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PRESTON GATES & ELLIS LLP
ATTORNEYS

June 25, 1999

VIA FACSIMILE: ORIGINAL TO BE MAILED

Mr. Bruce M. Botelho
Attorney General
Alaska Department of Law
123 Fourth Street, 6th Floor
P.O. Box 110300
Juneau, AK 99811

Re: Joint Special Committee on Mergers Review of
BP Amoco/ARCO Merger

Dear Bruce:

Pursuant to our earlier discussions, I am submitting to you requests for information for use in our analysis of the BP Amoco/ARCO merger.

1. Copies of the unit agreements and operating agreements with current amendments applicable to the following fields:
 - Alpine
 - Badami
 - Duck Island
 - Greater Point McIntyre
 - Kuparuk River Unit
 - Milne Point
 - North Star
2. With respect to the Prudhoe Bay Unit Agreement and Prudhoe Bay Operating Agreement, we have much of this material but we want to compare it to a complete set to make sure we have the latest amendments, etc.
3. State TAPS ROW Agreement and other ROW agreements related to feeder pipelines on the Alaska North Slope, e.g. Kuparuk.
4. We have copies of the ARCO and BP oil royalty settlement agreements but we need to verify that neither BP nor ARCO made any elections under the most

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favorable nation clause and that there have been no amendments or revisions to the agreements since judgment was entered.

- a) We also would like to know the history and result of arbitration under the agreements (if any) and to talk to someone (in DNR or a consultant, *e.g.* Barry Pulliam) who can describe how the valuation formulas have worked over time and how they are currently being applied. Ideally, we would like to discuss with these representatives their view of any problems that might arise under the settlement agreements as a result of the merger.
 - b) With respect to the oil royalty settlement agreements, there is a general concern that the BP methodology is less favorable to the State overall than the ARCO methodology and that the former will supplant the latter upon merger. You suggested at one of the House hearings (4/13) that the ARCO methodology may not survive the merger but that your department was looking closely at this issue. The Settlement Agreements state that they constitute covenants running with the lands, leases and interests covered by the agreement. This would suggest that the ARCO methodology will continue to apply to production from leasehold interests formerly owned by ARCO. What is the State's position with regard to the methodology that will attach to that share of the merged entity's production formerly owned by ARCO?
5. At the Committee's hearings on Friday, June 11, 1999, representatives of BP Amoco and ARCO both testified that access to North Slope facilities was possible and a common practice by entering into facility sharing agreements. We do not know whether the State has copies of these agreements, but if you do, we would like to get copies of such agreements.
 6. The Committee would also like to have the Administration prepare an analysis of the revenue impacts that the Administration anticipates will occur as a result of the BP Amoco/ARCO merger. The analysis should assume the merger is unconditionally approved and effective January 1, 2000, should cover a five-year period and should specify any other assumptions being made. Specifically, the committee requests that the analysis separately address the likely impact of the merger on the following revenue sources:
 - 1) oil royalty revenues and separately gas royalty revenues
 - 2) oil production tax, AS 43.55, and separately gas production tax
 - 3) oil and gas property tax, AS 43.56
 - 4) oil and gas corporate income tax, AS 43.20.072
 - 5) general corporate income tax, AS 43.20

Mr. Bruce M. Botelho

June 25, 1999

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As part of the revenue impact analysis, the committee requests that the Administration provide its best estimate of the likely effect on TAPS tariffs over the next 5 years.

7. We also request the Administration's analysis of the fiscal impact over the period 2000-2004 of the following potential legislative changes:
 - a) reimposition of AS 43.21 separate accounting oil and gas income tax;
 - b) the repeal of economic limit factor contained in AS 43.55.013; and
 - c) the repeal of AS 43.20.073(f), which would require oil and gas companies to file on a water's edge combined reporting basis.
8. We would also like to receive from the Administration an analysis of bidding on individual lease tracts for North Slope lease sales held during the last fifteen years.
9. As I mentioned in one of our phone conversations, we would like to talk to Robert Loeffler in connection with various TAPS related issues including the background on the TAPS capacity settlement, and impacts on the tariffs. You have indicated this was acceptable, which I appreciate. I expect to contact him in the near future.

I am enclosing for your file a confidentiality statement that you requested executed by Joe Donohue who, as you know, is also working on these issues. Please let us know what other privileges that the Department of Law believes applies to any materials it provides to us, e.g. work product, joint defense privilege, etc., so that we can handle the materials appropriately.

Bruce, if there is a simpler and more direct way to pursue these requests, please let me know. As we discussed, however, Administration staff and consultants look to you ultimately for direction as to what degree of communication with the legislative team is permitted and so it seems reasonable to submit these requests to you initially. Thank you for your consideration.

Sincerely,

PRESTON GATES & ELLIS LLP



By
Frederick H. Boness

FHB:ska

Attachments

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Official Business

ALASKA STATE LEGISLATURE

Joint Special Committee on Mergers

State Capitol
Juneau, AK 99801

Chairman: Senator Rick Halford
Vice Chair: Rep. Joe Green
Senator Drue Pearce
Senator Johnny Ellis
Rep. Brian Porter
Rep. Beth Kerttula
Rep. Jim Whitaker

August 20, 1999

Governor Tony Knowles
Office of the Governor
P.O. Box 110001
Juneau, Alaska 99811-0001

Sent via Fax
Original to follow via mail

Dear Governor Knowles:

As part of its ongoing assessment of the potential impacts of the BP Amoco-ARCO merger, the Joint Special Committee on Mergers has heard the concerns of Alaska residents and business groups, has had discussions with FTC officials, and most recently has reviewed various documents filed by BP Amoco as part of the Hart-Scott-Rodino pre-merger notification process.

As you know, many Alaskans are very concerned about the economic effects of this merger and the loss of competition on the fields and in the pipeline, resulting in the increased vertical integration of production, transportation, and marketing of our oil. It is our duty to ensure that Alaskans' best interests are protected through a thorough review of the merger and consideration of conditions that must be met if the merger is to proceed.

The Attorney General has requested that we share our conclusions by mid-August. At this point, the committee feels it is premature to have conclusions. However, we have identified a number of concerns and will not endorse any formal position on the merger until these concerns have been addressed.

These concerns fall into two broad categories, the merger's impact upon state revenues and its impact upon competition. We discuss each of these categories below.

Revenue Impacts

We believe that ARCO and BP Amoco must provide assurances that, at a minimum, the merger will be revenue neutral for the State of Alaska. In its recent Circular to Shareholders, BP Amoco states that the merger should result in annual pre-tax savings of \$1.0 billion annually.

Given that the proposed merger will significantly reduce costs and increase profitability, Alaskans ought to share in this benefit through guarantees of a positive revenue impact. There are a number of related issues under this category.

I. Royalty Oil

It is common knowledge that the methodology used by ARCO to report the value of its crude oil for royalty purposes is more favorable to the state than that used by BP Amoco. What may be less well known is the magnitude of the disparity. The figures provided by the Department of Natural Resources for the month of June, 1999, show that ARCO reported a well head value, before field costs, of \$12.42 per barrel on Prudhoe Bay production for royalty purposes, whereas BP Amoco reported a value of \$9.67. This difference of \$2.75 per barrel on all of ARCO's production is obviously very significant to state revenue, and therefore a concern for the committee. We believe BP Amoco should guarantee that the ARCO methodology will continue to apply to ARCO sourced production post-merger and consider negotiating a revised methodology for new discoveries.

II. Taxes and Royalty Impacts

In order to come to a conclusion about the revenue impact of the merger, the committee requests an analysis of the oil production tax, the gas production tax, oil and gas royalties, oil and gas property tax, oil and gas corporate property tax, and the general corporate income tax over the next five years. We have attached a detailed request that the committee sent on June 25th to Attorney General Botelho. As you know, we have not received a response from the Attorney General on these important questions.

III. Tariffs, Tankers, and West Coast Crude Prices

In a recent newspaper article, Commissioner Condon and members of his staff were quoted as saying the merger would not have much impact on the state's revenue because the major fights with the oil companies have been resolved and now provide a means for the state to assure itself that the companies are playing by the rules. We request that the department share with the committee the analysis supporting those conclusions. This analysis should go hand in hand with an explanation of the basis for the wide discrepancy between ARCO and BP Amoco's royalty valuations requested above. It seems likely that the basis for this discrepancy is a combination of several factors including differences in valuation of the crude oil at its West Coast market, tanker charges, and tariff charges. In order for the committee to reach an informed conclusion, we feel a number of questions must be answered as part of this analysis.

With regard to TAPS, are the BP Amoco and ARCO TAPS tariff filings each currently at the TAPS Settlement Methodology (TSM) ceilings? Are they expected to remain at ceiling post-merger? Even more fundamentally, is the TSM, which was negotiated in a significantly different environment, still a fair methodology in today's oil environment where Exxon acquires Mobil and BP Amoco acquires ARCO? As we understand the TSM, the state's goal was to devise a methodology which would encourage competition, giving the pipeline companies an incentive to charge a tariff below the TSM ceiling. Will a merged BP Amoco-ARCO have any incentive to charge rates lower than the TSM ceiling? Regardless of predicted

incentives, we should pursue guarantees regarding fair TAPS rates as part of any final negotiation.

Tanker charges raise virtually the same questions as the TAPS tariff. Are the ARCO tanker deductions less than the BP Amoco deductions, and, if so, why? Will the recent reorganization of the tanker trade between Alaska and the West Coast prohibit BP Amoco from increasing its tanker deductions? If not, what assurances should the state obtain to make sure that BP Amoco will not use its integrated position to increase tanker deductions, resulting in a reduction in the valuation of crude on the North Slope and less revenue for the state?

The Merger's Impact Upon Competition

Competition is a fundamental requirement of the capitalist system. It is necessary to ensure that prices are fair, costs are minimized, and it fosters creativity and technological innovation. Companies who compete for a market or resource act as "watchdogs," continually keeping an eye on each other, and providing information on any abuse or wrongdoing. For these and other reasons, antitrust issues are at the heart of both the Administration's and the FTC's investigations. Our goal is to ensure that competition in the exploration, production, and transportation of Alaskan crude oil be increased rather than diminished as a result of the merger. We have identified several specific matters which should be addressed towards that end.

I. Access to Production Facilities.

We are concerned that the merger will make a bad situation worse with respect to access to production facilities on the North Slope. Any company that discovers oil on the North Slope must either build its own production facilities or enter into an agreement with the owner (or operator) of existing production facilities to be able to move its oil to the TAPS pipeline for transportation off the North Slope. After the merger, virtually the only company that an owner of oil will be able to deal with is BP Amoco. We must ensure that access to existing production facilities will be on terms that are fair and equitable to existing owners and will attract new owners to the North Slope.

II. TAPS Tariff Competition.

In addition to the revenue concerns stated earlier, if BP Amoco and Exxon-Mobil have no incentive to compete, there will be no assurance that North Slope producers without pipeline affiliates will get reasonable pipeline costs. This seems especially true given that post merger BP Amoco-ARCO will control 72% of the pipeline's capacity. Even if the merger fosters competition in the remaining pipeline owners, they will control a tiny fraction of the pipeline and will have a very small effect on pipeline costs for unaffiliated producers. Accordingly, the state should adopt a position that maximizes competition among all the pipeline companies and requires the majors to file at less than the maximum tariff. We should explore the possibilities of compelling divestiture of some or all of BP Amoco-ARCO's interest in the pipeline or renegotiating the terms to the TAPS Settlement and Capacity Agreements.

III. Access to Tankers

Like the field production facilities, and unlike the TAPS pipeline, tanker traffic is not provided on a common carrier basis. As a result, inability to obtain fair and equitable access to tankers can serve as a substantial deterrent to anyone seeking to enter into or expand their existing North Slope oil or gas production. We must ensure that all owners of North Slope oil production have adequate access to tankers for the movement of their oil from the North Slope.

CONCLUSION

As you are aware, there are a number of other issues that need to be considered as part of an overall state response to the merger. These include considering divestiture of production assets, which would diversify ownership of North Slope properties. We should also explore the possibilities of agreements that secure commitments to continue pursuit of the development of North Slope Natural Gas and to continue investment in further exploration and development in Alaska.

We are committed to taking the necessary time to pursue a thorough investigation and ensure that we have gained all the benefits for Alaskans that we can through the negotiation process. We understand that the Administration has completed some of the preliminary review and that you propose to present some findings of your investigation by the end of August. We look forward to receiving the information your working group has compiled on their consideration of the above topics as we continue to examine the merger and the role the state can play in ensuring the best possible agreement for Alaska.

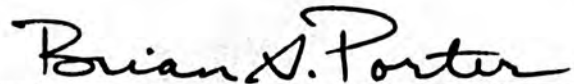
Sincerely,



Senator Rick Halford
Chair, Joint Special Committee on Mergers



Senator Drue Pearce
President of the Senate
Member, Jt. Special Committee on Mergers



Representative Brian S. Porter
Speaker of the House
Member, Jt. Special Committee on Mergers

RH:jl
Enclosure

State of Alaska
Office of the Governor

Tony Knowles
Governor
P.O. Box 110001
Juneau, Alaska 99811-0001
NEWS RELEASE



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FOR IMMEDIATE RELEASE: August 23, 1999

· 99-174

KNOWLES UNVEILS ALASKA TERMS IN BP-ARCO BUY-OUT
Seeks Competition, Divestiture, Commitments to Alaska Hire & Environment

ANCHORAGE--Calling it a matter of historic significance for Alaska, Gov. Tony Knowles today outlined the state's position on the proposed acquisition of Arco by BP-Amoco. In a noon speech before the Anchorage Chamber of Commerce, Knowles called for continued competition on the North Slope through BP's divestiture of some of the new company's acreage; access for competitors to oil production and transportation facilities; and an increased commitment to Alaska hire, education and the environment.

"My bottom line is this: Alaskan control of our resources requires a competitive free market environment," the governor said. "Monopolistic control of those resources by any outside source, public or private, will inevitably work against Alaska's long-term interests."

Knowles noted that the proposed acquisition would result in one company controlling more than 70 percent of North Slope oil, gas, and production facilities, 72 percent of the trans-Alaska oil pipeline, and 80 percent of the available tanker capacity.

"This represents an unacceptable monopolistic control of Alaska's resources. It is an insurmountable barrier to the competitive participation of other major companies developing our oil and gas. It cannot stand unchallenged," he said. "That's why the State of Alaska will vigorously pursue, in all available forums, a competitive, free-market environment to assure an acquisition that's acceptable to Alaskans on Alaska's terms."

Knowles said the State's position on the acquisition has two goals: " We will insist on the participation of at least one additional major oil company operator in current and future oil leasing, exploration and production. We also will insist on access to our natural gas resources for development.

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"Second, with the emergence of a significantly larger BP-Amoco presence in Alaska we will seek a new level of corporate commitment to hiring Alaskans, using Alaska businesses, protecting the environment, and supporting important community and civic causes," the governor said.

To help develop the State's position, Knowles appointed a cabinet-level review team; called upon the expertise of a dozen national and international experts in the fields of antitrust law and oil and gas economics; sought the advice of Alaska civic and business leaders, educators, and contractors; and worked closely with the Federal Trade Commission.

In order to achieve his first goal, Knowles said BP must divest itself of sufficient North Slope production and leases to guarantee another major operator in oil production and exploration. This includes not only the 360,000 excess acreage on state lands but also acreage included in the National Petroleum Reserve-Alaska. Knowles said the State must agree in the selection of excess acreage on state lands.

While this alone will not create a competitive situation, Knowles also called for:

- Open access to oil transportation and production facilities at a fair price;
- Procedures for determining a fair price for all gathering and related oilfield facilities;
- Reduction of the existing tariff of the trans-Alaska oil pipeline through agreement with the owner companies so it is not a barrier to a non-owners from using the line;
- Commercialization of the 37 trillion cubic feet of known and vast quantities of yet to be discovered natural gas through a competitive process.

Knowles also called on the new BP-Amoco to reaffirm and substantially increase its role in its partnership with Alaskans, through:

- Increased Alaska hire and use of Alaska businesses and the establishment of baseline standards, goals, and a monitoring system to ensure progress;
- Fulfillment of Arco's plans to build new "Millennium-class," double-hulled tankers for service from Valdez;
- Assessment and clean up of all contaminated sites on the North Slope;
- A substantial educational endowment to the University of Alaska for the technical training of young Alaskans and to build on the state's internationally known expertise in Arctic environmental engineering.

Noting the importance of the oil and gas industry to Alaska, Knowles said the future success of resource development in the state is grounded in the strength, the competitiveness and the risk-taking initiatives of the private sector.

"This was the goal of the oil partnership initiative I began shortly after taking office. I knew we had to repair what many, including the industry, felt was an ailing relationship," the governor said. "Together, we have accomplished a great deal.

"In response to a new open and ready for business attitude, the industry is making record investments in new technology, opening new fields and increasing the production of existing ones. New companies are aggressively participating in what is often described by industry itself as a renaissance of interest," Knowles said. "Gas owners, for the first time put money on the table to begin the process of developing that resource. We've established a new industry building sea-lift modules here in Alaska. We've opened up new exploration and production opportunities with North Slope area-wide lease sales and are opening the National Petroleum Reserve for its first-ever successful leasing. The new partnership is working."

The governor praised BP and ARCO as "primary participants in this partnership. Their good corporate citizenship, their multi-billion-dollar investments in Alaska, use of Alaska businesses and protecting our environment raised the industry-state relationship to a new level of mutual benefit."

"But Alaska cannot – and will not – be beholden to a board of directors in London or anywhere else," he added. "It is not a question of their good faith. We simply recognize these boards are obligated to a different set of shareholders than Alaskans. I believe within this world of competitive free enterprise there is a place of mutual self-interest for BP and Alaska – the proverbial win-win situation. I am determined to do everything within my power to get there."

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Editors: The full text of Knowles' speech and digital photographs are available on the Governor's web site at: www.state.ak.us/gov

Broadcasters: Radio actualities will be available at 800-478-5669 or 465-5213 in Juneau.

Gov. Tony Knowles remarks
Anchorage Chamber of Commerce on BP-ARCO Acquisition
8/23/99, Egan Center

(Text subject to change.)

Thanks for that introduction, Chamber President Samuels. And thanks to the Anchorage Chamber of Commerce for allowing me to speak today.

I asked for this opportunity for two reasons. First, this is an important forum for Alaska business and civic leaders. Second, the Anchorage Chamber has a distinguished history of addressing significant public policy issues and has not hesitated to take tough positions in meeting its responsibility for leadership.

In this light, I would like to congratulate you for recommending a "yes" vote on the September 14th advisory ballot that would allow some earnings of the Permanent Fund - after inflation proofing and guaranteeing a dividend - to help balance the state's budget. I applaud your long-time commitment to a balanced budget and the critical role that goal plays in our pro-business environment and long-term economic prosperity.

I also want to thank you for your long-time support of allowing Alaskans the opportunity to vote on a constitutional amendment that provides for a rural preference for subsistence in times of shortage. Without this vote, on October 1st, Alaska will hand over to the federal government the management of a major portion of our fisheries, in addition to the significant control it already has over game management.

Like you and the large majority of Alaskans, I feel strongly that surrendering control of these precious resources to the federal government unconscionable and unacceptable.

I believe we are very close to prevailing on subsistence. We have the support of leaders of both parties of the Legislature, a majority of legislators, the unanimous support of the congressional delegation, and endorsements from a wide array of state leaders, organizations and individuals. I am hopeful that we can convince the small handful of legislators we need to put this critical constitutional amendment on the ballot.

Make no mistake - we are approaching the midnight hour. Resolution of subsistence, like that of the balanced budget, is crucial to the long-term prosperity of our Alaska.

One of the core values for resolution of subsistence is our control of our resources. I have applied that same core value in considering BP-Amoco's acquisition of ARCO.

There's no question this proposed acquisition is of dramatic and historic significance to our state's future. So today I welcome the opportunity to outline the State of Alaska's position on this proposed acquisition. I will discuss the principles and the process we've followed and why I believe this position is the right one for Alaska.

Second, with the emergence of a significantly larger BP-Amoco presence in Alaska we will seek a new level of corporate commitment to hiring Alaskans, using Alaska businesses, protecting the environment, and supporting important community and civic causes.

We will achieve our first goal by insisting on the following conditions. BP must divest itself of sufficient North Slope production and leases to guarantee another major oil company operator in production and exploration. This divestiture of leases includes not only the 360-thousand excess acres on state lands, but also acreage included in the NPRA. As part of this divestiture, the State must agree in the selection of the excess acreage on state lands.

