

Subject: Data concerning BP Arco merger
Date: Wed, 14 Apr 1999 09:56:47 AKDT
From: "Bob Swenson" <swensonbob@hotmail.com>
To: Senator_Rick_Halford@legis.state.ak.us

Dear Senator Halford

Please review the enclosed document including important facts and conclusions concerning the BP AMOCO ARCO merger. We are sure you have been over-run with information about the affects of this transaction and what it may hold for Alaska's future and apologize for adding to that data overload. However, as a group of concerned citizens that have many years of experience in the Alaskan oil industry, and more specifically exploration, we felt it imperative that a perspective based on historical facts be presented. We understand there are many sides to any issue, yet with the recent rhetoric about the future benefits put forth in the media by the respective companies, we felt compelled to provide a historically based data set that brings to light many compelling points.
An executive summary is included below which serves as an outline for the body of the enclosed data and text.

If there are any questions or you would like to speak to someone in person please feel free to write via email @ swensonbob@hotmail.com
or

Bob Swenson
24200 Hamann Rd
Eagle River Ak 99577
(907) 696-8940
District: 24-437 Party: U Sex: M

Executive Summary

Background

The recently announced buyout of ARCO by BP-Amoco (BP) has raised numerous questions concerning the short and long-term impacts on the State of Alaska. The merger of BP and ARCO will fundamentally and permanently change the dynamics of the oil industry in Alaska, and along with the oil industry, the economy of the state as a whole. The pending deal will likely result in significant additional profits for the combined corporation, and because of this we are understandably seeing a great deal of public relations activity by representatives of the two companies. Since these representatives obviously have a vested interest in a merged outcome, we felt that a more balanced analysis would be of value to decision-makers in the state and federal governments. We have taken the approach of analyzing historical data to see how BP and ARCO have operated in the past and attempted to provide an unbiased view of the energy industry in Alaska's future. What follows is a list of facts and conclusions concerning the proposed buyout with supporting information in the remaining body of text. The facts are based on publicly available data, and the conclusions are based on many years of combined experience in the Alaskan oil business.

Facts

- After the buyout is complete, BP will own approximately 75% of North Slope oil reserves, 75% of the Trans-Alaska Pipeline and most importantly, will be the sole field operator on the North Slope.

- Maintaining an operator presence on the slope has historically been impossible for companies that are not operators in the Prudhoe Bay Field.

- Over the last 7 years, the combined expenditures of BP and ARCO have accounted for 70% of the total dollars spent at North Slope lease sales held by the State of Alaska.

- Over the last 7 years ARCO and BP have operated more than 90% of the exploratory wells that have been drilled on the North Slope.

- Over the last 7 years, ARCO has operated approximately twice as many exploratory wells as BP.

- Over the last 7 years ARCO and its partners have spent almost 400% more at State of Alaska lease sales than BP and its partners have spent.

- Over the last 7 years ARCO has been more aggressive in exploring for oil and gas in the State of Alaska than BP.

Conclusions

- The acquisition of ARCO by BP will result in reduced competition on the North Slope.

- Reduced competition will result in lower bids for leases offered by both State and Federal governments.

- BP has been less committed to exploration in Alaska than ARCO, and without significant corporate policy change in London, this trend will not vary.

- The amount of money spent on pre-exploratory drilling activities will decline sharply.

- As sole North Slope operator, BP will have the economic power to force undesirable terms on potential competitors because it will control the infrastructure.

- The presence of a single dominant company will discourage potential competitors and restrict options in partner negotiations.

- The only realistic way to maintain competition on the North Slope is to mandate that BP divest itself of ARCO Alaska and allow it to be a complete, viable entity.