These conditions alone will not create a competitive situation. We must have open access to our oil transportation and production facilities at a published, fair price.

Next, the existing tariff of the trans-Alaska oil pipeline needs to be reduced with agreement by both BP-Amoco and Exxon-Mobil so it is not a barrier to a non-owner company from using that line. Even industry users acknowledge TAPS to be a major profit center, with tariffs substantially in excess to the cost of operation.

Of course, the state would gain revenue from this, but the chief purpose of reducing tariffs would be to guarantee a fair price that would not serve as an obstacle to competition.

Finally, it is my belief that commercialization of our 37-trillion cubic feet of known gas and vast quantities of yet to be discovered gas, will be through a competitive process. No one dominant owner should be allowed to lock up its development.

While Alaskans are pleased with the commitment and progress being made by the consortium currently looking at this gas project, we will insist that adequate reserves be available at fair market rates for any sponsor of a natural gas project.

To achieve our second goal, it is important and necessary that the new BP-Amoco reaffirm to Alaskans it will continue and substantially increase its role in our partnership. Alaska hire and use of Alaska businesses must continue to be a top priority of BP. We should cooperatively set baseline standards, goals and a monitoring system at the highest level to insure progress.

It is imperative that we achieve and constantly improve the world's safest oil transportation system. Much has been accomplished, especially in marine transportation, with a great deal of credit to BP's sustained leadership. This must continue with obligations on fulfilling ARCO's plans to build new millennium-class, double-hulled tankers for service from Valdez.

Finally, it is industry's responsibility to assess and clean up all contaminated sites on the North Slope.

STATE OF ALASKA

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

TONY KNOWLES, GOVERNOR

P.O. BOX 110300
JUNEAU, ALASKA 99811-0300
PHONE: (907) 465-3600
FAX: (907) 465-2075

November 30, 1999

The Honorable Tony Knowles, Governor
State of Alaska
State Capitol, 3rd Floor
Juneau, Alaska 99811

Dear Governor Knowles:

I write to report the results of the public comment and hearing process on the draft Charter for the Development of the North Slope ("draft Charter") and to suggest certain changes to the draft Charter in response to that process. We heard a broad cross-section of Alaskan views on issues of utmost importance to the State and to its economic future. While there is no solution that all Alaskans would embrace, my fellow cabinet members on the merger review team and I believe that the draft Charter, with our recommended changes, will achieve the two objectives you established at the outset of this process: increased competition in Alaska's oil patch and an enhanced corporate commitment by BP to Alaskans.

This report is divided into two parts. First, to provide appropriate context, the report will set forth the path that we traveled from late March when the merger was announced through the negotiation of the draft Charter and ending with the public comment process. Second, the report will summarize the critical comments that were received and recommend changes to the Charter. At your direction and with your involvement, negotiations with BP Amoco have been ongoing during and after the public comment period.

This report recommends the following substantive changes to the Charter. First, I believe the Charter provisions related to the environment should be revised. The proposed changes would establish (1) a floor, not a ceiling, of \$10 million to be spent cleaning up orphan sites, (2) a cap of an extra \$5 million to be spent for extra orphan site clean-up, spill research, or corrosion experts as requested by the Alaska Department of Environmental Conservation Commissioner, (3) an agreement to repudiate any trade association effort to weaken Oil Pollution Act of 1990 (OPA 90) standards, (4) continued support for the ship escort response vessel system in Prince William Sound, (5) a requirement for BP to report annually on environmental issues, and (6) a reconsideration of the enforceability of the environmental commitments.

Second, the focus of the gas commercialization provision in the draft Charter should be changed. Specifically, the price target provision should be removed and replaced with a commitment to nondiscriminatory open negotiations with prospective project sponsors for the purpose of making available sufficient gas to support a qualified treatment and transmission project. In addition, as specified below, other language of the draft Charter should be clarified to better reflect the parties' intent.

I. The State's Review of the Merger and Negotiation of the Charter

A. The Review Process

On April 1, 1999, after receiving the news of BP Amoco, p.l.c.'s proposed acquisition of the Atlantic Richfield Company, you announced the appointment of a cabinet-level team to review the merger and its consequences for Alaskans. Named to the review team were Commissioner of Natural Resources John Shively, Commissioner of Revenue Wilson Condon, Special Counsel to the Governor John Katz, who also serves as director of the State's Washington, D.C., office, and me as Attorney General.

You stated your concern that the proposed merger "could have significant impacts on Alaska jobs and families" but expressed the hope that the merger would present an "opportunity to build on the accomplishments we have made with industry over the past four years." In your remarks, you announced four principles for evaluation of the merger. The merger must:

1. continue to strengthen Alaska's economy through Alaska hire, use of Alaska businesses, and support of community organizations and causes;
2. continue improvements for environmental protection and the safe transportation of oil;
3. maintain competitive opportunities for other companies to enter the oil industry in Alaska; and
4. continue to provide a stable source of revenues to the State of Alaska.

You asked your cabinet team to evaluate the impact of the proposed merger in six areas:

1. valuation of North Slope crude;
2. marine transportation;
3. operation of the Trans Alaska Pipeline;
4. development of other North Slope facilities and fields;
5. natural gas development; and
6. current and future leasing of acreage for oil and gas development.

To better understand the legal and economic implications of the proposed merger, the State retained nationally and internationally recognized experts in petroleum economics, antitrust law, pipeline transportation, and oil and gas industry development. Staff from the Alaska Departments of Natural Resources, Revenue, Environmental Conservation, Labor, and Law with many years of experience also formed a task force to assist in the review process.

We recognized that Alaska's policy should be developed in consultation with federal antitrust officials who had the responsibility to review and approve the merger under parallel federal laws. In mid-April we invited staff of the Federal Trade Commission (FTC) to participate in a briefing on North Slope development. And, in early June, the cabinet team traveled to Washington, D.C., to meet with top FTC officials in order to establish full communication with the FTC staff and the FTC chairman. The State and the FTC agreed to work cooperatively in reviewing the merger and established a pattern of constructive dialogue.

In response to FTC and state requests, BP and ARCO produced more than 2,000 boxes of documents during the summer and fall. In early October, the cabinet team returned to Washington, D.C., to discuss the proposed acquisition with top FTC staff members and appropriately coordinate the state and federal review processes.

My department coordinated its antitrust investigation with those of the states of California, Oregon, and Washington. The antitrust attorneys and experts of the states developed a framework for analysis of the issues, reviewed the documents produced by the parties, deposed BP and ARCO officials, and conducted third party interviews of other petroleum industry companies. The same state parties were also working together on the issues posed by the parallel Exxon-Mobil merger.

You, members of the cabinet team, and others from the administration personally interviewed a number of major oil companies about their possible participation in the exploration, development, and recovery of Alaska's oil and gas resources. These interviews included meetings across the country by you and members of the team.

Following extensive discussions among state officials and the Alaska public, you laid out the Administration's position on the proposed merger in a speech to the Anchorage Chamber of Commerce on August 23, 1999. The "bottom line" was that Alaskan control of "our resources requires a competitive free market environment." Recognizing there had been a "structural consolidation of unprecedented proportion" in the oil industry, driven in part by low oil prices, you emphasized that it was critically important to maintain a competitive environment in Alaska. Appropriately, our focus was on the merger's potential impact on Alaska; potential competitive impacts on retail markets in California and the acquisition of foreign interests were not our concern.

You also felt that BP had to demonstrate a renewed sense of corporate commitment to the State, and you set forth specific elements of an appropriate solution.

The first element of a competitive solution was for BP to divest itself of sufficient North Slope production and leases to guarantee that another major oil company would be an active competitor in exploration and production on the North Slope.

The second element was "open access to our oil transportation and production facilities at a published fair price." You called for a tariff reduction, not to increase state revenues, but to guarantee a price that would not be an obstacle to competition. Fair access to production facilities also had to be guaranteed.

The third element of your competitive solution was to make available adequate natural gas reserves at fair market rates for any sponsor of a natural gas project. No single company, you insisted, should be able to lock up economically recoverable reserves and prevent their production.

In Anchorage, you also called for BP to demonstrate its heightened commitment to Alaska by achieving a higher standard in environmental protection and participation in the community. You asked BP to make a substantial contribution to the University of Alaska endowment for the technical training of young Alaskans and to build upon the State's internationally recognized expertise in arctic engineering. You also called for renewed commitments to Alaskan hire and use of Alaskan businesses. In the environmental area, you asked BP to take responsibility for the clean-up of contaminated sites on the North Slope, even those that were of unknown or "orphan" origins. You also asked for BP to commit to ARCO's plans to build new millennium class, double-hulled tankers.

The Anchorage speech set forth the substantive framework for the negotiations with BP. On September 20, before the negotiations began, you also committed to a public process for taking testimony on any proposed agreement with BP. The terms of any proposed agreement would be made public and public town meetings would be held on the agreement over a two-week period. BP signaled its willingness to proceed and participate in this process.

As the State entered the negotiations, it became clear that the two announced goals — competition and community commitment — had different foundations. The State's competition objectives were driven by the antitrust laws, whose purpose is to protect competition. Applying standard analysis, the State sought to fashion remedies that addressed the barriers to competition produced by the merger and to create a binding structure for enforcement of these remedies. The objectives for community commitment did not arise from antitrust concerns, but from the State's view that an enlarged BP should have expanded corporate citizenship obligations. For these reasons and because of the adequacy of existing state environmental law, the State did not enter the negotiations with the expectation that the community commitment remedies should be contractually enforceable.

As the Task Force gathered advice from the State's expert consultants and from industry, it focused on what solutions would maintain and enhance competition on the North Slope. The key issue was what would it take to attract new players to Alaska to participate aggressively in leasing, exploration and development. Because participants in Alaska's oil industry compete in a world market both for commitment of capital to new exploration and development and as marketers of Alaska's oil, it was important that the new participants be large and experienced enough to be effective players in Alaska. As the Task Force explored this issue, it was clear that there was a limited set of companies that could meet the State's needs.

Any solution also required that new entrants obtain sufficient resources to achieve the "critical mass" necessary to be an effective participant on the North Slope. ARCO has been an active and aggressive competitor in the development of the North Slope and Alaska's petroleum economy. The goal was not to recreate ARCO as such but to attract new companies that could be effective competitors to BP in leasing, exploration and development. At the same time, it was important for BP to be able to achieve savings in operating costs, particularly within the Prudhoe

Bay field, to make it a more cost efficient competitor in the world petroleum market. The key to attracting new players was a package of opportunities — giving them a foundation in existing production, particularly in newer fields, forcing BP/ARCO to divest substantial promising acreage on State lands and on federal lands in the National Petroleum Reserve, ensuring competitive access to transportation facilities by requiring the divestiture of pipeline space on TAPS and its feeder lines to the owners of divested production so that they could carry their production on their "own" pipeline capacity, and ensuring a remedy if access to existing field facilities became an issue. As the antitrust analysis advanced, it became clear that a pro-competitive solution demanded a multi-front approach.

We began comprehensive negotiations with BP and ARCO in late September. The cabinet team conducted these negotiations in a series of lengthy meetings in Anchorage and Juneau. However, because of certain BP actions, on October 31, 1999, you instructed me to halt negotiations. At that time, substantial progress had been made but many issues were unresolved.

The cause for the suspension of negotiations was BP's unilateral action in triggering the FTC's 20-day time limit for completing its review of the merger under federal law. BP's notice was delivered to the FTC late on Friday, October 29, and it would have forced the FTC to make a decision within 20 days whether to approve or oppose the merger. Your October 31 letter to FTC Chairman Robert Pitofsky stated that the companies' action was inconsistent with both the spirit and content of the negotiations with the State. Unless the companies lifted the deadline, your letter urged the FTC to proceed with litigation to enjoin the merger, litigation that the State promised to join.

Immediately responding to the October 31 letter, BP and ARCO rescinded their action and agreed not to trigger the 20-day time limit until negotiations had resulted in a proposed charter with the State or had broken down.

The cabinet team resumed negotiations on November 3. BP dispatched Rodney Chase, its second-highest-ranking executive from London, with instructions to attempt to finalize an agreement with Alaska. For the final session of negotiations, you led the team personally, and the draft Charter was agreed upon on Friday, November 5, 1999. That afternoon, you announced the draft Charter at a statewide press conference and promised to start immediately a process for receiving public comment.

B. The Charter's Rationale

The draft Charter is intended to provide the foundation for continued competitive development of Alaska's North Slope petroleum resources by creating a more competitive environment for the future than presently exists on the North Slope. The following features of the draft Charter are intended to ensure that the North Slope competitive environment is revitalized:

- At least 175,000 barrels a day of production will be divested to other companies.
- There will be new operators for Kuparuk and Alpine
- One of the new operators of Kuparuk or Alpine will gain leases on at least 100,000 acres in the NPRA
- At least 220,000 acres of NPRA leases and at least 400,000 acres of states leases will be sold to other companies.
- The draft Charter adds two new exploration operators on the North Slope
- Any company seeking to explore the North Slope will have timely access to BP Amoco's and ARCO's proprietary seismic data
- Minor producers on the North Slope will have guaranteed access to market for their production. BP Amoco will be required to purchase up to 5,000 barrels per day of petroleum from small producers, up to a maximum of 25,000 barrels per day.
- The draft Charter gives owners of satellite fields the right to take BP into binding arbitration if they are denied access to production or other lease facilities.
- The new operators of Kuparuk and Alpine will receive shares of TAPS and all relevant intermediate pipelines.
- Other producers on the North Slope will have an opportunity to purchase a share of TAPS.
- BP and ARCO will be required to offer any surplus marine tankers to other North Slope producers.
- The draft Charter commits BP to negotiate in good faith for the next four years to make available sufficient gas to support a qualified treatment and transmission project with full and fair consideration of all competing proposals.

For the foreseeable future, development of the North Slope will be concentrated in the West, including the NPRA. The divestitures of NPRA lands are structured so that the purchasers will have both the incentives and the means to aggressively develop these lands. Moreover, one purchaser will not just get NPRA leases, but it will also obtain the production base and infrastructure of Alpine and/or Kuparuk to support its operations. In addition, the draft Charter opens State lands to further competition. Under the draft Charter, the divestitures of State lands

must be done in a manner that will result in two play fairways operated by another company or companies.

I believe that the draft Charter enhances the competitive dynamics on the North Slope and is superior to alternative remedies that could have been employed, including simply blocking the merger in its entirety. Under the draft Charter, ARCO will be replaced on the North Slope by a number of new players. Therefore, competition in leasing, exploration, and development of the North Slope will be greater than it is today. Moreover, BP will achieve significant efficiencies in the Prudhoe Bay unit — making it a strong competitor in the marketing of Alaskan oil. The draft Charter also lays out specific steps that BP will take to enhance its commitment to Alaska.

II. The Public Comment Process and the State's Response to Those Comments

Testimony from the public was taken in a variety of ways. The Department of Law received comments via e-mail and in writing through November 26. Hearings were held in Juneau, Fairbanks, and Anchorage, and teleconferences reached all regions of the state, including the legislative information offices in Kenai, Valdez, Kodiak, Seward, Homer, Barrow, Kotzebue, Bethel, Nome, Ketchikan, Delta, Palmer, Glennallen, Tok, and Sitka and other locations from which people called. More than 1,200 written communications were received and more than 300 individuals or representatives of organizations spoke on the Charter. The hearings were held during the week of November 15 thru November 20, 1999.

A clear majority of the comments received were supportive of the draft Charter. However, many thoughtful commenters questioned both the process and substantive provisions of the draft Charter. What follows is a summary of these comments and a brief discussion of them.

A. Comments on the Process

Urgency on concluding the agreement. A clear majority of the comments received were supportive of the draft charter and emphasized an urgency in concluding the agreement expeditiously. Commenters noted a slowdown in oil field activity due to the uncertainty of North Slope ownership.

Sue first, negotiate later. As the draft Charter demonstrates, Alaska's concerns were much broader than what an antitrust suit would cover and what remedies it could offer. Litigation is costly, time consuming, and confrontational. It entails time and risk. Moreover, pursuing antitrust litigation in the merger context generally signals an inability to reach compromise. Because the market knows this, the point of greatest leverage is before, rather than after, the initiation of litigation. Once litigation has been filed, and the market has reacted, the leverage attributable to the willingness to forbear filing a lawsuit has been lost. In addition, because the stakes are so large and the timelines so short, reaching compromise after initiating litigation is unlikely, simply because the litigation becomes all-consuming and there is no time for anything else. For these reasons, it was my judgment that litigation in this instance would have been appropriate only if it was apparent that we could not achieve our objectives through negotiation.

Secrecy of the negotiations. Under state and federal antitrust laws, my investigation had to be conducted confidentially. The negotiations consummating that investigation also had to be in private because they involved extensive use of sensitive business information obtained pursuant to those laws.

Adequacy of the information available. The terms of the draft Charter were made widely available (the draft Charter was published on the State website, copies were distributed at public hearings and by Department of Law and the Governor's office as requests were received, and copies were distributed by BP in newspapers around Alaska). In addition, substantial background information was made available to the public. Two classes of information were not made available: documents subpoenaed from the companies and certain expert reports. Both of these kinds of documents are confidential by law. At both the federal and state levels throughout the U.S., these two types of material are generally not made available. They represent materials collected by the Attorney General as he performs his responsibilities to investigate possible violations of and to enforce the State's antitrust laws. The courts have recognized that these materials are privileged because disclosure of confidential materials gathered in a law enforcement investigation would impede and interfere with the ability of the Attorney General to gather critical documents and receive candid views from experts and industry.

Adequacy of the public hearings. Given our prior statements to the FTC and our continuing information that the FTC was working aggressively toward deciding its own position, we placed hearings on a compressed schedule, in keeping with your announcement in August. We established open forums throughout the State, for comment in person or electronically at a variety of locations. We also invited comments in writing by both regular mail and e-mail to reach the widest possible audience. We received approximately 1,200 written comments on the merger. A number of persons repeated their comments in multiple forums and by multiple means.

The facility for the first Anchorage hearing was inadequate. The space could not accommodate all who wished to attend, leaving hundreds outside the meeting room and unable to hear the proceedings. Even with the three-minute time period allotted to each speaker (a subject of criticism by some), testimony ran until 1 a.m. Consequently, we scheduled additional hearings on Saturday, November 20, 1999, which corrected the shortcomings of the earlier session.

I believe that the public comment process has yielded an unprecedented amount and diversity of public comment in the time available. I also believe there has never been this degree of public input into a proposed settlement of an antitrust case. My recommendations for changes to the draft Charter are in direct response to the public comments.

The existence of a deadline. There has been much press coverage about whether the State was working against an FTC "deadline." While I was constantly mindful of your view that it was important that we complete the process as quickly as possible, consistent with the public interest, I believed that we were working against what was for all practical purposes an FTC "deadline"; that is, a limit on the time in which we could provide *effective* input to the FTC. Let me provide some background.

At the same time that the State was conducting its investigation and analysis of the merger, the FTC was conducting its own investigation and analysis. In our discussions with the FTC, we established an objective of synchronizing our efforts with the FTC process. It made great sense that both the State and Federal investigations proceed on parallel tracks because both agencies were focusing on many of the same issues. Our goal was simple: to be able to present a final Alaska position to the FTC before that agency was called upon to take action.

When was FTC planning to act? There was no set date, though both the FTC and we were aware of BP's public pronouncements that it expected the merger to be closed by the end of the year and its privately stated objectives to wrap the matter up in September, then October, and so on. As early as August, BP was intimating to the FTC that it might trigger the 20-day rule at any time. This rolling threat persisted throughout the fall. Our imperative was to complete our investigation and any discussions with BP and present the result thereof to the FTC, after a public comment process, to allow the FTC sufficient time to review our analysis before they would need to make any enforcement decisions. Consequently, the public comment process, which was part of the overall state process of analysis, decision, negotiation, and resolution, needed to be conducted on an expedited basis.

In fact, BP ultimately took the unilateral step of triggering the 20-day deadline for decision on October 29, 1999. This meant that the Commission was required to decide whether the merger was acceptable under federal antitrust laws by November 19, 1999. What neither BP nor the FTC anticipated was your intervention. You directed me to stop negotiations with BP until the effect of this action was rescinded. BP rescinded the action almost immediately, and promised in writing not to trigger the 20-day deadline again until agreement was reached with the State or negotiations were terminated.

Thus, your decision stopped the clock. It did not, however, stop progress on the FTC's internal deliberations. I would note that the FTC does not publicly announce a deadline for completing its process although it is well known that it establishes an internal schedule for completing its work. This internal schedule, of course, adjusts as the FTC staff continues its discussions with the parties to the merger and others and as issues are resolved or enlarged. It was my judgment, supported by our expert antitrust counsel, who are very experienced in the FTC merger review process, that any agreement with BP resolving the State's concerns would need to be concluded by late November or early December in order for the FTC to have sufficient time to determine whether such an agreement resolved its concerns, if any.

Shouldn't the State have waited until the FTC finished its investigation?

The draft Charter that was negotiated resolves the State's competitive concerns. There was no reason to wait. However, in the event that BP Amoco and ARCO reach an agreement with the FTC that differs from the draft Charter, I note that the Charter includes a provision that the State will receive any additional concessions given to the FTC.

B. Substance

1. MONOPOLY

a. **Questions were asked about why BP was being allowed to increase its monopoly interest in the North Slope, why should BP be allowed to dominate the political and economic life of the State, why a foreign company was allowed to buy out ARCO, and whether there were any secret understandings with BP about taxes or any other issues.**

Preserving competition on the North Slope for bidding and leasing of State lands in the future is critical to the financial health of the State. No amount of competition in the future will affect lease sales that have already occurred because those deals have already been done. Consequently, allowing BP to acquire an additional share of the Prudhoe Bay Unit will not have any impact on the leasing revenues the State can derive from the leases in that unit; the State has already received all the leasing revenue that will be derived from that Unit. Thus, we focused our efforts on preserving competition in the future for North Slope bidding, leasing, and development.

The draft Charter ensures there will be robust competition at every level. The draft Charter address competition in leasing by transferring ownership of huge quantities of State lands and NPRA acreage that were previously controlled by BP and ARCO. BP and ARCO also have committed to a timetable to release seismic and other data needed for bidders to evaluate the potential of undeveloped acreage. In addition, competition for exploration will be bolstered by the fact that the draft Charter creates three new exploration play fairway opportunities -- at least one in the NPRA and at least two on State lands.

Moreover, BP will relinquish control of the Kuparuk and Alpine fields. Forty percent or more of BP Amoco/ARCO's ownership in these fields will be divested to new owners who will then have the opportunity to operate those fields. The State also has asserted its ability to resolve issues of access to field facilities by new owners through the authority of the Commissioner of Natural Resources.

The competitive safeguards imposed by the draft Charter do not stop at the borders of the North Slope. The new owners in the Kuparuk and Alpine fields will be entitled to purchase a matching share of the TAPS, Kuparuk, and Alpine pipelines to transport oil on their own "space." In addition, the remaining share of ARCO's interest in TAPS will be available for purchase by other North Slope producers for the life of the agreement. BP has also agreed to divest surplus ANS-suited tankers.

Some parties questioned why a foreign company was being permitted to take over so much of Alaska's resources. Absent an antitrust violation, there is no law that prevents any person from buying or selling property. Under fundamental principles of the U.S. Constitution, no State is permitted to discriminate against or prohibit foreign investment in its economy. BP has owned a majority share of the Prudhoe Bay field for more than a decade and has been subject equally with the other large petroleum companies operating in Alaska to the requirements of Alaska law. All companies, foreign or domestic, must obey and abide by Alaska state and federal laws.

Unquestionably, BP is able to exercise political, social, and economic influence within the Alaska body politic. Alaska's antitrust laws do not prohibit such influence. Nor do the antitrust laws provide the occasion to renegotiate Alaska's tax regime, as some have suggested. We will be providing a fiscal note to the legislature detailing our assessment of the fiscal impacts of the merger. Modifications, if any, to the tax regime should be accomplished industry-wide and should be undertaken by the legislative, not the executive, branch.

b. Questions were asked about whether the proposed Charter reduced or eliminated the operating cost efficiencies that the combination of BP and ARCO sought to achieve. Others asked whether the State had received less through negotiation and the Charter than BP had offered when it announced the acquisition.

We have not lost many of the efficiencies initially anticipated with the merger. Most of these savings in Alaska come from the consolidation of BP's and ARCO's interests and operations in the Prudhoe Bay field. Indeed, BP's Chief Executive Officer Sir John Browne acknowledged that BP will retain more than 70 percent of the efficiencies it had targeted. *BP Amoco Press Release, Nov. 5, 1999*. By opening up the newer fields and acreage to the West, by requiring BP to sell matching pipeline interests and establishing new operators in fields BP has operated, and by allowing BP to consolidate all or nearly all of ARCO's interest in Prudhoe Bay, a fair balance was struck. A more competitive environment for future development was created without sacrificing most of the efficiencies BP sought to gain from the more established fields.

c. Questions were asked about whether BP would lock up seismic and well data needed to make informed leasing and exploration decisions.

The draft Charter addresses concerns about BP having exclusive access to seismic and well data by requiring BP and ARCO to make publicly available for purchase proprietary North Slope seismic and well data, provided they have the right to do so. If they do not currently have such rights, they will diligently seek permission from other owners to release this data. A third party will act as marketing agent for the data at prices it determines, except that pre-1975 data will be released without charge. The data will be made available within three months of the completion of the merger.

2. TRANS ALASKA PIPELINE (TAPS)

a. Questions were asked why the TAPS tariff wasn't being lowered, why BP was being allowed to retain any share of the pipeline, and why the 1985 TAPS settlement was not being renegotiated.

The focus of the State's effort was on encouraging competition on the North Slope. The State looked closely at the issue of what influence TAPS might have on that competition. The State believes that the divestiture of major shares of TAPS and the Kuparuk and Alpine pipelines to new and existing producers on the North Slope is the right competitive solution. The new operators of the Kuparuk and Alpine fields will be in a comparable position to BP in terms of having matching interests in the pipeline and production. In addition, the draft Charter provides

independent producers on the North Slope with an opportunity to purchase a share of TAPS. They too can match their production with pipeline ownership if they so desire.

A reduction in the TAPS tariff was an alternative method at achieving a pro-competitive result.¹ However, as I noted earlier, we were advised that the FTC would view a reduction in the TAPS tariff as an inappropriate non-structural remedy to any competitive problems associated with TAPS.

The State's first objective was to ensure that TAPS was opened up to the new operators so that they could carry their production on their own pipeline space. The draft Charter guarantees this. After that, the State wanted to enable independent producers to buy the remaining portion of ARCO's TAPS space.

Under the state's antitrust law, the issue is what are the consequences of the proposed merger. If the proposed merger is substantially likely to lessen competition, then the appropriate remedy is to ensure that the prospect of those anti-competitive effects is eliminated. Thus, the State set out to ensure that competition would continue at the level it would have been absent the merger. The draft Charter provides that BP must offer to divest ARCO's share of TAPS to either the new production operators or other independent North Slope producers. There was no basis for asking for greater pipeline divestiture than ARCO's share in the context of the other remedies contained in the draft Charter.

b. Questions were asked about why BP was not asked to segregate the amounts collected for the eventual dismantling and removal of TAPS and the restoration of its environment (DRR).

The issues concerning DRR do not relate to an antitrust analysis. The obligations to dismantle and remove TAPS and restore the environment arise from the federal and state right-of-way leases and affect all TAPS carriers, not just BP and ARCO. The TAPS owners have collected nearly all of the funds they can collect from shippers through the TAPS tariff under the TAPS settlement. There will be opportunities to address DRR issues, which are not competition issues, in the context of the renewal of the right-of-way leases, in pending proceedings before the Regulatory Commission of Alaska, and in future FERC proceedings.

¹ It should be noted that a tariff reduction shifts revenue from one pocket of state government to another. A tariff reduction increases State royalty and tax receipts as the wellhead value increases but it lowers property and income tax receipts as pipeline revenue is lowered. For this reason, after the August 23 speech discussing a tariff reduction, mayors of communities in the pipeline corridor complained to you that a tariff reduction would reduce their tax revenues. Also, the 1985 TAPS settlement is a binding agreement among the State and all TAPS owners, not only BP and ARCO, that may be renegotiated after 2006.

3. GAS

a. Many comments were directed at the gas clause of the draft Charter. Questions were asked why the draft Charter fixed the price of gas at so high a level or at all, why the State allowed BP to control gas commercialization, whether the gas provisions would block the Mayors' project, and why BP wasn't being forced to sell the gas. Other comments suggested that the Mayors' project set too low a price for gas or was otherwise unrealistic.

To solve the problem of ensuring the availability of BP's and ARCO's North Slope gas to any project that could prove itself viable, the draft Charter adopted an option approach. A project that demonstrated (a) sufficient financial backing, (b) the ability to acquire the required approvals and permits, and (c) a schedule resulting in full ramp-up by 2010 would have qualified for the option. Because both LNG and overland projects are being discussed, the draft Charter announced minimum price goals for both to ensure that there is a balance of benefits between producers, project sponsors, and the State. The draft Charter also created an objective standard to select a project to receive the gas if more than one project qualified.

Substantial comment was received on the gas provisions of the draft Charter. Commenters objected to the price set in the draft Charter for BP's gas supply obligation as being too high and to the volume commitment as being too low. In response to these comments, I recommend that the draft Charter be amended to follow a different approach. The suggested amendments would obligate BP to negotiate in a fair and nondiscriminatory process with qualifying treatment and transmission projects to ensure them sufficient gas to support a project. To qualify, a project would have to demonstrate that it was able to obtain construction financing, provide reasonable financial security with respect to a long-term 100 percent take-or-pay arrangement, and obtain necessary approvals from field interest owners. BP will commit to meeting on request with project sponsors, and to giving fair consideration to all reasonable approaches including LNG proposals, the port authority project, and gas-to-liquids proposals. The period of good faith negotiations will last until the end of the year 2003. The State will receive reports and information to enable it to monitor the process. BP and ARCO may proceed with their own projects at the same time. The new provisions meet the concerns that a level playing field be established to enable the competing proposals for development of North Slope gas to negotiate the needed gas supplies for their projects. The new provisions avoid the problems of the provisions of the draft Charter, particularly the perception that the price provisions were unworkable.

4. ENFORCEABILITY

a. Many commenters asked why the community commitments, including the environmental requirements, were enforceable only in the "court of public opinion."

The Charter is divided, broadly speaking, between issues that are based upon antitrust or competition concerns and issues that arise outside of the antitrust law. The State insisted that the draft Charter terms dealing with competition issues such as divestiture of land, pipeline shares, and production be enforceable in court. This was comparable to the standard consent decree

approach that federal and state agencies employ in resolving merger issues. Thus, the draft Charter is enforceable as a contract for the competition commitments.

For non-competition issues, the State adopted a different approach. For environmental issues, the State relied upon its strong powers under existing environmental laws supplemented by specific promises. For community issues, the State thought that a contractual approach was inappropriate to deal with pledges of a charitable nature, just as individual charitable pledges are not commonly made in binding contractual form. A failure by BP to live by its community pledges would be very visible to Alaskans throughout the State and quite damaging to its ability to be a responsible corporate citizen in Alaska.

However, many public commenters believed that the environmental obligation in the draft Charter should be enforceable as a contractual obligation. In response to those comments, I recommend that we revisit the environmental section of the draft Charter, and include a provision that ensures that the State may bring an action to enforce each of the specific funding commitments BP and ARCO have made related to environmental protection.

b. Commenters asked whether the draft Charter waived or modified existing environmental laws in the "non-enforceable" environmental clauses.

The environmental obligations in the draft Charter are in addition to existing environmental laws and regulations. There is no waiver of any of BP's existing legal obligations. Given the public comments, however, I propose the draft Charter be amended so that it explicitly states that the draft Charter does not waive any other legal obligation.

c. Commenters asked whether the commitment of funds to the University of Alaska and other community causes was an improper subject of negotiation.

The Administration has always taken the position that the State's partnership with Alaskan businesses is a two-way street. Given BP's increased presence, you believed it was obligated to demonstrate a level of corporate commitment to the State that befitted its new status.

d. Commenters asked whether the provisions for enforcing the agreement through the courts were slow and ineffective.

The State has taken steps in the draft Charter to expedite any needed court action. BP recognizes the jurisdiction of the Alaska court to enforce the charter. BP also agrees in the draft Charter that the applicable charter provisions may be specifically enforced by the court through injunctive relief, a more expeditious remedy. In addition, the draft Charter provides that a trustee may be appointed by the court to carry out any divestiture contemplated by the draft Charter if BP fails to do so on the stated timetable.

5. OTHER ISSUES

a. Commenters asked whether the environmental provisions were sufficient.

BP committed to a number of environmental obligations in addition to existing contractual, statutory, and regulatory requirements. However, I recommend the following proposed changes to the draft Charter:

- (a) establish a floor, not a ceiling, of \$10 million to be spent cleaning up orphan sites,
- (b) establish a cap of an extra \$5 million to be spent for extra orphan site clean-up, spill research, or corrosion experts as directed by the ADEC Commissioner,
- (c) require an agreement to repudiate any trade association effort to weaken OPA 90 standards,
- (d) require continued support for the ship escort response vessel system in Prince William Sound,
- (e) require BP to report annually on environmental issues, and
- (f) reconsider the enforceability of the environmental commitments.

b. Commenters asked why the State did not resolve issues involving potential age discrimination, outstanding OSHA litigation and ongoing tax litigation through the Charter.

Some commenters asked why the State had not taken measures to prevent BP from discriminating against older workers in the upcoming layoffs, to require BP to remedy outstanding OSHA violations and allegations of OSHA violations, and to pay outstanding tax liabilities. The State's ability to effectively review the merger was based upon its antitrust enforcement powers. The antitrust laws are designed to prevent effects on competition. These issues relating to potential age discrimination, OSHA, and tax claims have no connection to the competition issues raised by the merger. Instead each is governed by specific statutes, regulations, and procedures that provide appropriate remedies to resolve these very fact-intensive issues on a case-by-case basis. I would note that BP and the State are pursuing a resolution of outstanding tax controversies in the confidential tax dispute process established under existing law.

c. Commenters asked whether the Charter would have any impact on State revenues.

Some have asked whether the merger will be revenue neutral to the State. The State of Alaska has agreed to different calculations of transportation costs by BP and ARCO. There is nothing inherently more or less favorable to the state in either method. In addition, ARCO's oil shipping is more efficient and less costly than BP's. These efficiencies should be realized by BP after the acquisition. The administration and legislature will want to closely monitor this issue.

III. Conclusion

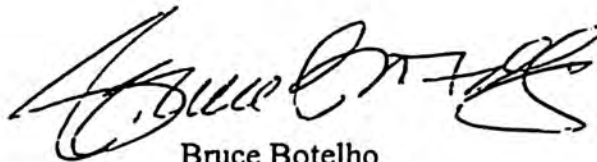
The proposed merger of BP-Amoco and ARCO presents fundamental issues of public policy to the State of Alaska and to your administration. There are no easy choices. We cannot go back to the petroleum industry that existed prior to the Exxon-Mobil and BP-Amoco-ARCO mergers. You have set as the Administration's objectives the twin goals of ensuring competition on the North Slope and requiring BP to enhance its community commitments to reflect its larger role in the state. After listening to public comment, consulting with experts, and hearing the views of the legislature and industry, I believe the draft Charter with the revisions I recommend achieves your goals.

In the core areas of competitive concern the draft Charter lays a foundation for attracting new oil industry players to Alaska through land, production, and pipeline divestitures and by creating a framework for ensuring access to field facilities and seismic and well data. The draft Charter also establishes a level playing field with visible rules for obtaining sufficient gas to support viable gas treatment and transmission projects. This solution was a result that antitrust litigation would not have gained.

The draft Charter also contains environmental commitments over and above what our environmental laws require, including a commitment to clean up orphan sites, to spend additional millions on a variety of clean-up and corrosion issues, and to refrain from lobbying for relaxation of strict tanker safety requirements. BP's plans for substantial charitable and community contributions reflect its recognition of its larger role in Alaska.

For all of these reasons, I recommend that you sign the revised draft Charter.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Bruce Botelho", with a stylized flourish at the end.

Bruce Botelho
Attorney General

BMB:kh

CHARTER FOR DEVELOPMENT of the Alaskan North Slope

This **Charter for Development of the Alaskan North Slope** is entered between the State of Alaska, BP and ARCO on December 2, 1999.

BP and ARCO historically have been major participants in the development of oil resources on the North Slope of Alaska. ARCO discovered the giant Prudhoe Bay oil field in 1968. BP participated in the discovery of Kuparuk the following year. Both were leaders in building the Trans Alaska Pipeline System. Today, they are two of the largest interest owners and operators on the North Slope.

The environment for finding, developing and producing oil and gas is challenging and complex, in Alaska and the world. The giant Prudhoe Bay and Kuparuk fields are in decline. World energy markets continue to experience price volatility, competition for capital and opportunities, and financial and technical challenges to discover, develop and produce new fields. These challenges have led to large-scale industry consolidation in recent years.

Earlier this year, BP and ARCO proposed to merge. The merger and its potential impact on Alaska have been analyzed and discussed by the Governor, his Cabinet-level review team, the Legislature and the public in private, in hearings and in the media since the announcement.

There is potential both for benefit and risk to Alaska in the merger as initially proposed. In BP and ARCO's view, Alaska would benefit from the combination's financial strength and expertise, and the increased efficiencies and synergies of the combination would help make Alaska more attractive in a global oil marketplace. But Alaska would, in the State's view, lose a measure of competition, diversity and balance in the exploration, development and production of North Slope resources, and Alaska would lose the varied contributions of a leading corporate citizen.

The State of Alaska is committed to maintaining and enhancing competition, diversity and balance in the exploration, development and production of North Slope resources, sustaining and growing both oil and gas production, and ensuring that the State's natural resources are developed in an environmentally and socially sensitive and responsible manner. The State has determined therefore that its support for the merger must be conditioned upon BP and ARCO making substantial marketplace and community commitments to Alaska.

Therefore, in order to provide for greater competition, diversity, corporate responsibility, renewal and growth in the exploration, development and production of Alaskan North Slope oil and gas, the State, BP and ARCO agree to this Charter and its terms as set forth below.

I. BP and ARCO's Commitments Regarding Competition, Diversity and Growth.

A. Sale of Current Production. After the merger is completed, BP and ARCO will sell the following properties in the following manner:

1. Sale of Production. BP and ARCO will sell interests in North Slope properties producing in aggregate share not less than 175,000 barrels of gross working interest production per day to one or more purchasers. For purposes of this paragraph I.A., quantity will be measured by 1999 average daily production, except the Colville River Unit will be deemed to produce a total of 80,000 barrels of production per day.

2. Sale of Interests including Kuparuk. As part of the sale required by subparagraph 1, BP and ARCO will enter into a contract of sale with a single qualified company ("Buyer A") for at least 125,000 barrels of gross working interest production per day, including at least 50.01% of the Kuparuk River Unit total interest, and will take all reasonable available steps to enable that company to become the operator of that unit. In no event will BP or ARCO continue as operator of that unit after sale of the working interest production. For purposes of this subparagraph 2, "qualified company" means a company which is currently a joint interest owner in the Kuparuk River Unit, or a company primarily in the energy business with assets of not less than \$8 billion.

3. Sale of Interest in Alpine. As part of the sale required by subparagraph 1, BP and ARCO will enter into a contract of sale with a single qualified company ("Buyer B") for at least 40% of the total Colville River Unit interest and will take all reasonable available steps to enable that company to become the operator of that unit. In no event will BP or ARCO continue as operator of that unit after sale of the interest. For purposes of this subparagraph 3, "qualified company" means a company which is currently a joint interest owner in the Colville River Unit, or a company primarily in the energy business with assets of not less than \$3 billion.

4. Sale of Share of Pipelines. BP and ARCO will enter into a contract of sale with Buyer A and Buyer B for a commensurate interest in TAPS and intermediate pipelines as provided in paragraph H.

B. Sale of NPRA Lease Interests. BP and ARCO will sell not less than 220,000 net acres of their aggregate NPRA holdings to one or more purchasers. BP and ARCO will enter a contract of sale with either Buyer A or Buyer B for not less than 100,000 net NPRA acres, including at least 50.01% of BP and ARCO's combined interests in one of the sections of the NPRA designated on Exhibit A to this Charter, and will take all reasonable available steps to enable that company to become the exploration operator in that section.