Introduction

The recently announced buyout of ARCO by BP-Amoco has caused a great deal of concern within the State of Alaska. The resulting company will not only be the sole operator of oil fields on the North Slope, but also have a substantial majority ownership in the Alyeska Pipeline and ALL producing oilfields on the North Slope. The buyout is currently under review by the Federal Trade Commission as well as by a commission of cabinet level officers appointed by Governor Knowles. The legislature has also voted fund to review the buyout and scheduled hearings on the subject. This document is an attempt to provide these bodies, as well as the general public, with historical information and insights on the likely impact that the impending buyout will have on the future exploration and development activities on the North Slope of Alaska. All data presented is publicly available; the conclusions are based on experience with Alaska's oil business.

We have framed the analysis in the form of 3 questions:

1) Will the buyout of ARCO by BP result in lack of competition on the North Slope?
2) Is competition on the North Slope in the best interest of the State of Alaska?
3) What options are available to preserve competition on the North Slope?

Will the buyout of ARCO by BP result in lack of competition on the North Slope?

This is a critical question...if the answer is no, then the status quo is preserved and there are no plausible competition questions to be addressed by the FTC and the State of Alaska. However, a review of historical data as well as a discussion of the operating environment of the North Slope indicates that competition will in fact be reduced or eliminated.

The first obvious area of diminished competition will be in lease sales. A review of lease sale records for the last 7 years (Figure 1) shows that ARCO and BP have accounted for approximately 70% of every dollar received by the State of Alaska for exploration leases on the North Slope. A combined BP- ARCO will control a supermajority of the exploration leasing activity with a commensurate drop in bonus bids.

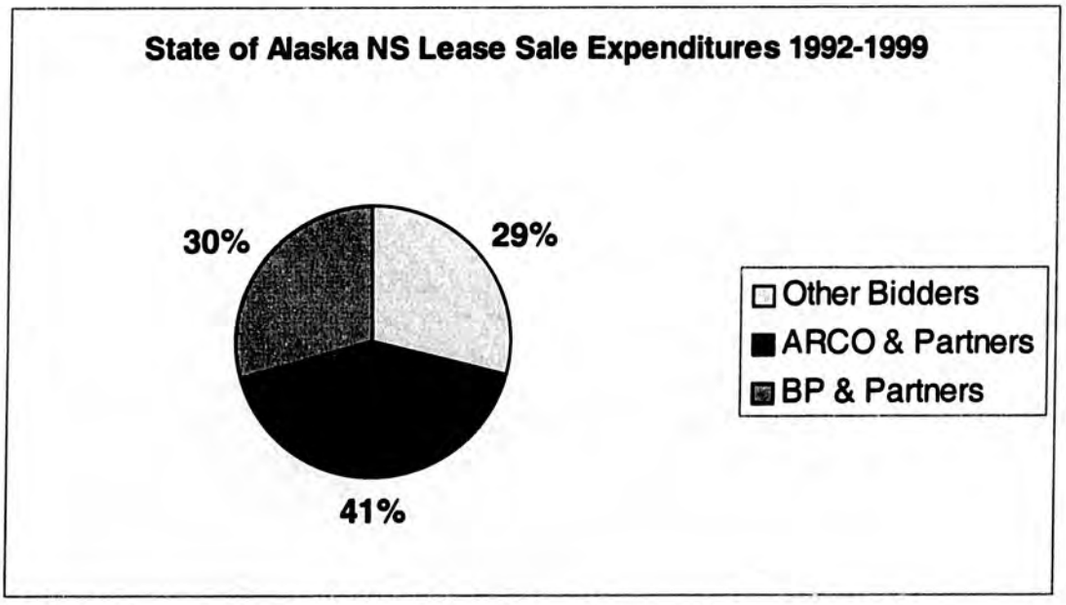


Figure 1

To an even greater degree than lease activity, the drilling of exploratory wells will see a complete lack of competition in the event the buyout of ARCO Alaska goes to completion. Figure 2 shows the historical exploration drilling activity on the North Slope for the last seven years. BP and ARCO have drilled more than 90% of all exploratory wells since 1992. **What is even more alarming is that it has been 5 years since any company other than ARCO or BP has operated an exploratory well on the North Slope.** This data indicates that although other companies may continue to purchase leases in the future, little or no exploration drilling will occur without the participation of BP. This is a clear indication that once the buyout is complete, BP will in fact have an exploration monopoly on the North Slope.

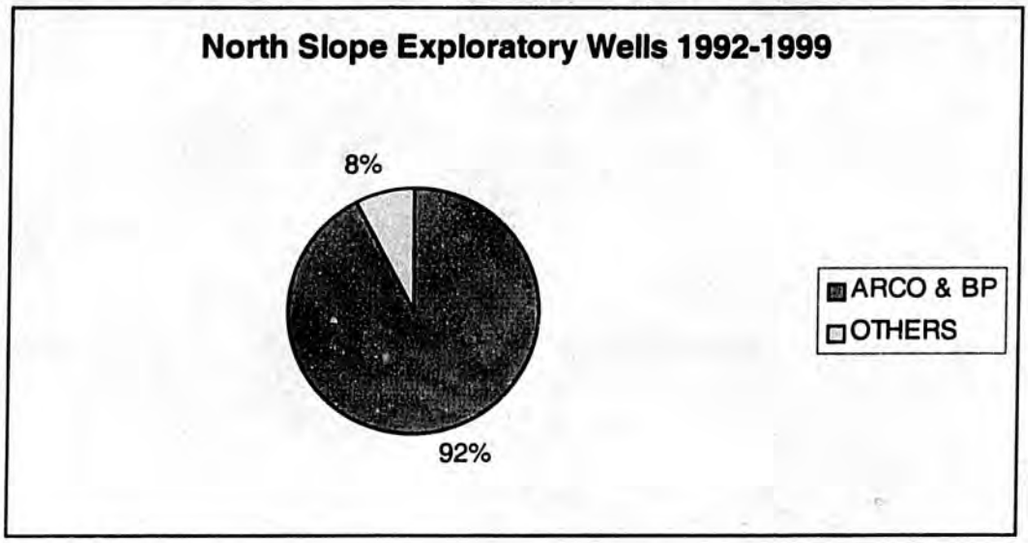


Figure 2

It is worth discussing the reason ARCO and BP hold such a dominant position on the North Slope in the areas of leasing and exploration...a position based on their status as field operators. Although a number of oil companies currently have ownership positions in various North Slope oil fields, only these two companies are active operators. ARCO currently operates the Kuparuk, Pt. McIntyre, Niakuk, West Beach, Lisburne, and the eastern half of the Prudhoe Bay fields. BP currently operates the Badami, Endicott, Milne Point and the western half of the Prudhoe Bay fields. On the North Slope the remote location of the fields and difficult climate magnify the advantages of operatorship. Operating companies enjoy access to existing infrastructure that exceeds that afforded to other owner companies, much less non-owner companies. Both ARCO and BP recognized this (at that time SOHIO) when the operatorship of the Prudhoe Bay Field was negotiated. Both companies recognized that giving up operatorship of the field was equivalent to giving up access to the North Slope. The result was the highly unusual, if not unique, joint operatorship at Prudhoe Bay.

A partial list of infrastructure that the operators have access to is listed below:

1) Field roads that are closed to the public can be used for mobilizing and demobilizing for exploration activities.
2) Field pipelines can be used for additional exploration oil.
3) Spare parts and maintenance infrastructure are available if needed.
4) Field equipment that is not available to other companies is accessible to operators. While this equipment will be paid for 100% by the operating company when used for exploratory work, it is not available to other companies at all.
5) Charter flights to and from the North Slope provide low cost transportation for operating company personnel. Other company personnel must fly on more expensive commercial airlines.
6) Over years of operatorship, the operator workforce acquires detailed geologic and engineering knowledge that can be immediately applied to exploration in adjacent areas. Drilling knowledge is of special importance as has been seen at BP's Milne Point Field.