C. Sale or Relinquishment of State Leases. BP and ARCO will sell or relinquish at least 400,000 net acres of undeveloped state leases, including sufficient interests in

onshore/non-unitized state leases to reduce their aggregate holdings in such leases to not more than 500,000 net acres. BP and ARCO will manage the sale of this acreage to result in two exploration operatorships other than BP or ARCO in material and significant geologic play fairways on the North Slope (lease groupings which the parties agree meet this requirement are listed in Exhibit B to this Charter). As part of this sale or relinquishment of State acreage, BP and ARCO will enter contracts of sale with Buyer A and Buyer B in the combined amount of not less than 250,000 net acres of undeveloped state leases, including a minimum of 75,000 net acres for each buyer. BP and ARCO agree to meet and confer with representatives of the Alaska Department of Natural Resources, beginning within 10 days after the merger is completed and continuing for the period reasonably necessary to review the number, status, prospectivity and possible transfer options for all such holdings, as well as intended marketing or relinquishment plans.

D. Terms of Sales. Contracts for the full aggregate amount of the interests sold under paragraphs I.A. and I.B. will be signed within 6 months after the merger is completed and those transactions will be closed not later than 12 months after the merger is completed. Transfers under paragraph I.C. will be made within the period prescribed by law. All transfers of whole or partial interests in the properties and pipelines referenced in paragraphs I.A.-I.C. will be absolute, in good faith and with no minimum price. BP and ARCO agree that they will not reacquire interests transferred under paragraphs I.A.-I.C. by any means without advance approval of the State. Except as specifically provided in paragraphs I.A.-I.C. and otherwise in this Charter, the sales contemplated in paragraphs I.A.-I.C. may be to various parties and include interests from various units and leases as determined by BP and ARCO. BP and ARCO may retain an interest in the units and leases it sells under paragraphs I.A.-I.C., subject to the requirement that any interest retained in exploration leases be subject to non-consent provisions permitting investment by other interest owners without BP or ARCO's consent. Any transfer under paragraphs I.A.-I.C. will be subject to all necessary state and federal regulatory approvals and other requirements. BP and ARCO will use their best efforts to secure such approvals.

E. Data Availability. After the merger is completed, BP and ARCO will make their proprietary North Slope seismic and well data publicly available for purchase by any person where they have the legal right to do so. Where they do not currently have the legal right to do so, they will diligently and in good faith seek permission from the other joint interest owners to make the data available. Unless otherwise approved by the State, BP and ARCO will make the data available by contracting with a third party company, acting as marketing agent for BP and ARCO, that will market the data at prices it independently determines; except that, with respect to data generated before 1975, BP and ARCO will make the data publicly available without charge in such reasonable manner as it may determine. BP and ARCO will ensure that the data is publicly available as soon as is reasonably practicable but in all events not longer than 3 months after the merger is completed. BP and ARCO will provide the State with (1) a list of which of their North Slope seismic and well data can be made available on their own and which requires the consent of parties other than BP or ARCO, and (2) a list or lists showing all of BP and

ARCO's North Slope seismic and well data from 1958 on indicating the acquisition area, the size of the acquisition area, the ownership status (sole, joint, group shoot, trade, purchase or license), when the data was acquired, the survey type, and the operator and the contractor. For data acquired after 1984, these lists will be provided as soon as is reasonably practicable but in all events before December 31, 1999. For data acquired before 1985, these lists will be provided as soon as is reasonably practicable but in all events within 3 months after the merger is completed. This paragraph applies to data generated prior to and through the date this Charter is first signed by the parties.

F. Facilities Access.

1. In the State's view, the Commissioner of Natural Resources possesses the statutory, regulatory and contractual authority to require working interest owners to provide others access to production and other facilities, on terms that are non-discriminatory, just and reasonable. The Commissioner may require access whenever necessary to maximize the economic and physical recovery of the State's oil or gas resources, maximize competition among parties seeking to explore and develop the resources, minimize the adverse effects of exploration, development, production and transportation activity, or otherwise to protect the best interests of the State. Binding arbitration between BP or ARCO and others under subparagraph 2 does not affect the Commissioner's authority to resolve questions of facility access.

2. BP and ARCO currently take no position on the State's view. BP and ARCO nevertheless commit that, after the merger is completed, neither BP nor ARCO will unreasonably withhold their voting support as facilities owners for allowing nearby satellites to have access to existing unit facilities on reasonable commercial terms. BP and ARCO agree that if a nearby satellite owner reasonably and diligently negotiates to unsuccessful impasse with facilities owners that include BP or ARCO, and after 90 day advance notice to BP and ARCO, BP and ARCO agree to subject themselves to binding arbitration governed by the rules of the American Arbitration Association on the question of reasonable commercial terms for that access.

G. Purchases From Qualified Producers . After the merger is completed, BP and ARCO agree to offer to purchase any qualified producer's ANS leasehold production on the terms reflected in the form purchase contract which is Exhibit C to this Charter. BP and ARCO may limit the total purchased under all such contracts to 30,000 barrels per day. For purposes of this paragraph I.G., "qualified producer" means a person or entity with assets of less than \$1 billion (all parents, subsidiaries, affiliates and controlling parties inclusive) which produces not more than 10,000 barrels of gross working interest ANS liquid hydrocarbons per day at the time of proposed contract entry. In the event that any purchase contract under this paragraph I.G. is in effect and no RIK sales are made in a month, the State agrees to calculate the average value it received for RIV in that month for use as an alternative reference marker, and to update that average monthly to reflect retroactive revisions. The parties agree that the price at which the crude oil is purchased, and the pricing formula components of Exhibit C, will not be precedent in any royalty or severance tax proceeding or matter between them.

H. Divestiture of TAPS and Feeder Lines.

1. In order to satisfy the State's concern that the purchasers of the production interests sold under paragraph I.A. of this Charter (the "Transferee(s)") be similarly situated to BP and ARCO by ownership in TAPS, within the time frame established for paragraph I.A. transfers, BP or ARCO will enter into a contract with each Transferee to sell a share of BP or ARCO's interest in TAPS sufficient to carry the production sold to that Transferee. For purposes of this paragraph I.H., production quantity will be measured in the same manner as under paragraph I.A. and TAPS capacity will be measured in accordance with the Amended and Restated Capacity Settlement Agreement in the fixed amount of 1380 mbd.

2. After all contracts contemplated in subparagraph 1 have been entered, and during the remaining term of this Charter, BP or ARCO will offer to sell additional interests in TAPS to any person requesting to purchase a share in TAPS, up to a total aggregate amount under this paragraph I.H. of 22.295% of total TAPS ownership. The additional transfers contemplated by this subparagraph 2 will be in minimum increments of 2% of total TAPS ownership, valued at not more than the ad valorem tax value as of the time of the offer, less 5%. The parties agree that the price at which the TAPS interest is sold will not be precedent in any property tax proceeding regarding the value of TAPS.

3. Within the time frame established for paragraph I.A. transfers, BP and ARCO will enter into a contract with each Transferee to sell to that Transferee a separate share of BP and ARCO's aggregate interest in the Oliktok pipeline and in each of the intermediate crude oil common carrier pipelines serving the specific units in which the production interests to be transferred to that Transferee are located (the "relevant intermediate pipelines"). The ownership interest in each relevant intermediate pipeline to be sold to each Transferee will be equal to the percentage which the production sold under paragraph I.A. to that Transferee flowing through that pipeline bears to the overall throughput of that pipeline. The relevant production and throughput levels will be measured in the same manner as under paragraph I.A. The percentage of the Oliktok pipeline to be sold will be equal to the percentage share of the KRU sold pursuant to subparagraph I.A.2.

4. Any transfer under this paragraph I.H. will be subject to all necessary state and federal regulatory approvals and any preference rights and required approvals of the other TAPS and relevant intermediate pipeline owners. BP and ARCO will use their best efforts to secure such approvals. BP and ARCO will vote their entire interest in TAPS and the relevant intermediate pipelines in support of any such transfer. In the event any other TAPS or relevant intermediate pipeline owner exercises its preference rights with respect to the sale of a pipeline interest pursuant to subparagraphs 1, 2 or 3 hereof, the sale to that other owner will be considered a sale satisfying the obligations of that subparagraph. BP and ARCO agree that they will not reacquire interests transferred under this paragraph I.H. by any means without advance approval of the State.

I. Offer to Sell Excess Jones Act Ships. If BP's and ARCO's combined long-term ANS Jones Act fleet requirements are such that one or more ships becomes surplus of

those requirements. BP or ARCO (as the case may be), will offer to sell the surplus ship or ships to other ANS producers on reasonable commercial terms. If BP or ARCO does not own the ship or ships, it will not object to arrangements by another ANS producer to acquire the ship or ships from the owner. Further, in the event that the purchaser of the ship or ships seeks ship operation services from the Alaska Tanker Company, Inc., BP will not object. Nothing in this paragraph requires BP or ARCO to assume any liability of another ANS producer concerning any of these transactions.

J. Natural Gas.

1. During the period after the merger is completed through December 31, 2003, BP and Arco shall negotiate in good faith to make available to third parties at a commercially reasonable fair market price or transportation charge that is mutually agreeable to BP and Arco, the third party and the State, Alaska North Slope natural gas in sufficient quantities to support a qualified treatment and transmission project to domestic and/or international markets. A qualified treatment and transmission project must have the demonstrated ability to:

- a. obtain project construction financing;
- b. provide reasonable financial security with respect to a long term 100% take or pay arrangement if the project requires a long term gas sales commitment from the producer(s) (including, if commercially reasonable, an assignment or other back-to-back pass-through of the purchaser's take-or-pay commitment from a creditworthy ultimate purchaser); and
- c. obtain necessary approvals from other field interest owners.

2. BP and ARCO shall make reasonable efforts to assist in obtaining the approvals specified in subparagraph 1.c.

3. The delivery point for gas committed to the project will be the residue gas discharge point of the Low Temperature Separators at the Prudhoe Bay Central Gas Facility, or such other point as agreed by the parties.

4. During this period, BP and ARCO will give fair consideration to all reasonable approaches, projects and plans proposed by the State, joint interest owners and others, including LNG projects developed or proposed by the newly established port authority, the gas sponsor group, Yukon Pacific Corporation and any others, pipelines to the lower 48 including those currently proposed, gas-to-liquids projects, and any other reasonable approach, project or plan for the commercialization of North Slope gas. In giving fair consideration to these various approaches, projects and plans, BP and ARCO will consider, among other things, (a) achieving the highest total project wellhead value for the State and for the sellers over the life of the project(s) and (b) other potential benefits to Alaska such as bringing gas infrastructure for the delivery of North Slope gas to communities in Alaska. BP and ARCO will meet and confer with project sponsors on reasonable request. Not less than every six months during this period, BP and ARCO will provide the Commissioner of Natural Resources with a report that identifies the

name of the contact person for each project sponsor which contacted BP and ARCO during the prior 6 month period and the general nature and current status of the sponsor's project, subject to confidentiality requirements of the sponsor.

5. The obligation to negotiate with third parties does not preclude BP and ARCO from proceeding with their own project or projects to commercialize Alaska North Slope gas.

6. The obligations imposed by this section terminate before December 31, 2003 if BP and ARCO enter into a contract or contracts before that date committing Alaska North Slope gas to a qualified treatment and transmission project or projects for volumes that in the aggregate would constitute BP and ARCO's share of a Major Gas Sale under Article 26, Section 26.002 of the Prudhoe Bay Unit Operating Agreement or if the Board of Directors of BP and ARCO sanction the construction of such a project or projects before that date.

7. The parties agree that the terms of paragraph I.J. of this Charter shall be enforceable exclusively by arbitration between the State and BP and ARCO under the rules of the American Arbitration Association.

II. BP and ARCO's Environmental and Community Commitments.

A. North Slope Environmental Commitments. After the merger is completed, BP and ARCO will take the following steps to improve and protect the environment on the North Slope.

1. Cleanup of Abandoned Sites. BP and ARCO will take a leadership role in the assessment and environmental clean up of the North Slope "orphan sites" identified in Exhibit D1 (as currently written and as modified in accordance with the terms of this paragraph II.A.1.), and will spend \$10,000,000 (or such greater amount as may be created by ADEC funding requests under paragraph II.A.7.) in performance of this commitment. In carrying out this role, BP and ARCO will consult with the Alaska Department of Environmental Conservation (ADEC) concerning site goals, standards and methods and will substantially complete the assessment and cleanup to the standards approved by ADEC under applicable law within six years after the merger is completed. In addition, BP and ARCO will work cooperatively with ADEC to develop a joint database of North Slope contaminated and solid waste "orphan sites" which includes the nature and location of the sites, the responsible parties and the relative priority for cleanup of each site based upon preliminary evaluation of the risk of harm to human health and the environment posed by the site. BP and ARCO will meet and confer with ADEC from time to time thereafter to arrange for priority re-ordering and substitutions and additions to Exhibit D1 as requested by ADEC, subject to the availability of funding in the spending amount identified above and to the further requirements that there is no known viable responsible party for any substitute or additional site and the site has been wholly vacated. The parties recognize that the available funding in the amount identified

above may not be sufficient to assess and cleanup in full all sites identified in Exhibit D1 now or as it may be amended, and nothing in this subparagraph II.A.1. shall preclude the State from pursuing other parties for reimbursement or from seeking other funding sources for additional assessment or cleanup on any orphan site.

2. Cleanup of Abandoned Empty Barrels. BP and ARCO will require contractors conducting seismic or exploration work for them to collect and deliver abandoned empty barrels to BP or ARCO operations for handling, to inventory and map locations of empty barrels and barrels containing product, and to report any visible signs of ground contamination associated with the barrels. BP and ARCO will periodically report to ADEC regarding this effort and provide ADEC with the inventory lists, maps and reports which are developed.

3. Cleanup of Existing BP and ARCO Sites. BP and ARCO will assess and clean to the standards approved by ADEC under applicable law the contaminated sites listed on Exhibit D2. BP and ARCO will work cooperatively with ADEC and the land manager to develop cleanup plans and schedules to complete required assessment and cleanup activities at these sites. Assessment and cleanup activities at sites which are currently accessible will be substantially completed by year-end 2005 for the sites listed as "high" priority sites in Exhibit D2 and by year-end 2007 for the remainder. Sites which due to operational restrictions cannot be fully cleaned until facility or equipment abandonment will be identified by BP, ARCO and ADEC for completion according to a mutually agreed schedule. Nothing in this paragraph is intended to eliminate or supercede any other obligations BP or ARCO may have to assess, cleanup or restore these or any other sites.

4. Closure of Inactive Reserve Pits. BP and ARCO will comply with the requirements of 18 AAC 60.440 with respect to their inactive reserve pit sites and will close the inactive reserve pits subject to the Order dated May 3, 1993 in *Natural Resources Defense Council Inc. v. ARCO Alaska, Inc.*, No. A88-287 CIV (D. Alaska) as amended within the designated time period established by the court in that matter, and will close other ARCO and BP inactive reserve pits listed on Exhibit D3A by the end of 2007 (except that in the event of currently unprojected operational delay affecting any BP site, that site may be completed on a separate mutually agreed schedule). BP and ARCO will close the ARCO and BP inactive reserve pits listed on Exhibit D3B according to a mutually agreed schedule that ends a reasonable period after work on the D3A sites has been completed.

5. Commitment to North Slope Spill Response. BP and ARCO will support, at their proportionate share, an independent professional North Slope spill response organization, such as Alaska Clean Seas or a substantially equivalent organization, and will encourage the fullest possible participation in this organization by all North Slope producers. BP and ARCO will support and vote in favor of funding to the North Slope oil spill response organization for an Arctic spill response research and development program (jointly agreed to by the spill response organization, BP, ARCO and ADEC) at

an average annual level of not less than \$200,000 during the 10 year period following completion of the merger.

6. Commitment to Corrosion Monitoring. BP and ARCO will, in consultation with ADEC, develop a performance management program for the regular review of BP's and ARCO's corrosion monitoring and related practices for non-common carrier North Slope pipelines operated by BP or ARCO. This program will include meet and confer working sessions between BP, ARCO and ADEC, scheduled on average twice per year, reports by BP and ARCO of their current and projected monitoring, maintenance and inspection practices to assess and to remedy potential or actual corrosion and other structural concerns related to these lines, and ongoing consultation with ADEC regarding environmental control technologies and management practices.

7. Additional Expenditure Commitment. BP and ARCO will pay or spend up to an aggregate total of \$500,000 each year during the 10 year period following completion of the merger for any combination of the following as requested annually in writing by the ADEC Commissioner: additional orphan site assessment or cleanup in excess of cap established in subparagraph 1; additional Arctic spill response research and development in excess of amount established in subparagraph 5; and/or an expert or experts chosen by ADEC to provide expert advice to ADEC regarding pipeline corrosion and/or other pipeline structural issues.

8. Payment of Unspent Funds. In the event that BP and ARCO fail to spend (or support and vote in favor of spending in the case of arctic spill response research and development) in the full amounts provided for under paragraphs II.A.1. (\$10,000,000), II.A.5. (\$2,000,000) or II.A.7. (\$5,000,000) when and as required in those paragraphs, then BP and ARCO will pay any unspent or unsupported balance as directed by the ADEC Commissioner.

B. Marine Environmental Commitments.

1. Renewed Commitment to OPA 90. BP and ARCO renew their commitment that neither of them will seek to be relieved of the vessel retirement or replacement requirements of the federal Oil Pollution Act of 1990 ("OPA 90"), nor will either of them lobby for a reduction in its current requirements, nor will they take any other action to extend the retirement dates of the non-double-hulled tankers in their combined fleet beyond the currently scheduled retirement dates. In the event that any trade association or other group of which BP or ARCO is a member takes a different or contrary position, BP and ARCO will, upon notification and request by ADEC, issue a statement clarifying that BP and ARCO do not join in that different or contrary position, and reaffirming the position stated in the first sentence of this paragraph.

2. Replacement Vessels. In furtherance of their continuing commitment to meet or exceed the OPA 90 standards and timetable, BP and ARCO will complete the purchase and delivery of the three ARCO Millennium class tankers on current order to replace

single hulled tankers now used in the combined ANS fleet, and will order and purchase additional tankers to meet their combined ANS fleet requirements on average one year earlier than required by OPA 90, with the expected result that the combined ANS fleet (including both owned and chartered vessels) will be entirely double-hulled by mid-year 2007. These additional purchased tankers will each have safety related attributes substantially equivalent to or better than Millennium or Cape class tankers, including new build double-hulls (wholly new construction), main power plant redundancy, twin propellers, twin rudders, twin independent sets of steering gear, and proven electronics (including navigation, course tracking, collision alarms, engine room monitoring, cargo and ballast monitoring, and fire and safety systems). In addition, BP and ARCO will continue to support a ship escort response vessel system for Prince William Sound at current or better levels of effectiveness.

3. Marine Operations. After the merger is completed, BP and ARCO will continue to encourage and support the company operating ANS tankers for them in using a performance management program for the regular review of its practices related to its management and operations including a safe environment, training and qualifications, and vessel operation, maintenance and management procedures. The parties expect this program will include meet and confer working sessions between the operating company and ADEC, scheduled on average once per year, reports at those working sessions by the operating company of their current and anticipated management and operations practices, ongoing consultation between the operating company and ADEC regarding ANS trade tanker management and operations practices, and the involvement of BP and ARCO in those sessions and consultations on a monitoring basis. In addition, BP and ARCO will encourage the operating company to allow the opportunity for ADEC to observe, and to be provided a copy of the written results of, management and vessel audits performed as part of a certification or re-certification process for the International Maritime Organization's International Safety Management Code or for the International Standards Organization.

C. Continued Commitment to Alaska Hire.

1. Alaska Hire Program. BP and ARCO agree that, after the merger is completed, they will continue with and extend their commitment to the people of Alaska to utilize a voluntary program to employ residents of Alaska and to use Alaska businesses. It is expected by the parties that this program will include the attributes that:

a. BP and ARCO will comply with all valid federal, State and local hiring laws in hiring Alaska residents and contractors and will not discriminate against Alaska residents or contractors, and within the constraints of law will employ Alaska residents and contractors to the extent they are available and qualified;

b. When recruiting for new hires, BP and ARCO will advertise for available positions locally and use Alaska job service organizations to notify the Alaskan public;

c. BP and ARCO will use best efforts to contract with Alaska firms and fabricate modules in Alaska whenever feasible (in determining feasibility, BP and ARCO will consider commercial, health, safety, and environmental conditions and requirements to ensure maintenance of BP and ARCO's operational standards); and

d. BP and ARCO will, to the extent permitted by law, encourage its contractors to employ, and train when necessary, residents of Alaska.