The case histories of Milne Point, Badami and Northstar Fields provide support for the thesis that only operators can compete on the North Slope. Conoco attempted to develop the Milne Point field but eventually concluded that they could not make enough money and sold the field to BP. Conoco also discovered the Badami Field but could not develop the field economically. Although subsequent results from Badami have been disappointing, BP had the infrastructure in place that made them believe the field could make money whereas Conoco could not. A major advantage is BP's ability to tie the Badami oil pipeline into the Endicott oil pipeline...again, access to existing infrastructure. The Northstar Field was discovered almost 20 years ago. The original owners were unable to justify the cost of development, whereas BP, with its North Slope infrastructure, is currently moving ahead with development plans. Historically, only companies with an operating presence on the North Slope can successfully explore for new oil fields and, more importantly, *bring the oil from those fields to market.* What the Milne Point, Badami and Northstar examples tell us is that even if other companies continue to spend exploration dollars on the North Slope, they have little chance of bringing a field on line under viable economic terms since they will need to negotiate with BP to bring their oil to market.

The downside for the state is that this means oil production will be delayed 10-20 years from the time of field discovery. A perfect example of this is the satellite fields around Prudhoe Bay. These oil accumulations have been known for at least 10 years, but the first production began only this year. The reason for this long delay was the fact that the ownership percentages for smaller accumulations are not identical with the ownership of the Prudhoe Bay production facilities. BP has been willing to wait out higher profit, at the expense of delayed production. While this may be good business, it is not in the best interest of the State

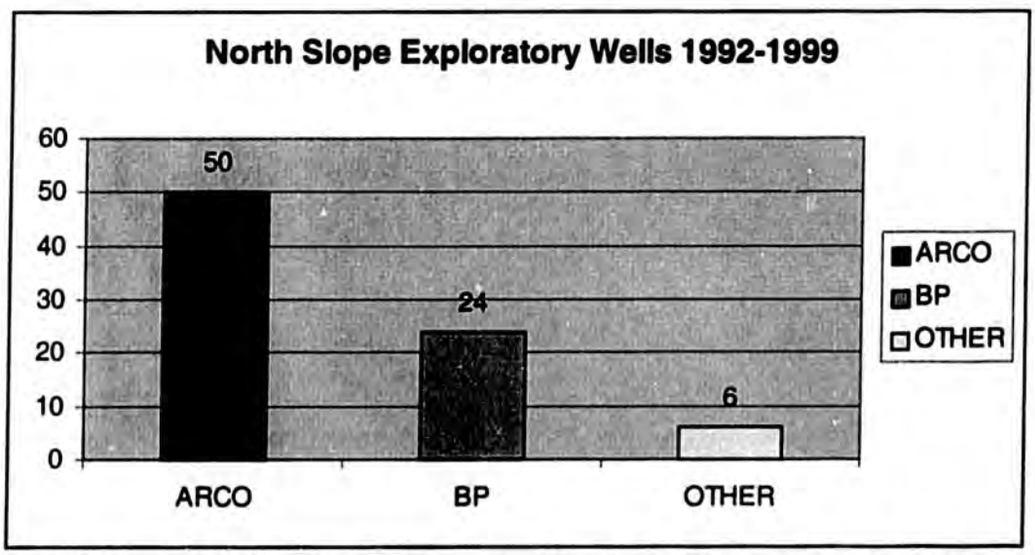
of Alaska. This scenario is likely to replay itself in the future when non-owner companies make discoveries near existing facilities. In the long run, this scenario will tend to discourage other potential competitors, thereby reducing competition.

As can be seen from the previous discussion, we believe it is very likely that the advent of a single operator on the North Slope will also mean the end of competition. This in itself may not be totally detrimental to the State of Alaska. BP has stressed that a single operator will mean lower operating costs resulting in the ability to produce less economic reserves. So the next question that needs to be answered is:

Is competition on the North Slope in the best interest of the State of Alaska?
Normally competition is regarded as critical for bringing down costs and providing better service. However, in a unique environment such as the North Slope, does this still hold true?

The lower operating cost argument proposed by BP is certainly valid for existing fields, especially for Prudhoe Bay where there are 2 operators in the same field. In this case lower overhead resulting from combined operatorship should reduce field operating costs and could potentially extend field life. However, it needs to be noted that most of the reserves that will be produced through lower operating costs will be produced towards the end of field life when per barrel operating cost determines the timing of field shutdown. In the near term, lower operating costs may result in slightly higher production, which will mean significantly higher profits for the operating company. It should be noted that most of the advantages derived from combined operatorship do not require combined *ownership*. A final caveat; if the reduced operating costs are accompanied by lower exploration expenditures, it is very possible that field life may actually be shortened. This shortened field life could easily occur as the result of a reduced exploration program's failure to spread the ever increasing per barrel operating costs of existing, declining fields.

The cost savings associated with the acquisition will not increase the exploration effort on the North Slope. Once a company has more than a threshold level of infrastructure, the costs of exploration do not change significantly. For example, ARCO and BP both trained drilling engineers and geoscientists in Anchorage that pursue North Slope exploration opportunities and have easy access to the North Slope. While the buyout will consolidate these staffs with an expected headcount reduction of perhaps 50%, the cost of shooting seismic or drilling exploratory wells will not see a step change as the result of the buyout. Indeed, since exploration is driven more by company philosophy, culture and worldwide opportunity portfolio, than by cost, it is likely the buyout will result in a significant reduction in the amount of exploration done in Alaska. Support for this idea is provided by Figure 3 which shows a breakdown of exploratory wells drilled by ARCO and BP over the last 7 years. It becomes evident ARCO



has drilled approximately twice as many exploration wells as BP during that time period.
Figure 3

The same trend can also be seen by reviewing lease sale data. Over the last 7 years of lease sales, the amount of capital exposed to lease bonus bids by ARCO has far exceeded the amount exposed by BP (Figure 4). This is not surprising because ARCO has historically been very successful exploring in Alaska and continues to have success, the latest example being the Alpine Field. Additionally, ARCO has for the most part had disappointing results in the international arena, limiting opportunities to spend money elsewhere in the world. BP on the other hand is a much larger, more global company and does not have a strong exploration record in Alaska. Because of this, BP has been a much less aggressive explorer for Alaskan oil than ARCO. Once the buyout is complete, it is likely that the exploration numbers will reflect the BP lower numbers, with the result being a major decline in exploratory expenditures in Alaska, both on the North Slope and in other parts of the State. There is a correlation between leases acquired and leases explored upon.

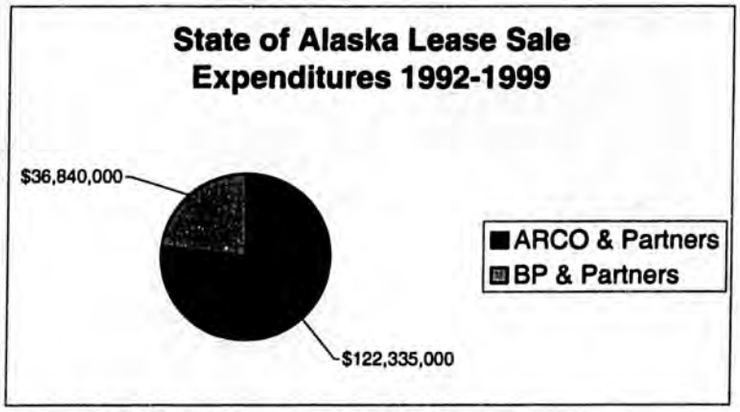


Figure 4: Capital exposure to state lease sales.

The lack of competition on the North Slope will also result in significant changes in exploration strategy. As discussed above, it is likely that the amount bid on leases will go down significantly. With dramatically reduced competition, it will be unnecessary for BP to bid large amounts to win leases. It is interesting to note that at recent public forums, Kevin Myers and Richard Campbell both stressed that in the upcoming NPRA lease sale the companies would be competitors, seeming to stress that unless they bid independently, the sale would suffer. What they failed to address was that could suffer in the future without two companies bidding independently.