2. Reporting. BP and ARCO agree to submit to the Director, Division of Oil and Gas, for transmission to the Department of Labor, an annual report that details the specific measures that they and their contractors and subcontractors have taken or are planning to take to recruit qualified Alaska residents for available jobs, describes on-the-job training opportunities, and describes their efforts to use Alaska businesses for work in connection with their leases and associated activities. BP and ARCO will also furnish the Department of Labor a quarterly report regarding their employment of Alaska residents. The report will include statistical data concerning the number of resident personnel hired within the previous year.

3. Construction. The program and reporting described in this paragraph are intended to be fully consistent with the 1996 amendments to paragraphs 41 (1980 leases) and 31 (1983 lease) of the Northstar Unit leases between the State and BP.

4. Alaska Native Recruitment, Training and Hire. BP and ARCO further acknowledge their continuing support for the recruiting, training and hiring of Alaska Natives and the parties' common understanding of the desirability of providing Alaska's first citizens opportunities to participate in the economic benefits of oil and gas development, most of which takes place in rural Alaska.

D. Community Charitable Commitment. Within three months after the merger is completed, BP and ARCO will establish a charitable entity dedicated to funding organizations and causes within Alaska. The entity will provide 30% of its giving to the University of Alaska Foundation and the remainder to general community needs. Funding decisions by the entity will be made by BP and ARCO, with the advice of a board of community advisors. BP and ARCO will provide ongoing funding to this entity in an amount that is equal to .2% of BP's and ARCO's combined aggregate net Alaska liquids production after royalty times the price for WTI. Specific entity funding levels will be calculated annually, on the same date each year, referencing the liquids production and the average NYMEX WTI prompt month settlement price for the 12 months immediately preceding the calculation.

E. Annual Report. Once every year beginning in March 2001, and continuing thereafter for the term of this Charter, BP and ARCO will provide the State and the public with a written report describing BP and ARCO's performance of the commitments in this Section II during the prior calendar year. Public distribution will be accomplished by posting the report on a company internet site and such other reasonable means of public distribution as BP and ARCO may choose. The report provided for under subparagraph

II.C.2. will satisfy this paragraph II.E. as well with respect to its subject matter so long as that report is also publicly distributed, and timing differences will be disregarded so long as the II.C.2 report is provided and distributed according to the schedule applying to subparagraph II.C.2.

III. Alaska's Commitments.

The State of Alaska finds that this Charter adequately addresses the concerns raised by the State during its merger review, that this Charter will provide for greater competition, diversity, corporate responsibility, renewal and growth in the exploration, development and production of Alaskan North Slope oil and gas and is by virtue of these significant benefits in the best interest of Alaska and its people. The State accordingly agrees that, in exchange for BP's and ARCO's fulfillment of their obligations under this Charter, it will not seek to enjoin the merger or seek additional orders or judgments under AS 45.50.580 related to a claim that the merger is unlawful under AS 45.50.568.

IV. BP Amoco, p.l.c.'s Commitments.

BP Amoco, p.l.c. acknowledges that, after the merger is completed, it will be the ultimate parent company of the BP and ARCO corporate entities owning the Alaska assets which are the subject of this Charter and which accordingly are the primary parties with the State of Alaska herein. In order to provide further assurance to the State that the commitments made in this Charter by these primary parties are fulfilled in all respects, BP Amoco, p.l.c. guarantees that (1) these BP and ARCO corporate entities, or such other BP/ARCO Group companies to which the obligations under this Charter are assigned or otherwise transferred, will remain fully capable during the term of this Charter to fulfill all commitments made by them herein and (2) if for any reason a commitment made by them in this Charter goes unfulfilled past the time performance is due, BP Amoco, p.l.c. will cause that performance to be otherwise fulfilled.

V. General Provisions.

A. Definitions. As used in this Charter: "State" and "State of Alaska" means the State of Alaska, through its Governor, Attorney General and Commissioners of Natural Resources and Revenue; "BP" means BP Exploration (Alaska) Inc.; "ARCO" means ARCO Alaska, Inc.; "merger" means the proposed merger between BP and ARCO's parent companies; the merger is "completed" on the earliest of the date of closing, the effective date of the merger, or the first day after ARCO parent stock is exchanged for BP parent stock; "sell" and "transfer" mean divest; "gross working interest production" means BP and ARCO's share of actual liquid hydrocarbon production, including any State royalty share; "well data" includes, in digital and analog format, any mud log, lithology log, wireline well logs, conventional core and sidewall core descriptions, repeat formation tester, log curve, directional survey, velocity survey, vertical seismic profile, geologic markers, test result, test summary, porosity and permeability data, biostratigraphic data, palynology and paleontology data, geochemical data, vitrinite reflectance data, petrographic data, and

completion reports, regarding onshore or offshore exploration acreage west of the Canning River onshore and west of and including the Kuvlum prospect offshore; "seismic data" includes all seismic and ancillary data required to interpret or reprocess a seismic survey including digital files in standard exchange formats containing survey and location data, original field records, final stack and migrated processed data, final stacking and migration velocities, and a report describing the acquisition and processing of the data, regarding onshore or offshore acreage west of the Canning River onshore and west of and including the Kuvlum prospect offshore; "fair market" as used in paragraph I.J.1. will be determined with reference to the well-head netbacks pertinent to the available market(s) reasonably accessed by North Slope gas.

B. Enforcement. This Charter is governed by Alaska law. The parties agree that, except as provided in paragraphs I.J.7. and V.C., it may be enforced as a contract by (a) the Attorney General (for Alaska) and (b) its authorized representatives (for BP and ARCO) in any state or federal court in Alaska, the commitments made in this Charter may be specifically enforced, a trustee may be appointed by the court in such an action to effectuate any property transfers not accomplished as committed, and the court may also order any other appropriate remedy consistent with law. If BP, ARCO and the Federal Trade Commission enter into a consent decree or other agreement related to the merger, the terms of that decree or agreement that relate directly to or affect Alaskan assets or activities within or touching Alaskan waters may be incorporated by the State into this Charter by reference, and are enforceable by the State as though fully set forth herein. BP and ARCO acknowledge that they are subject to the personal jurisdiction of any state or federal court within the State of Alaska for the purposes of enforcing the terms of this Charter. BP Amoco, p.l.c. consents to the jurisdiction of any state or federal court within the State of Alaska for the purposes of enforcing its commitments under section IV of this Charter. No action alleging a failure of performance under this Charter may be commenced more than four years after the alleged failure, and no action alleging a failure of performance under this Charter may be commenced in any event after January 15, 2009, except that an action as provided in the final sentence of paragraph V.C. may be commenced through January 15, 2011.

C. Enforcement of Section II. Commitments. In the event that BP and ARCO fail to perform their commitments under subparagraph II.A.8. or paragraph II.E., the State may bring an action to enforce those provisions. The other provisions of Section II of this Charter are corporate citizenship commitments to the Alaskan community at large. The parties do not intend for these other commitments of Section II to be enforced by lawsuits, and no right of action is created with respect to them.

D. Construction. This Charter may be amended only in writing by the principals to this agreement or their successors. This Charter will be binding on the parties and their respective successors and assigns, and is not intended to confer any rights or remedies upon any other persons (as used herein, "assigns" includes a transferee of substantially all of the assets of BP or ARCO but does not otherwise include a transferee of property, under this Charter or otherwise). Except as otherwise provided in this Charter, nothing

herein shall be construed to impose a duty or obligation on BP or ARCO to make any additional agreements with or concessions to any other governmental or regulatory body. Where an act required of BP or ARCO under this Charter is subject to regulatory approval or action, the time limits stated in this Charter will be deemed extended as may be necessary to accommodate the time involved in securing those regulatory approvals if BP and ARCO have acted with reasonable diligence in obtaining those approvals.

E. Reporting, Notice and Access to Records.

1. BP and ARCO will submit an initial compliance report at the time they execute this Charter and will submit additional compliance reports beginning thirty (30) days from the date when this Charter is entered, and every thirty (30) days thereafter until the divestitures required under Section I have been completed or a trustee is appointed. Such reports will be in writing and each such report shall include, for each person who during the preceding thirty (30) days made an offer, expressed an interest or desire to acquire, entered into negotiations to acquire, or made an inquiry about acquiring any ownership interest in all or any portion of the divestiture assets, the name, address, and telephone number of that person and a detailed description of each contact with that person during that period. BP and ARCO will maintain full records of all efforts made to divest the assets under Section I.

2. BP and ARCO will notify the State of any proposed divestiture within two (2) business days following execution of a letter of intent or agreement for sale of the assets under Section I. The notice shall set forth the details of the proposed transaction and list the name, address, and telephone number of each person not previously identified who offered or expressed an interest in or desire to acquire any ownership interest in the divestiture assets. Within ten (10) days after receipt of the notice, the State may request additional information concerning the proposed divestiture, the proposed Purchaser, and any other potential Purchaser. BP Amoco and ARCO will furnish the additional information within ten (10) days of the receipt of the request. Within twenty (20) days after receipt of the notice or within ten (10) days after receipt of the additional information, whichever is later, the State will notify BP and ARCO in writing if it objects to the proposed divestiture. If the State fails to object within the period specified, or if the State provides notice that it does not object, then the divestiture may be consummated. If the State objects, the proposed divestiture may not be accomplished unless ordered by a court of competent jurisdiction.

3. For the purpose of determining or securing compliance with this Charter, and subject to any legally recognized privilege and reasonable notice, the State will be permitted access during office hours to inspect and copy all books, ledgers, accounts, correspondence, memoranda, and other records and documents in the possession or under the control of BP or ARCO relevant to BP or ARCO's compliance with this Charter. Subject to the reasonable convenience of BP and ARCO, and without restraint or interference from them, the State may interview their directors, officers, employees, and agents regarding any such matters. No information or documents

obtained by the State under this paragraph shall be divulged by any representative of the State to any person other than a duly authorized representative of the Attorney General, except in the course of legal proceedings to which the State is a party, or for the purpose of securing compliance with this Charter, or as otherwise required by law.

F. Effectiveness. This Charter shall be effective as of the date it is entered as written above. This Charter shall remain fully effective thereafter, except in the event that the merger agreement between BP and ARCO's parent companies is terminated, then any party may terminate this Charter by written notice to all other parties, in which event this Charter shall become null and void and of no effect, as if it were never entered.

G. Attorneys Fees. Within 30 days of the effective date of this Charter, BP and ARCO will pay the State \$1,512,198 as reimbursement for its attorney's fees and costs reasonably incurred in connection with the merger through the date of this Charter. In addition, BP and ARCO will make supplemental payments to reimburse the State for reasonable attorney's fees and costs incurred by the State related to Charter implementation and compliance between the date of this Charter and 12 months after the merger is completed. These supplemental payments will be made within 30 days after the State submits a reasonably supported written request to BP and ARCO for reimbursement.

H. Warranty of Authority. Each of the persons signing below on behalf of a corporate party represents and warrants that he has the authority to execute this Charter on behalf of the party for which he signs. Each of the persons signing below on behalf of the State represents and warrants that he holds the office shown and is authorized to exercise the powers of that office on behalf of the party for which he signs. In addition, BP and ARCO specifically warrant and represent that they are fully authorized and able to make, and to ensure the performance of, the commitments made herein and that, with respect to any Alaska assets currently owned by affiliates, they have taken or will take such steps as are necessary to ensure that the commitments they make herein are accomplished.

[TEXT CONTINUED ON NEXT PAGE]

I. Other Obligations Not Reduced. Nothing in this Charter is intended to reduce, eliminate or supersede any other obligations BP or ARCO may have under any State or federal law or regulation.

Signatures:

STATE OF ALASKA

by Tony Knowles
Tony Knowles, Governor

by Bruce Botelho
Bruce Botelho, Attorney General

by John Shively
John Shively, Commissioner of Natural Resources

by Wilson Condon
Wilson Condon, Commissioner of Revenue

BP EXPLORATION (ALASKA) INC.

by Richard Campbell
Richard Campbell, President

ARCO ALASKA, INC.

by Kevin O. Meyers
Kevin Meyers, President

BP AMOCO, p.l.c.

by John Browne
John Browne, CEO

by Rodney Chase
Rodney Chase, Deputy CEO

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John Shively, Commissioner of Natural Resources

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Wilson Condon, Commissioner of Revenue

BP EXPLORATION (ALASKA) INC.

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Richard Campbell, President

ARCO ALASKA, INC.

by _____
Kevin Meyers, President

BP AMOCO, p.l.c.

by  _____
John Browne, CEO

by _____
Rodney Chase, Deputy CEO

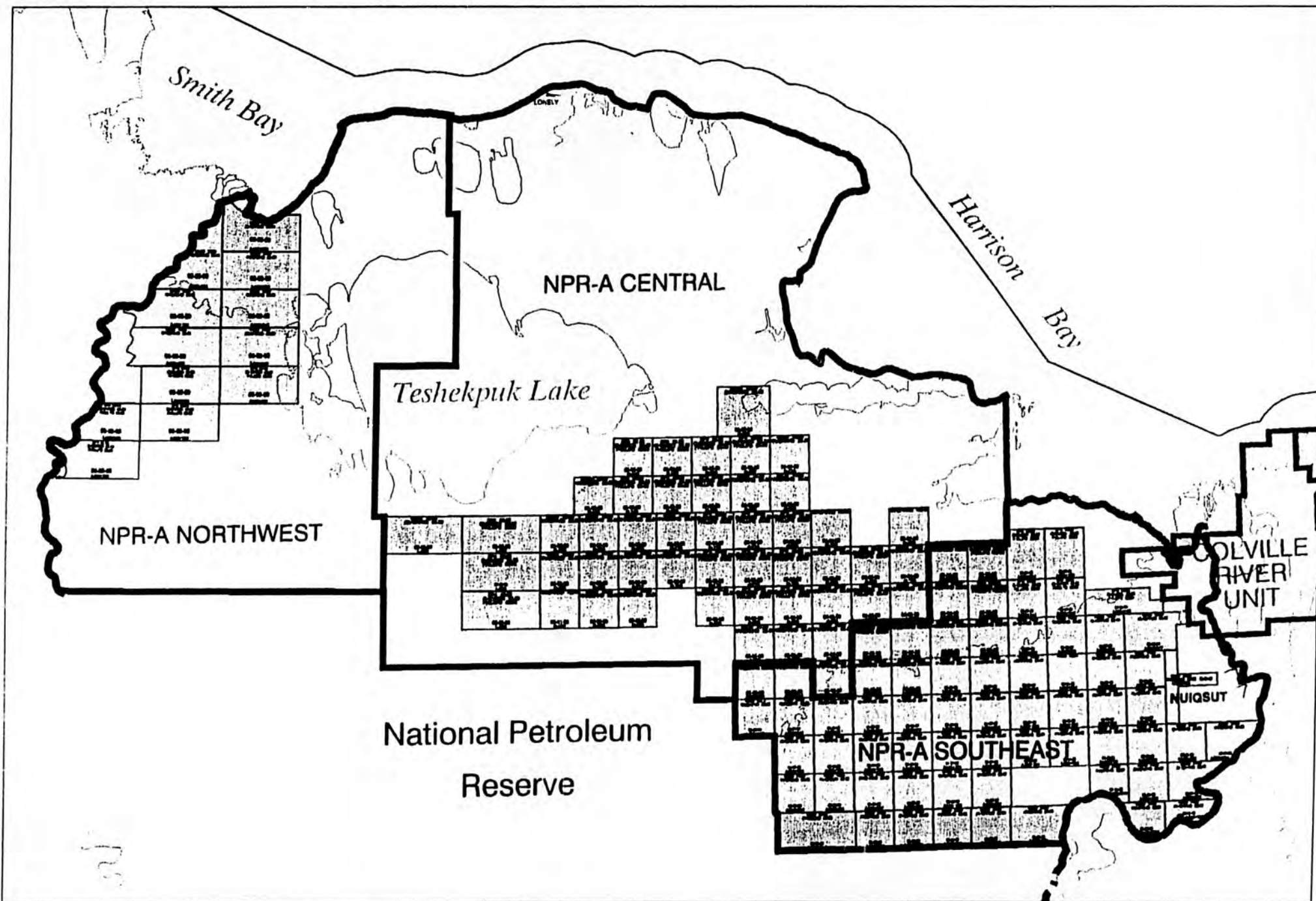
EXHIBITS

Potential New Northeast NPR-A Operating Areas

<i>Project Area</i>	<i>BP & ARCO Lease Holdings</i>				
NPR-A Northwest	AA081730	AA081734	AA081849	AA081852	
	AA081731	AA081733	AA081850	AA081853	
	AA081732	AA081848	AA081851	AA081854	
NPR-A Central	AA081727	AA081756	AA081765	AA081830	AA081840
	AA081728	AA081757	AA081766	AA081831	AA081841
	AA081729	AA081758	AA081813	AA081833	AA081842
	AA081747	AA081759	AA081824	AA081834	AA081843
	AA081748	AA081760	AA081825	AA081835	AA081844
	AA081749	AA081761	AA081826	AA081836	AA081845
	AA081752	AA081762	AA081827	AA081837	AA081846
	AA081754	AA081763	AA081828	AA081838	AA081855
	AA081755	AA081764	AA081829	AA081839	AA081856
NPR-A Southeast *	AA081742	AA081773	AA081787	AA081801	AA081816
	AA081743	AA081774	AA081788	AA081802	AA081817
	AA081744	AA081775	AA081789	AA081803	AA081818
	AA081745	AA081776	AA081790	AA081804	AA081819
	AA081746	AA081777	AA081791	AA081805	AA081820
	AA081750	AA081778	AA081792	AA081806	AA081821
	AA081751	AA081779	AA081793	AA081807	AA081822
	AA081753	AA081780	AA081794	AA081808	AA081823
	AA081767	AA081781	AA081795	AA081809	AA081832
	AA081768	AA081782	AA081796	AA081810	AA081847
	AA081769	AA081783	AA081797	AA081811	AA081857
	AA081770	AA081784	AA081798	AA081812	AA081858
	AA081771	AA081785	AA081799	AA081814	
	AA081772	AA081786	AA081800	AA081815	