Since it is likely that the combined company will operate with a reduced exploration staff, it is also likely that the State will see fewer exploratory wells drilled each year. This is supported by the historical record regarding the amount of exploratory drilling done by ARCO vs. BP. The recent BP announcement stating they will reduce the exploration acreage held after the buyout to the 500,000 acre chargeability imposed by the State also indicates a lower level of exploration in the future. It should be noted that when BP truly has a monopoly on North Slope development, the chargeability issue becomes meaningless. Since no other company will have access to the infrastructure to develop discoveries economically, it will be in BP's best interest to hold as little exploratory acreage as possible, thereby reducing lease rental expenditures. In an environment with no competition and annual areawide lease sales, BP will be able to do the preliminary technical work, then buy the leases and drill them the same year.

A final area that will likely suffer as a result of the buyout is technical review. Currently, ARCO and BP routinely disagree on certain aspects of oil field operations and state policy. Some examples of this are the fights over natural gas liquids, the disagreement over Pool Rules for the Niakuk Field and more recently, the public disagreement between BP and ARCO over state tax policy. Since neither company can be expected to present a completely dispassionate version of events in any dispute, having 2 companies presenting differing views allows state regulators and policy makers to get a more complete picture of the issues and possible consequences when making their decisions. In the future, the State will be seeing a single, sanitized version of the truth, and the chances of making a uninformed decision are significantly increased.

Following the buyout it is likely that there will be a significant reduction in the amount of exploration activity which will ultimately affect the economy of the state as a whole. New fields, if discovered by third parties and not by BP, could face long delays before the oil is produced. Without the benefit of comparison between operators, state regulators will be seeing sanitized data in the future. When all these are added up, there is a strong case to preserve, in some form, competition on the North Slope.

What options are available to preserve competition on the North Slope?

If it has been determined that the buyout will drastically reduce or eliminate competition on the North Slope, and that the lack of competition is not in the best interests of Alaska, then the question of how to preserve competition arises. We believe there are only 2 realistic ways to achieve this end.

1) Mandate a number of conditions that BP must satisfy to achieve a level playing field.
2) Maintain ARCO Alaska as a separate operating entity.

Mandate a number of conditions that BP must satisfy to achieve a level playing field.

While it may not be possible to achieve absolute equality, the state may possibly put forth conditions on the buyout that would assist other oil companies to compete on the North Slope. These conditions should include, but are not limited to, divestiture of BP's share of the TAPS, complete access to the North Slope operating infrastructure, and access to roads, gravel pads, field pipelines, accommodations, charter flights, water, waste disposal, etc. The risk in adopting this solution would be that a failure to include a single key infrastructure item would allow BP to delay or completely block future access. We have seen in the past that BP is willing to wait 10 or 15 years to achieve their objective. It is unlikely that any set of conditions could be thorough enough to insure a lack of economic roadblocks if the new BP AMOCO ARCO chose to do so. Because of this concern, the preferred option to preserve North Slope competition is option 2:

Maintain ARCO Alaska as a separate operating entity.

The easiest way to maintain competition on the North Slope is to insure that ARCO Alaska continues to thrive and operate as an independent entity. This could be achieved by selling the company, either to a third party such as Exxon or Chevron, to the State of Alaska, or by taking the company public. All three options would preserve a viable competitor on the North Slope but would still allow BP to purchase the remaining assets of ARCO worldwide where lack of competition is not necessarily a danger.

Collateral effects on the State of Alaska

These issues are not directly related to the competition issue, but can be expected to have some impact on the State of Alaska.

Job Losses

BP announced a figure of 400 jobs that would be lost. This figure was universally regarded as too low. In oral communications to employees and an open letter to Alaskans, the heads of BP and ARCO indicated that the final company would have equal numbers of BP and ARCO employees. Since BP currently employs approximately 750 people and ARCO employs 1500, this would indicate that ARCO job losses would be around 750 *at a minimum,* assuming no current BP employees were terminated. This number agrees with an analysis of current job overlap between ARCO and BP. It is also an indication that the management of the two companies may be prepared to be less than candid with the public and the State regarding job losses and other effects in their efforts to win approval for the buyout.