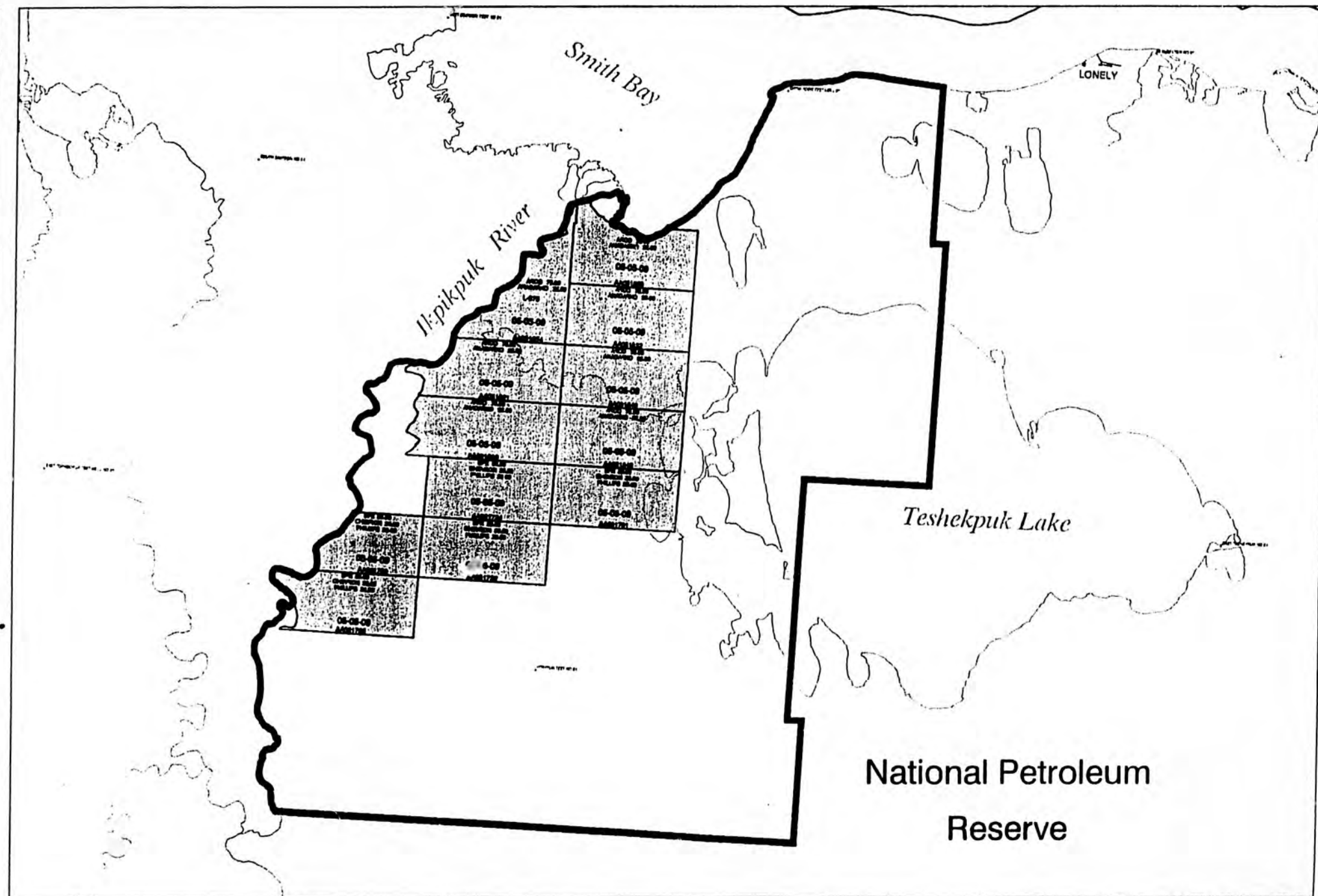
EXHIBIT A AREAS





NPR-A NORTHWEST

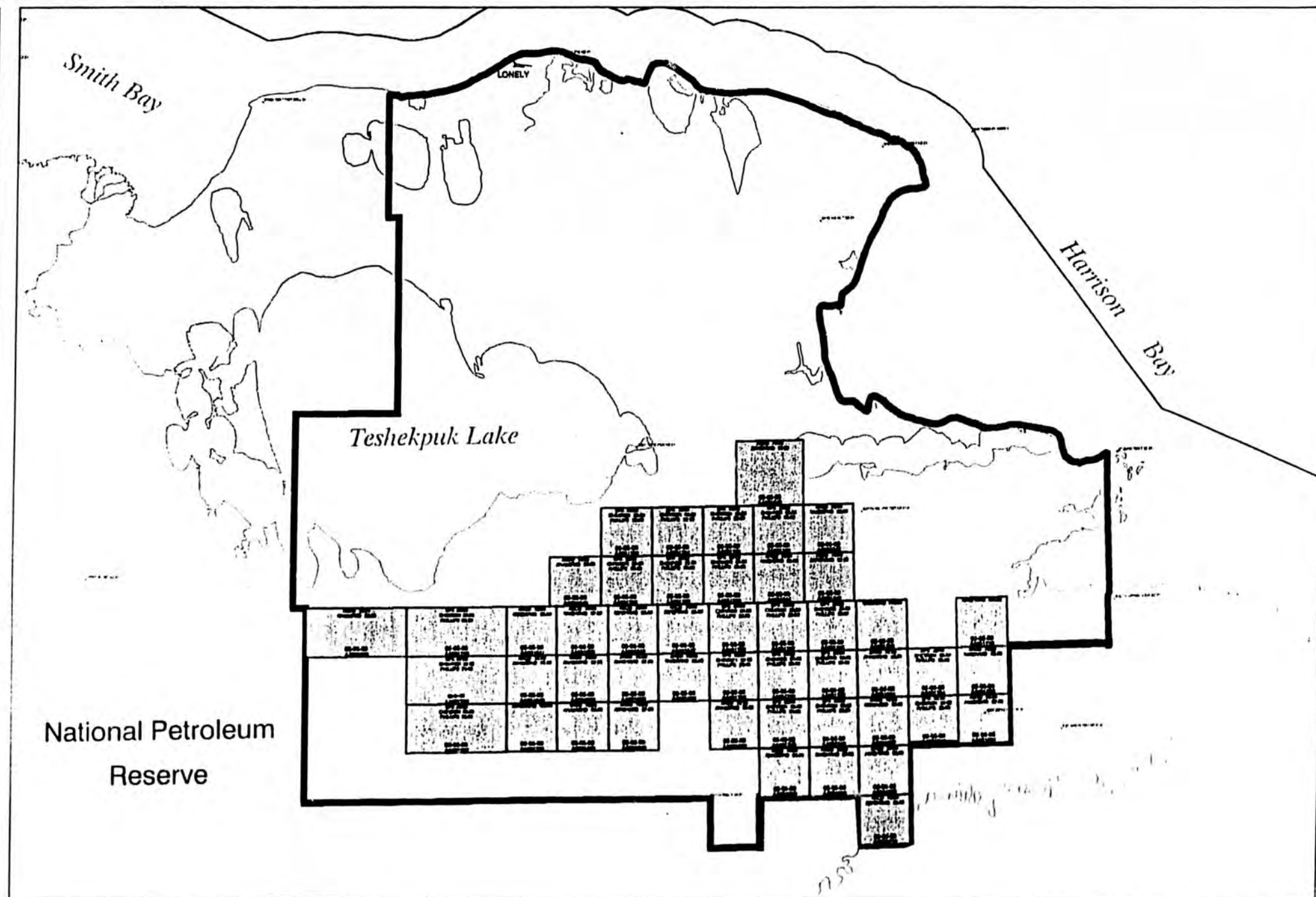
Exhibit A





NPR-A CENTRAL

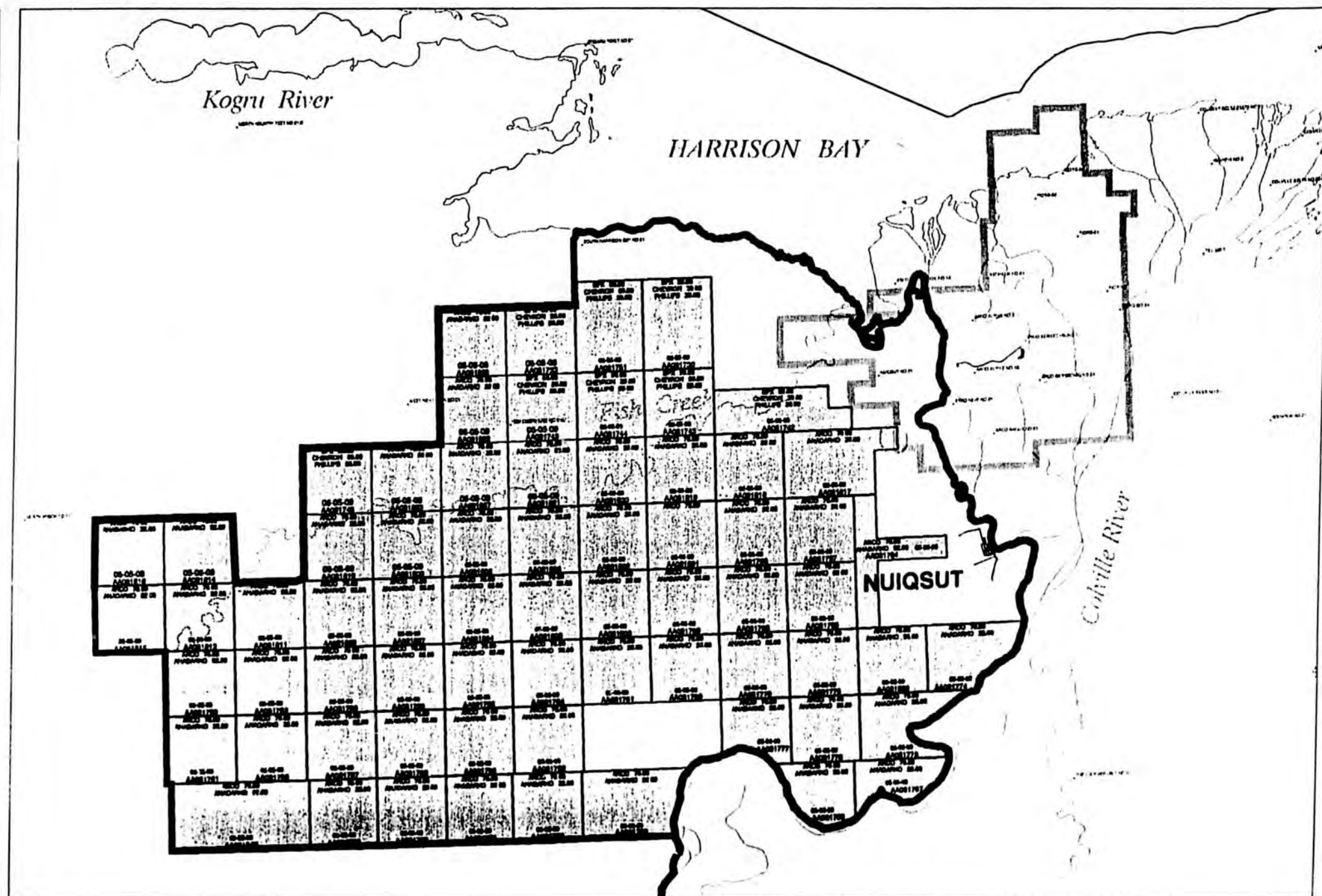
Exhibit A





NPR-A SOUTHEAST

Exhibit A

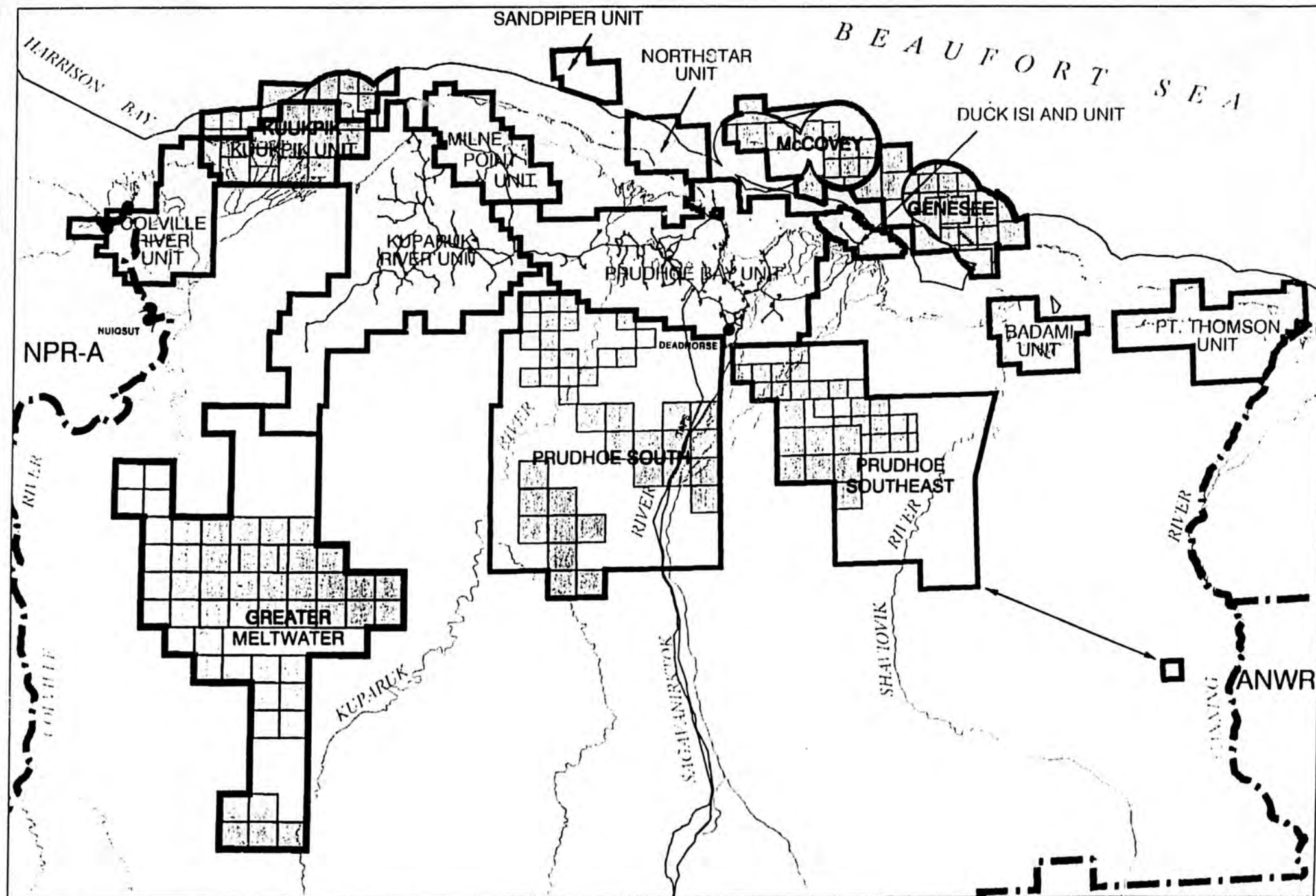


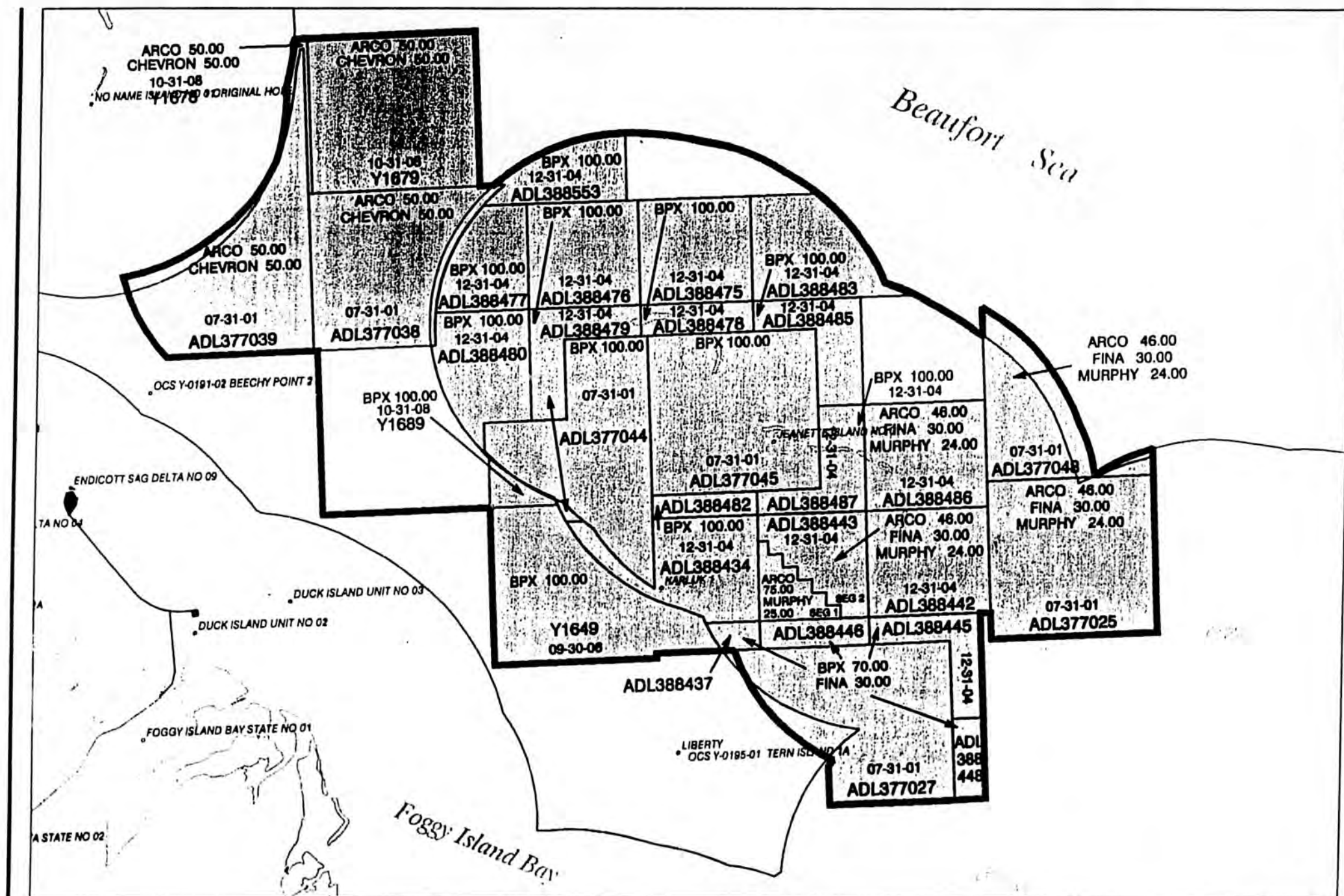
Potential New North Slope Operating Areas