Charitable Donations

BP has announced that it will increase charitable donations to 50% over the combined giving of ARCO and BP. Unfortunately, this does not take into account the hundreds of thousands of dollars and thousands of hours of volunteer time that will not be donated by the terminated employees if they are forced to seek employment outside Alaska. It is certain that local charitable organizations will see a significant decrease in donations in the coming years.

Capital Spending

BP indicates that it will spend $5 billion over the next 5 years. Unfortunately the year used for baseline comparison is 1999....a year in which budgets have been drastically cut. A comparison against the 1997 or 1998 capital budgets of BP and ARCO would be much more telling. Also, how much of that 5 billion will be targeted to exploration, which lengthens the life of the North Slope, versus targeted to exploitation, which ultimately only decreases the life of the North Slope, the money available to the state and to the people.

WHITAKER

APR 12 1999

Governor Tony Knowles and BP/Arco transition team
John Shively, Wilson Condon, John Katz, Bruce Botelho:

April 8 1999

Dear Governor Knowles and team,

A paradigm shift is occurring in the oil industry. It is an excellent time for the state of Alaska to examine state policy with regard to the oil industry and to reflect upon whether or not current policy takes into account this paradigm shift. In particular, it would be wise for the state of Alaska to suspend all oil and gas lease sales for a period of one year while the team studies the impacts of the paradigm shift and its impact on the state of Alaska, and creates a plan which will ensure that there is competition in the oil and gas lease sales by encouraging new bidders and new competition.

In my humble opinion current state policy does not take this paradigm shift into account, especially with regard to oil lease sales. Oil lease sales are predicated on an assumption of competitive bidding. The new reality in the oil industry is that over half of the independent oil producers in America have gone out of business in the last six months, while giants such as Exxon, Arco, British Petroleum, and Mobil are merging. There appears to be a lack of competition, and therefore previous findings of best interest, part of the standard oil lease sale public process, are fatally flawed in their conclusions, because the findings did not take into account the paradigm shift and the corresponding lack of competition.

For example, the 1999 Cook Inlet Areawide Oil and Gas Lease Sale Finding of Best Interest did not take into account Force Energy filing for Chapter 11 bankruptcy, Unocal' s gradual withdrawal from Cook Inlet , the merger of the oil giants, or the folding of over half of the independent oil producers in America. Although I wrote a letter requesting a delay of the 1999 Cook Inlet Areawide Oil and Gas Lease Sale, pointing out a particular area of non-competitiveness, my concerns were dismissed out of hand.

It is foolish to lease oil and gas tracts at this time, because of the volatile nature of the paradigm shift, and doubtful that the state of Alaska would receive full value from oil and gas lease sales.

Enclosed are copies of my letter requesting a delay of the 1999 Cook Inlet Oil and Gas Lease Sale, and the state's response.

Sincerely,

Jed Whittaker

cc: Senator Rick Halford
Representative Jim Whitaker
Representative Joe Green
Representative Ethan Berkowitz
Senator Johnny Ellis
Mike Doogan, Anchorage Daily News

STATE OF ALASKA

TONY KNOWLES, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL AND GAS

550 WEST 7TH AVENUE, SUITE 800
ANCHORAGE, ALASKA 99501
PHONE: (907) 269-8800
FAX: (907) 269-8938

February 12, 1999

Jed Whittaker
Jed and Associate
Box 101493
Anchorage, AK 9 510

Dear Mr. Whittak

Thank you for exp ssing an interest in bidding in the upcoming Cook Inlet Areawide lease sale. In order for us to efficiently c uct areawide leasing in Cook Inlet, which is divided into 815 separate tracts, it is most cost effective to o do the title search on tracts that have been leased. A title search can be a time-consuming task, e cially in Cook Inlet, where the ownership picture is very complicated. Because ownership is not s ic, a title search would be necessary each time we held a sale. To do so on every tract, every year, would e a considerable waste of personnel time. It makes much more sense to only deal with the smaller number o racts that would be leased each year.

Anyone interested n bidding on a tract can consult DNR's Division of Land files at 3601 C St., Suite 1122, to determine the own rship status. Since we do not guarantee the information on the Regional Tract Map, we encourage potenti l bidders to do this. If you have not received all of the instructions pertaining to bidding in the sale, you may ick them up at our office at 550 W. 7th Ave., Suite 800.

As to British Petr leum's restructuring and companies merging, this should have no effect on Cook Inlet competition. BP has never been a player in this region, and there continue to be several companies expressing interest in Cook Inlet lease sales.

Sincerely,

James J. Hansen
Leasing Manager

January 26, 1999

Dear Director of the Division of Oil and Gas:

Re: Best Interest Finding Cook Inlet Areawide 1999 Competitive Oil and Gas Lease Sale

I am writing to object to the obvious bull-headedness of the conclusions of the Best Interest Finding of the Above Aforementioned.

Although I would love to enjoy the special private public partnership that would allow me to drill for oil and gas in Governor Knowles' backyard in Anchorage(Tract 526), the essence of this letter is to address ecomonic issues, not environmental or social concerns.

I wish to start an oil company. My current business, Jed and Associates, is endeavoring to create the capital necessary to bid on tracts offered in the 1999 Cook Inlet lease.

It is my dream to start an oil company, to rise from poverty to riches.

The economic concern I have with the 1999 Cook Inlet Areawide Oil and Gas Sale comes from this language in the Best Interest Finding:

"The exact amount of the net leaseable acreage in each tract will not be determined until after the bids have been received."

This discriminates against small start up oil companies with limited resources to bid, because a small company might not be able to bid successfully on all the acreage in a tract, but a small company could successfully bid on a lease if the acreage was small and well defined.

It would be very difficult, if not economically impossible, to bid on a tract when the actual acreage to be leased will not be determined until after all the bids are received,(for a small company with limited capital).

Therefore, Jed and Associates requests that the Director of Oil and Gas revise the 1999 Cook Inlet Oil and Gas Lease Sale Best Interest Finding to omit the above quoted language, and to delay the sale to allow for the staff of the Division of Oil and Gas to identify exact acreage to be leased, and hopefully in small enough size to allow for true market value of the leases to be achieved(through entry of new oil companies)to successfully bid).

Coincidentally, British Petroleum laid off 600 employees yesterday. The trend in the industry is to merge with one another. How can the State of Alaska get fair market value if there is no real competition?

Sincerely, Jed Whittaker

Jed and Associates
Box 101493
Anchorage, Alaska
99510
529-7855

Williams

Subject: BP-Arco Merger and State Tax Issues
Date: Fri, 14 Jan 2000 22:55:04 -0900
From: "Thomas C. Williams" <tcw-ak@worldnet.att.net>
To: "Drue Pearce" <Senator_Drue_Pearce@legis.state.ak.us>,
"Rick Halford" <Senator_Rick_Halford@legis.state.ak.us>

I saw that the Select Committee on Mergers has a hearing scheduled for this Tuesday afternoon. Before that hearing, please consider the following if you have not already done so.

I spoke briefly with Revenue Commissioner Condon today. I asked him if in the Governor's proposed conditions for State approval of the merger the State had reached agreement with both BP and Arco regarding all currently unresolved state tax issues, including disputed prior year tax assessments as well as any foreseeable areas of dispute that could effect future state tax liabilities. He said there was only one prior year issue of any significance remaining to be resolved, but it had NOT been linked to the Governor's approval of the merger. He also indicated the Governor's approval was also NOT contingent upon reaching agreement with the BP-Arco on foreseeable disagreements in tax issues.

It seems to me that the state's support of the merger should at least be linked to resolving our tax issues with both companies. What an opportunity to settling any back taxes with them and avoid at least some expensive, drawn-out prospective tax disputes the new company. If the state is going to extract something for its support, isn't there at least as good (if not better) a linkage to the tax issues than there is to getting BP to donate to the University?

Tom Williams