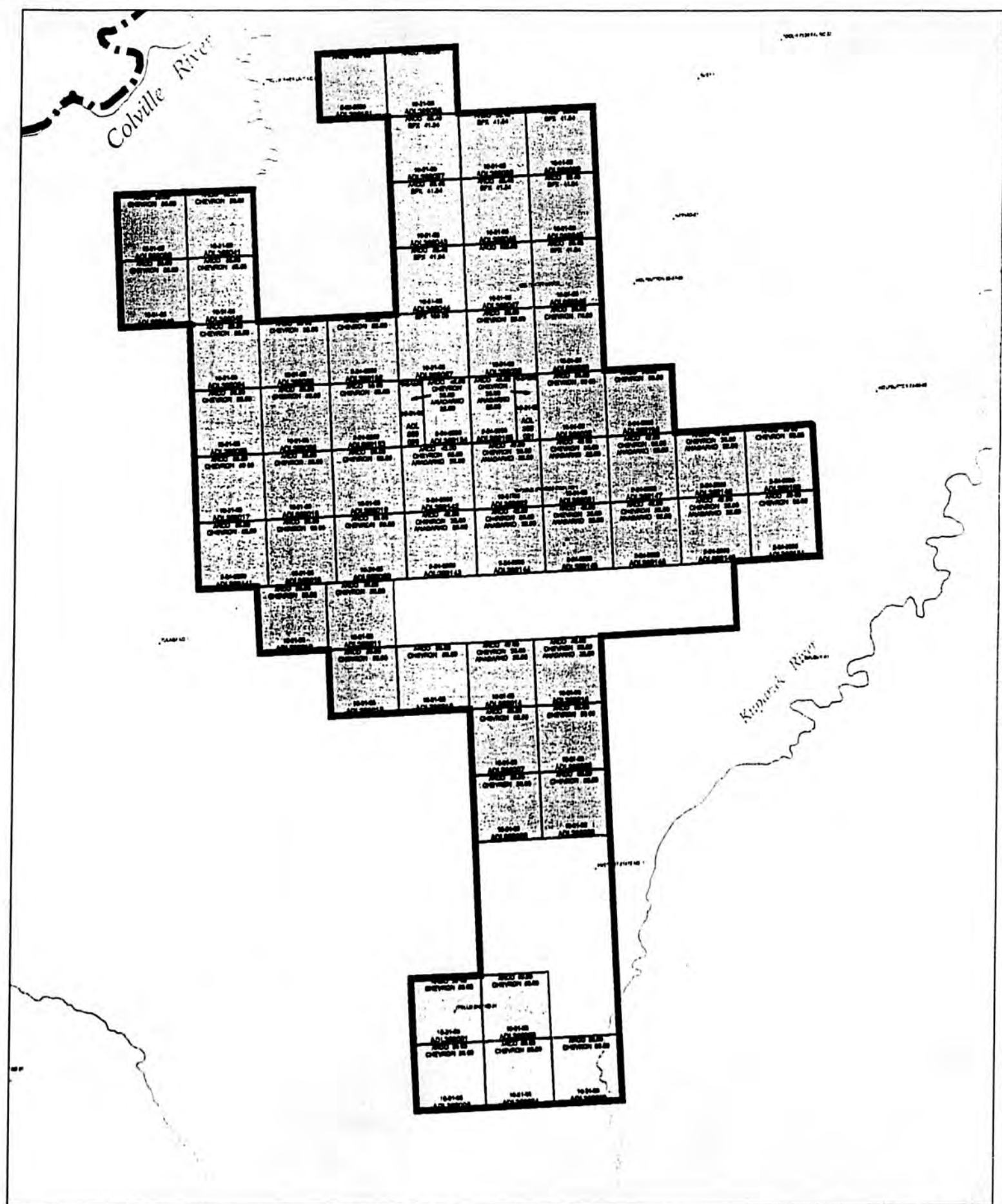
Project Area	BP & ARCO Lease Holdings				
Genesee	AK ADL 377025	AK ADL 377048	AK ADL 388446	AK ADL 388479	AK ADL 388487
	AK ADL 377027	AK ADL 388434	AK ADL 388448	AK ADL 388480	AK ADL 388553
	AK ADL 377038	AK ADL 388437	AK ADL 388475	AK ADL 388482	OCS-Y-1649
	AK ADL 377039	AK ADL 388442	AK ADL 388476	AK ADL 388483	OCS-Y-1678
	AK ADL 377044	AK ADL 388443	AK ADL 388477	AK ADL 388485	OCS-Y-1679
	AK ADL 377045	AK ADL 388445	AK ADL 388478	AK ADL 388486	OCS-Y-1689
Greater Meltwater	AK ADL 389001	AK ADL 389012	AK ADL 389023	AK ADL 389040	AK ADL 389149
	AK ADL 389002	AK ADL 389013	AK ADL 389024	AK ADL 389041	AK ADL 389150
	AK ADL 389003	AK ADL 389014	AK ADL 389025	AK ADL 389042	AK ADL 389151
	AK ADL 389004	AK ADL 389015	AK ADL 389026	AK ADL 389141	AK ADL 389152
	AK ADL 389005	AK ADL 389016	AK ADL 389027	AK ADL 389142	AK ADL 389153
	AK ADL 389006	AK ADL 389017	AK ADL 389028	AK ADL 389143	AK ADL 389154
	AK ADL 389007	AK ADL 389018	AK ADL 389029	AK ADL 389144	AK ADL 389155
	AK ADL 389008	AK ADL 389019	AK ADL 389030	AK ADL 389145	AK ADL 389156
	AK ADL 389009	AK ADL 389020	AK ADL 389031	AK ADL 389146	
	AK ADL 389010	AK ADL 389021	AK ADL 389032	AK ADL 389147	
	AK ADL 389011	AK ADL 389022	AK ADL 389039	AK ADL 389148	
Kuukpik Area	AK ADL 355029	AK ADL 355038	AK ADL 364476	AK ADL 388566	AK ADL 388572
	AK ADL 355031	AK ADL 355039	AK ADL 364477	AK ADL 388567	AK ADL 388573
	AK ADL 355034	AK ADL 355040	AK ADL 364478	AK ADL 388568	AK ADL 388575
	AK ADL 355035	AK ADL 364473	AK ADL 388512	AK ADL 388569	OCS-Y-1641
	AK ADL 355036	AK ADL 364474	AK ADL 388515	AK ADL 388570	OCS-Y-1642
	AK ADL 355037	AK ADL 364475	AK ADL 388564	AK ADL 388571	
McCovey	AK ADL 377055	AK ADL 388470	AK ADL 388541	AK ADL 388549	OCS-Y-1578
	AK ADL 377056	AK ADL 388471	AK ADL 388542	AK ADL 388552	OCS-Y-1580
	AK ADL 377059	AK ADL 388530	AK ADL 388543	OCS-Y-1576	
	AK ADL 377066	AK ADL 388540	AK ADL 388544	OCS-Y-1577	
Prudhoe South	AK ADL 28249	AK ADL 375025	AK ADL 375044	AK ADL 380014	AK ADL 385176
	AK ADL 375005	AK ADL 375026	AK ADL 375045	AK ADL 380019	AK ADL 385179
	AK ADL 375006	AK ADL 375027	AK ADL 375046	AK ADL 380021	AK ADL 389096
	AK ADL 375014	AK ADL 375030	AK ADL 375047	AK ADL 380023	AK ADL 389097
	AK ADL 375016	AK ADL 375031	AK ADL 375048	AK ADL 380063	AK ADL 389124
	AK ADL 375017	AK ADL 375032	AK ADL 375049	AK ADL 380064	AK ADL 389126
	AK ADL 375018	AK ADL 375039	AK ADL 375089	AK ADL 380066	
	AK ADL 375024	AK ADL 375043	AK ADL 380012	AK ADL 385174	
Prudhoe Southeast	AK ADL 385112	AK ADL 385140	AK ADL 389066	AK ADL 389073	AK ADL 389101
	AK ADL 385113	AK ADL 385148	AK ADL 389067	AK ADL 389074	AK ADL 389102
	AK ADL 385115	AK ADL 385149	AK ADL 389068	AK ADL 389075	AK ADL 389105
	AK ADL 385116	AK ADL 385150	AK ADL 389069	AK ADL 389076	AK ADL 65406
	AK ADL 385135	AK ADL 385151	AK ADL 389070	AK ADL 389098	
	AK ADL 385136	AK ADL 385152	AK ADL 389071	AK ADL 389099	
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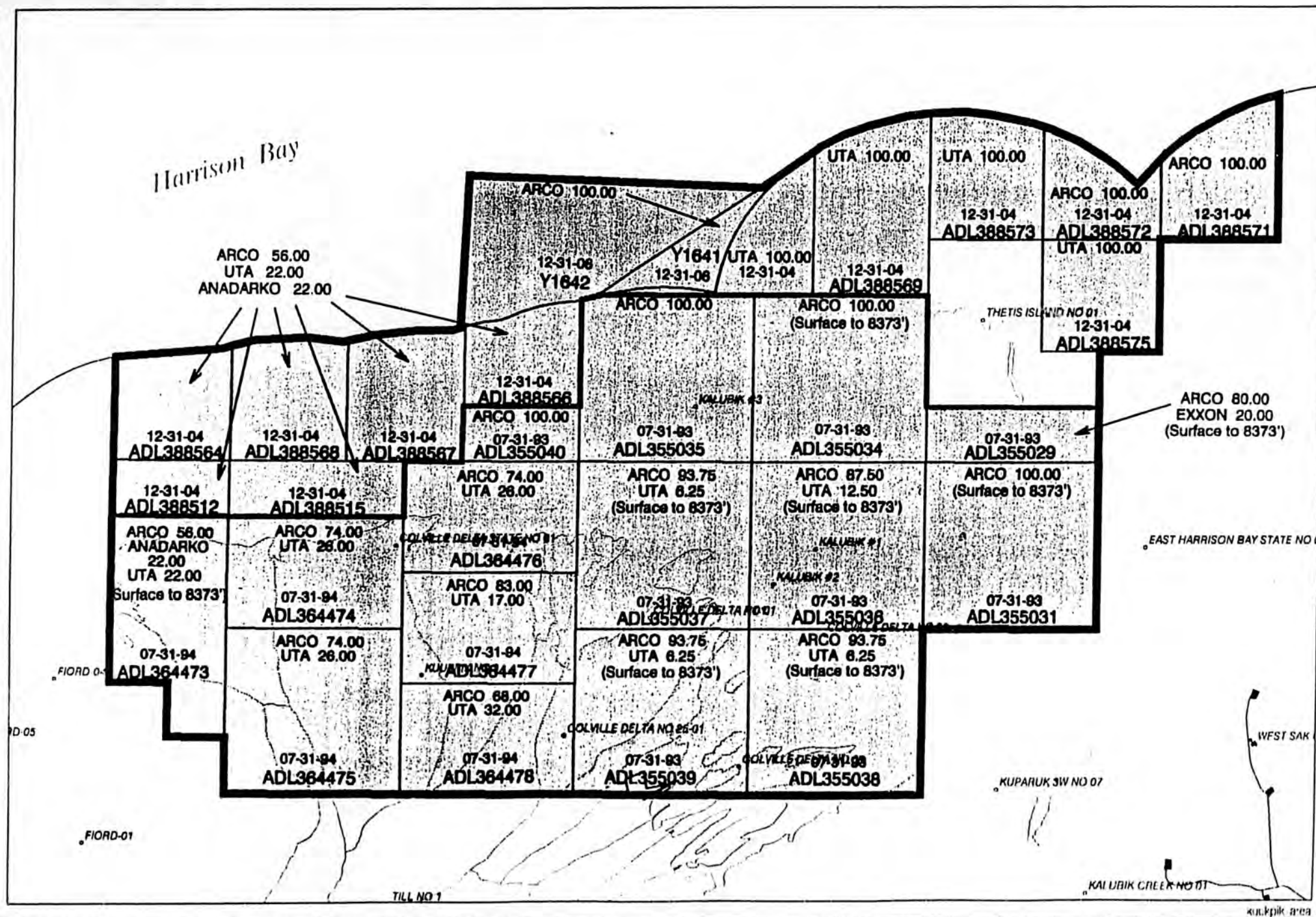


EXHIBIT B AREAS







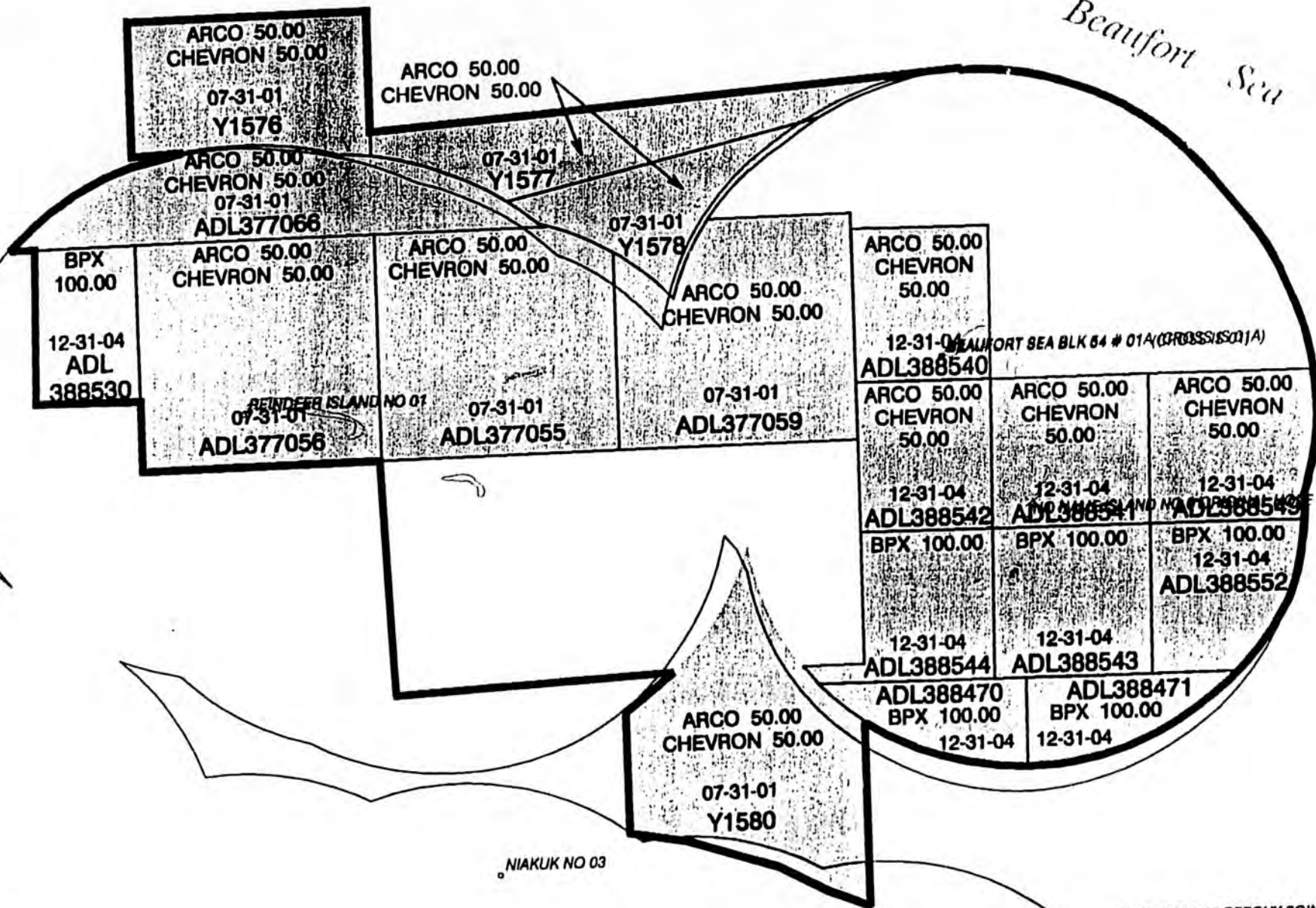




McCOVEY AREA

Exhibit B

Beaufort Sea



Prydzhoe Bay

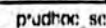
NORTH RIVER NO 05 BAY STATE NO 08

SAG DELTA NO 08

McCovey Area



Exhibit B



FORM PURCHASE CONTRACT

DELIVERIES BY PRODUCER

QUALITY: Alaska North Slope (ANS) crude oil.

QUANTITY: Approximately _____ [not to exceed 10,000] barrels per day, with volumes equivalent to [Producer's] _____ % working interest in the _____ Unit, Alaska.

CONTRACT TERM: Effective _____ through _____ [5 year period].

DELIVERY: Title and risk of loss shall pass to [BP] as the crude oil passes from _____ Pipeline Company through the Inlet flange of Trans Alaska Pipeline System at TAPS Pump Station No. 1 (the "PS#1 Delivery Point"), or as the crude oil passes through the ship's flange at Valdez, at the Seller's option.

PRICE:

A. For purchases at PS-1, [BP] agrees to pay [PRODUCER] a price calculated as the volume weighted average sales price for the State's sales under its North Slope RIK sales contracts, *plus* or *minus* an adjustment to account for the differences, if any, in quality between the purchased crude at the PS#1 Delivery Point and the weighted average quality of the RIK crude at the PS#1 Delivery Point calculated in accordance with the TAPS quality bank methodology. RIK sales prices for deliveries other than at PS#1 will be adjusted to an ANS PS#1 price using pipelines tariffs and quality bank adjustments upstream of PS#1 before weight averaging.

B. For purchases at Valdez, [BP] agrees to pay [PRODUCER] the aforesaid price *plus* any TAPS tariffs paid by [PRODUCER] *plus* any TAPS quality bank adjustments paid by [PRODUCER] and *minus* any TAPS quality bank adjustments received by [PRODUCER] with respect to the purchased crude.

C. Retroactive revisions billed to RIK purchasers by the State will be considered retroactive revisions to the sales price in this contract, and subject to the same adjustments. In the event that no RIK sales are made in a month, and this contract is in effect, the RIK price will be replaced by the price calculated by the State as the average value it received for RIV in that month, as provided under paragraph I.G. of the Charter for North Slope Development, subject to the same adjustments as above.

INVOICES: Pricing will be provisional due on the 20th of the month following the month of delivery. The prior month's RIK sales prices and, if pertinent, TAPS tariff and quality bank adjustment for the month of delivery will be used in the provisional invoice. (For example, the provisional Invoice for January 1999 production would use December 1998 RIK sales prices, tariff and quality bank adjustment.) Provisional Invoices will be actualized after actual RIK sales prices, tariffs and quality bank adjustments are determined.

FORM PURCHASE CONTRACT

PROVISIONS APPLICABLE FOR BOTH PARTIES

PAYMENT: Payment shall be made by check of immediately available federal funds on the 20th of the month following the month of delivery.

Payments due on Saturday shall be paid the preceding Friday, and payments due on Sunday shall be paid the following Monday. Similarly, payments due on a federal bank holiday shall be paid the preceding business day except when a federal bank holiday falls on a Monday, when payment shall be due the following day.

GENERAL PROVISIONS: BP's Standard General Provisions, copy attached.

SIGNATURES:

[PRODUCER]

by _____

[BP]

by _____



BP OIL

PART 2

BP OIL SUPPLY COMPANY

**Common Terms and Conditions for the Sale
and Exchange of Alaskan North Slope Crude Oil**

Effective November 1, 1991

INDEX

- ARTICLE 1: QUANTITY
- ARTICLE 2: QUALITY
- ARTICLE 3: QUANTITY AND QUALITY CLAIMS
- ARTICLE 4: QUANTITY AND QUALITY DETERMINATION FOR ANS DELIVERED BY VESSEL
- ARTICLE 5: QUANTITY AND QUALITY DETERMINATION, EXCEPT FOR ANS DELIVERED BY VESSEL
- ARTICLE 6: DELIVERY SPECIFICATIONS FOR ANS DELIVERED BY VESSEL
- ARTICLE 7: DELIVERY SPECIFICATIONS, EXCEPT FOR ANS DELIVERED BY VESSEL
- ARTICLE 8: PRICE AND PAYMENT
- ARTICLE 9: PRICE AND/OR EXCHANGE DIFFERENTIAL REOPENER OR TERMINATION DUE TO UNITED STATES GOVERNMENTAL ACTION
- ARTICLE 10: REOPENER NOTICE
- ARTICLE 11: SUPPLIER/PURCHASER REGULATIONS
- ARTICLE 12: ROYALTY OIL
- ARTICLE 13: FORCE MAJEURE
- ARTICLE 14: ALLOCATION
- ARTICLE 15: ASSIGNMENT
- ARTICLE 16: WARRANTIES
- ARTICLE 17: WAIVER
- ARTICLE 18: NON-PERFORMANCE
- ARTICLE 19: GOVERNING LAW
- ARTICLE 20: NOTICES
- ARTICLE 21: CRUDE OIL EXCHANGE IMBALANCE SETTLEMENT
- ARTICLE 22: TAXES
- ARTICLE 23. ENTIRE AGREEMENT
- ARTICLE 24: DEFINITIONS

ARTICLE 1. QUANTITY

The quantity of crude oil shall be the amount specified in Part 1 of the Agreement. There shall be no operational tolerance unless specified in Part 1 of the Agreement.

ARTICLE 2. QUALITY

Section 2.1. Quality

All crude oil delivered hereunder shall be consistent with normal stream quality for the type of crude specified in Part 1 of the Agreement, and acceptable to the carriers involved.

Section 2.2. Change in the Quality of Crude Oil

Seller shall give Buyer a prompt written notice of any sudden and unforeseen significant change in the quality of crude oil at Seller's source of supply which would render it impossible to deliver with the qualities specified in Part 1 of the Agreement.

ARTICLE 3. QUANTITY AND QUALITY CLAIMS

Any and all claims either as to a shortage in quantity or a defect in quality with respect to any delivery of crude oil hereunder shall be made by the claiming party in writing to the other party within 90 days after delivery of such crude oil and shall include documentation supporting the claim (provided however, no claim shall be made hereunder for any indirect, special, incidental, or consequential damages). If no such written notice of claim is received within 90 days after delivery of the crude oil to the Buyer, the claim shall be deemed to have been waived.

Upon either party's receipt of a valid claim notice by the other party, the Parties shall make best efforts to resolve the claim within 30 days of said receipt. If resolution cannot be reached during the 30 day time period, the Parties shall jointly select an independent arbitrator to decide the dispute and the cost of the arbitrator's services shall be shared equally by the parties. The arbitrator shall have expert knowledge for determination of the matter in question and findings shall be based on actual evidence available, including retests if samples were retained.

ARTICLE 4. QUANTITY AND QUALITY DETERMINATION FOR ANS DELIVERED BY VESSEL

Section 4.1. Independent Inspection

The quantity and quality of the ANS crude oil delivered by Seller to Buyer shall be determined by a U.S. Customs approved independent petroleum inspector. Said inspector shall be mutually acceptable to both Parties and the

cost of the inspection service shall be shared pro-rata between Buyer and Seller at their individual contract rate. The independent inspector shall prepare certificates of quantity and quality, and provide copies of such to the Buyer and Seller. The inspector's determinations as to quantity and quality recorded on the certificates shall be conclusive and binding upon both Parties (except in cases of manifest fraud or error). Seller shall arrange for inspection.

Section 4.2. Quantity Determination

The gross quantity of ANS crude oil delivered hereunder shall be determined by one of the following methods beginning preferentially with:

- (a) Calibrated positive displacement meter measurements;
- (b) Manual shore tank gauge measurements taken before or after delivery into such shore tanks. Insofar as possible, tanks shall be settled for a minimum of 6 hours before gauging. Lines between the ship's flange and receiving tank shall be proven to be full before discharge; or
- (c) Closed measurement devices, such as sonic tape devices as available on the vessel. Sonic tape shall be provided by and certified accurate by the inspectors.

Neither party may require a corroboration of the volume measurements thus obtained, using any other method of ANS crude oil volume measurement without the written consent of the other party. Volumes shall be reported in barrels, and temperature corrections to 60°F shall be made in accordance with Table No. 6A of the latest revision of the Petroleum Measurement Tables of the American Society for Testing Materials and the Institute of Petroleum (ASTM D1250, IP 200).

Section 4.3. Quality Determination

The quality of ANS crude oil delivered hereunder shall be determined by one of the following methods beginning preferentially with:

- (a) A continuous sample collected by a U.S. customs approved flow proportioned in-line sampler as the ANS crude oil discharges from the vessel; or
- (b) Water cuts and a composite sample made up of running all-level samples taken from each of the vessel's tanks upon arrival at the delivery port. This method shall not be used for vessels equipped with an Inert Gas System (IGS) unless such vessels are also equipped with valves that permit hand measurement and thieving without lifting the inert gas blanket or releasing the blanket pressure; or
- (c) Water cuts and a composite sample (made up of upper, middle and lower samples) taken from the shore tanks both

taken immediately before and no sooner than 6 hours after the delivery into such shore tanks.

Notwithstanding the above, in case the ANS crude oil volume measurements are done using closed measurement devices, then in that case, the quality determination shall be made using method(s) that do not require lifting the inert gas blanket.

ARTICLE 5. QUANTITY AND QUALITY DETERMINATION, EXCEPT FOR ANS DELIVERED BY VESSEL

Section 5.1. In-Line and In-Tank Transfer of Common Stream Crude Oil

The quantity and quality of common stream crude oil to be transferred in-line or in-tank into a third party facility or via a third party common carrier shall be evidenced by the third party's delivery ticket.

Section 5.2. Independent Inspection

If either party requests in writing to the other party that an independent petroleum inspector be present at the time of delivery, the quantity and quality of the crude oil delivered by Seller to Buyer shall be determined by an independent petroleum inspector. Said inspector shall be mutually acceptable to both Parties and the cost of the inspection service shall be shared pro-rata between Buyer and Seller at their individual contract rate. The independent inspector shall prepare certificates of quantity and quality, and provide copies of such to the Buyer and Seller. The inspector's determinations as to quantity and quality recorded on the certificates shall be conclusive and binding upon both Parties (except in cases of manifest fraud or error). Seller shall arrange for inspection. The Parties may each have a representative present to witness all gauges, tests, and measurements.

Section 5.3. Measurements and Tests

The quantities, quality, and gravities of crude oil delivered hereunder shall be determined in accordance with generally accepted industry practices in effect at the time and place of delivery for the receiving carrier.

Volumes shall be reported in barrels, and temperature corrections to 60°F shall be made in accordance with the latest revision of the Petroleum Measurement Tables of the American Society for Testing Materials and the Institute of Petroleum (ASTM D1250, IP 200).

All quality measurements and tests shall be made in accordance with the latest ASTM or ASME-API (Petroleum PD Meter Code) published methods then in effect, whichever apply. Volume and gravity shall be adjusted to 60°F for each

barrel on the basis of the latest American edition of ASTM-API Petroleum Measurement Tables.

ARTICLE 6. DELIVERY SPECIFICATIONS FOR ANS DELIVERED BY VESSEL

Section 6.1. Delivery

Delivery of ANS crude oil shall be from a vessel arranged for by Seller to a safe berth reachable on her arrival and of sufficient depth for the vessel, provided the vessel can proceed thereto, lie at, and depart therefrom always safely afloat. Buyer warrants that conditions at the facility conform to those previously approved by Seller. Said berth shall be provided by the Buyer free of all charges (including but not limited to: line handling, set-upon gangways, cargo port fees, wharfage, dockage, and quay dues), at the Buyer's designated marine terminal facilities. Any additional costs incurred to make the berth and channels thereto and therefrom safe for the vessel, or as required by governmental or port authorities (including but not limited to additional tugs and pilots), are for the Buyer's account.

The date that the Seller tenders NOR (as described in Section 6.6), and not the actual discharge date, shall be deemed to be the date that determines the Seller's compliance or non-compliance with its contractual delivery period obligation as set forth in Part 1 of the Agreement.

Section 6.2. Title and Risk of Loss

Title to, and risk of loss, damage, contamination, deterioration, and evaporation of the ANS crude oil delivered hereunder shall pass to Buyer as the ANS crude oil passes the flange connection between Seller's vessel and the Buyer's receiving hose, at which point Seller's responsibility shall cease.

Any and all loss of or damage to the oil and/or environment during discharge arising out of negligence of the Buyer or terminal operator shall be borne solely by the Buyer.

Section 6.3. Scheduling and Nominations

The Buyer shall nominate in writing to Seller both a minimum 5 day arrival date range, which may be any 5 consecutive days during the delivery period named in Part 1 of the Agreement, and a port in which Buyer desires to take delivery of the ANS crude oil. Buyer shall furnish all port information, including draft, delivery port restrictions, terminal procedures, and any non-customary requirements of the port authorities.

If the Agreement date occurs on or is prior to the 12th day of the month prior to delivery, Buyer shall provide said nominated arrival date range to Seller no later than 15 days prior to the beginning of the month in which delivery is to be made. If the Agreement date occurs after the 12th day of the

month prior to the month of delivery, the Buyer shall provide said nominated arrival date range to Seller no later than 3 business days after the Agreement date. Upon the receipt of Buyer's nominated arrival date range, Seller shall provide Buyer with a scheduled 3 day arrival date range in writing no later than 10 days prior to the first day of the scheduled 3 day date range. Seller shall make all reasonable efforts to provide a scheduled three day date range which corresponds to the nominated date range but shall not be obligated to do so. Seller may not change the scheduled 3 day date range without the Buyer's prior written approval.

The Buyer shall ensure that appropriate facilities and personnel are available for the receipt of the Seller's declaration of the scheduled 3 day date range between 9:00 am and 5:00 pm, local time for the Seller's address as set forth in Part 1 of the Agreement. Nomination/scheduled date ranges shall be based on the local time zone and working days at the discharge terminal.

Section 6.4. Failure to Follow Nomination Procedures

If Buyer has not provided the minimum 5 day arrival date range and port nomination as set forth in Section 6.3, Buyer shall not be relieved of its obligation to purchase ANS crude oil under the Agreement. In that event, Seller shall use its best efforts to schedule its vessels to meet nominations that are subsequently submitted by Buyer. In the absence of timely nominations, as set forth in Section 6.3, Seller shall, at any time after the due date for nominations, notify the Buyer in writing that a delivery vessel and/or 3 day arrival date range has been scheduled by Seller to meet Buyer's delivery requirements, no later than 10 days prior to the first day of the scheduled 3 day date range. Any additional direct costs, including but not limited to demurrage, deadfreight and vessel deviation, incurred by Seller in meeting Buyer's nominations as subsequently submitted, shall be for Buyer's account.

Section 6.5. Discharge Revisions

Buyer may not change the discharge port, the scheduled 3 day arrival date range, or require multiple berth/port discharge without Seller's written approval, and Seller shall not be obligated to honor said change but shall make reasonable efforts to accommodate the change. Buyer shall be responsible for the cost of all vessel deviation and incremental lightering or other costs directly associated with any such change. Upon Buyer's request, Seller shall provide Buyer with the best available estimate of additional costs. Seller shall subsequently make all reasonable efforts to minimize such costs.

Section 6.6. Laytime

Upon arrival at customary anchorage or place for such

purposes at the port of discharge (berth or no berth), the master or his agent shall give notice of readiness by letter, facsimile, telex, wireless, or telephone stating that the vessel is ready to discharge cargo ("tendering of NOR"). If the vessel tenders NOR within the scheduled 3 day date range, the vessel shall await its proper turn and laytime shall commence upon the expiration of 6 hours after the tendering of NOR, or upon the vessel's arrival in berth, whichever occurs first.

If the vessel tenders NOR before the scheduled 3 day date range, laytime shall commence upon the expiration of 6 hours after tendering of NOR but not prior to 0001 hours local time of the first day of the scheduled 3 day date range, or upon vessel's arrival in berth, whichever occurs first. If the vessel arrives after the scheduled 3 day date range, the vessel shall be berthed as soon as possible, in its proper turn with other such vessels, and laytime shall commence upon the vessel's arrival in berth. In the event that the vessel arrives later than the fifth day of the month following the delivery period named in Part 1 of the Agreement, Buyer shall have the right to terminate the Agreement. Termination shall be subject to Seller receiving Buyer's written termination notice no later than 0001 hours on the eighth day of the month following the delivery period named in Part 1 of the Agreement.

Time consumed due to cargo gauging and sampling of vessel or shore, including time spent to perform and gauge line displacements, shall count as used laytime, or if the vessel is on demurrage, as time on demurrage.

Laytime, or if the vessel is on demurrage, time on demurrage shall cease upon disconnection of cargo hoses following completion of discharge. If the vessel is delayed in excess of 2 hours after such disconnection of cargo hoses solely for Buyer's purposes, laytime, or if the vessel is on demurrage, time on demurrage shall be deemed to have continued without interruption from the disconnection of cargo hoses until the termination of such delay.

36 running hours shall be allowed as laytime for discharging a full cargo (including crude oil washing and/or cargo stripping, if performed), and a pro rata amount of hours shall be allowed for discharging partial cargoes subject to a minimum of 12 running hours. If the vessel is simultaneously discharging to more than one Buyer, each Buyer shall be liable for incurred demurrage on a pro rated volume basis. Time used shifting between berths, unless at the request of Seller, shall count as laytime, or if the vessel is on demurrage, as time on demurrage.

Time consumed due to any of the following shall not count as laytime, or if the vessel is on demurrage, as time on demurrage when spent or lost:

- (a) On an inward passage from anchorage or other waiting

place, even if lightering has taken place at the anchorage, to the discharge berth, including awaiting tide, tugs/pilots until the vessel's arrival in berth; or

(b) Due to the vessel's condition or breakdown or inability to discharge the cargo, or due to any other reason attributable to the vessel, her owners, her master, officers, or the crew; or

(c) Due to prohibition of discharging at any time by the Owner or operator of the vessel, unless such prohibition is caused by unsafe conditions at the berth and/or channels thereto and therefrom; or

(d) In ballasting or bunkering not concurrent with discharging; or

(e) As a result of a strike, lockout, stoppage, or restraint of labor, of the vessel, or tugboats or pilots, except when all of the aforesaid are owned by or otherwise are under Buyer's direct control.

Section 6.7. Demurrage

Demurrage shall be paid, as provided herein, per running hour and pro rata for a part thereof for all the time that laytime as specified above is exceeded by the time taken to discharge cargo (including crude oil washing and/or cargo stripping) and the time which, under the provisions of this Agreement, counts as laytime or time on demurrage.

Any and all demurrage claims (and supporting documentation) incurred under these provisions, shall be sent by BP Oil Supply Company (or its affiliate or its appointed agent) to its initial Buyer within 90 days of completion of cargo discharge. In the event that such Buyer has resold the cargo, Buyer, and any other subsequent resellers of the cargo, shall send a copy of said demurrage claim and supporting documentation to its respective buyer within 5 days of its receipt of said demurrage claim and supporting documentation.

Valid demurrage charges between Seller and the Buyer shall be paid by the Buyer no later than 60 days from receipt of such demurrage claim and supporting documents. Any Buyer agreement with a third party, or Buyer's inability to collect demurrage from said third party, for whatever reason, shall not be an excuse, waiver, or defense to a claim for payment to Seller. Demurrage charges shall be presumed to be valid if not objected to in writing by Buyer within 45 days of receipt of invoice. If valid demurrage claims are not paid within 60 days from receipt of invoice, Seller shall charge interest on the unpaid balance for each day payment is delinquent at 2 percentage points above the accrued Prime Interest Rate as quoted in the Wall Street Journal.

In the event demurrage is incurred and the Parties are unable to agree on the applicable tanker market spot level, then each party shall refer the matter to an independent tanker broker

active in the U.S. coastwise trade. Each independent tanker broker so designated shall give a written opinion on the spot market level, and the level used shall be the arithmetic average of the two levels.

Section 6.8. Demurrage Rates

The rate of demurrage shall be the demurrage rate provided in the American Tanker Rate schedule current as of the date of commencement of loading for a vessel of the size employed in the delivery multiplied by the spot market level current as of the date of commencement of discharging for a vessel of the size employed in the delivery eligible to trade permanently in the United States coastwise trade.

Section 6.9. Demurrage Rate Reductions

The rate of demurrage shall be reduced to one-half (1/2) of the amount stated in Section 6.8 above per running hour for demurrage incurred as a result of any of the following:

(a) Fire, explosion, breakdown, or failure of machinery or equipment in or about the receiving facility; or

(b) Severe weather and/or sea conditions, including fog; or

(c) Prohibition of discharging by Port Authorities, including awaiting daylight restriction, unless such prohibition is caused by the receiving facility's failure to comply with applicable laws or regulations; or

(d) Strike, lockout, or stoppage of Buyer or terminal operator labor/personnel.

Section 6.10. Vessel Lightering

Costs of lightering to the customary arrival draft of the originally scheduled port shall be for Seller's account. This draft shall be determined by the approach channel areas, including seasonal variations of the discharge terminal. Costs of further lightering required to accommodate specific berth constraints shall be for Buyer's account.

ARTICLE 7. DELIVERY SPECIFICATIONS, EXCEPT FOR ANS DELIVERED BY VESSEL

Section 7.1. Delivery

Seller shall deliver the quantity of crude oil to Buyer into the delivery facilities named in Part 1 of the Agreement.

Section 7.2. Alternate Delivery via Book Transfer/Net Scheduling

The Parties may mutually agree to reduce the number of redundant in-line transfers by effecting delivery for the same type of crude oil at the same location during the same

delivery period through a book transfer/net scheduling of redundant sales sequences. Alternate delivery may be made through the book transfer/net scheduling of circular sales sequences as determined by the Parties or through a third party book transfer/net scheduling agent which is mutually recognized as such by the Parties. The Parties agree that delivery is effected upon the issuance of each party's written confirmation of a book transfer/net scheduling and/or the third party's documentation evidencing a book transfer/net scheduling.

Section 7.3. Title and Risk of Loss

Title to and risk of loss, damage, contamination, deterioration, and evaporation of the crude oil delivered hereunder shall pass from Seller to Buyer as the crude oil is delivered into the delivery facilities named in Part 1 of the Agreement; or, in the case of an in-line transfer, when the transfer order is written by appropriate authorized personnel of the carrier; or, in the case of a book transfer/net scheduling, upon the issuance of documentation evidencing the parties' mutual agreement of the book transfer/net scheduling.

ARTICLE 8. PRICE AND PAYMENT

Section 8.1. Price

The price shall be the price as set forth in Part 1 of the Agreement, calculated in U.S. Dollars per barrel. No gravity adjustment shall apply unless specified in Part 1 of the Agreement.

Section 8.2. ANS Payment

Buyer shall pay the full ANS crude oil purchase price without deductions, discounts, or offsets on or before 5 days after the date of completion of discharge, or 10 days after tendering of NOR, whichever occurs first, for each delivery of ANS crude oil under the Agreement. Payment shall be made to Seller's bank via telegraphic transfer in immediately available funds against Seller's Commercial Invoice and, a copy of the independent inspector's report evidencing actual delivery quantities if said report is required by this Part 2.

If payment due date falls on a Saturday or a New York bank holiday other than Monday, payment shall be effected on the preceding day. If payment due date falls on a Sunday or a Monday New York bank holiday, payment shall be effected on the next business day. If payment is late, Seller shall charge interest on the unpaid balance for each day payment is delinquent at 2 percentage points above the accrued Prime Interest Rate as quoted in the Wall Street Journal from the payment due date.

In the event that the actual discharge quantity is unavailable at the time of invoicing, Seller shall invoice, and Buyer shall make payment against Seller's provisional invoice on the

payment due date, on a provisional basis for the ANS crude oil quantity as scheduled and invoiced by the Seller. An adjusted invoice shall be sent by Seller as soon as the actual quantities are determined. Any resultant underpayment shall be paid immediately by Buyer to Seller and any resultant overpayment shall be immediately refunded by Seller to Buyer. Interest on any underpayment or overpayment shall be calculated from the payment due date using the accrued 30 day commercial paper rate as quoted in the Wall Street Journal on the payment due date.

Section 8.3. Exchange Crude Oil Payment

Buyer shall pay the full exchange crude oil purchase price without deductions, discounts, or offsets on or before the 20th day after the end of the delivery month to Seller's bank via telegraphic transfer in immediately available funds against Seller's Commercial Invoice and documentation from the pipeline carrier or shipper evidencing actual delivery quantities and/or documentation evidencing a book transfer. If payment due date falls on a Saturday or a New York bank holiday other than Monday, payment shall be effected on the preceding day. If payment due date falls on a Sunday or a Monday New York bank holiday, payment shall be effected on the next business day. If payment is late, Seller shall charge interest on the unpaid balance for each day payment is delinquent at 2 percentage points above the accrued Prime Interest Rate as quoted in the Wall Street Journal from the payment due date.

Section 8.4. Financial Security

If specified in Part 1 of the Agreement, Buyer must provide Seller with financial security for payment in one of the following forms of security:

(e) An irrevocable Letter of Credit, in a form acceptable to Seller and in conformity with Seller's procedures and requirements (including adequate coverage of load tolerances). The amount of the Letter of Credit shall be in an amount equal to the total purchase price of crude oil being purchased on the said date of delivery plus a total purchase price load tolerance of either (i) 10% for crude oil delivered by pipeline, or (ii) 10% for ANS delivered by vessel to either a U.S. West Coast or Hawaii location, or (iii) 15% for ANS delivered by vessel to a location other than the U.S. West Coast or Hawaii. The issuing bank must be approved by Seller in advance of the opening of the Letter of Credit. All bank charges, including but not limited to issuing, confirming, advising, and negotiating fees, shall be for Buyer's account.

If securing payment for ANS crude oil, the Letter of Credit must be received by Seller at least 5 business days prior to the date of commencement of discharge of each delivery of ANS crude oil under the Agreement.

If securing payment for exchange crude oil, the Letter of Credit must be received by Seller at least 3 business days prior to the U.S. domestic pipeline scheduling day for the month of delivery.

(b) Payment prior to delivery, whereby Buyer shall make payment to Seller in an amount equal to the full purchase price of the scheduled delivery quantity (the "pre-payment"), less accrued interest from the pre-payment date to the payment due date. Interest on the pre-payment shall be calculated from the pre-payment date to the payment due date, 365 days per year convention, using the accrued 30 day commercial paper rate as quoted in the Wall Street Journal from the pre-payment due date.

Upon the receipt of actual delivery quantities and subsequent invoice balancing, any underpayment by Buyer, or refund to Buyer if that be the case, shall be paid by the close of business on the next business day via telegraphic transfer in immediately available funds.

If securing payment for ANS crude oil, the pre-payment must be received by Seller at least 5 business days prior to the date of commencement of discharge of each delivery of ANS crude oil under the Agreement.

If securing payment for exchange crude oil, the pre-payment must be received by Seller at least 3 business days prior to the U.S. domestic pipeline scheduling day for the month of delivery.

Section 8.5. Failure to Provide Financial Security

In the event that the Buyer is required by Part 1 of the Agreement, and fails to provide financial security under the conditions outlined herein, Seller retains the right to withhold delivery of crude oil and/or terminate the Agreement. Termination as a result of failing to provide financial security shall be effective upon the receipt by the Buyer of the Seller's written termination notification. Any and all delay, demurrage, storage, or other charges arising out of Buyer's failure to provide financial security as outlined herein, shall be borne solely by Buyer.

ARTICLE 9. PRICE AND/OR EXCHANGE DIFFERENTIAL REOPENER OR TERMINATION DUE TO UNITED STATES GOVERNMENTAL ACTION

In the event there is any action of the U.S. federal, state or local government which places a measurable economic or onerous burden on (or precludes the realization of a significant benefit by) either party, as it relates to the Agreement, and when the Agreement is either an evergreen term contract or a spot contract involving more than one cargo of ANS, either party may initiate a renegotiation of the price, or the exchange differential if so specified in the Agreement, by

delivering a written Reopener Notice to the other party provided, however, that such Reopener Notice shall be delivered promptly after the announcement and/or publication of such action in the Federal Register or the equivalent state or local publication or in any prominent newspaper or magazine of general circulation in the crude oil industry. Terms of negotiation shall be according to Article 10 of this Part 2 of the Agreement, except if the governmental action occurs later than 30 days from the effective date of the Reopener Notice, then termination would occur at the effective date of the governmental action.

ARTICLE 10. REOPENER NOTICE

The effective date of any Reopener Notice shall be the date written notice thereof is received by the party to whom it is directed. The Parties agree to negotiate in good faith for a period not to exceed 30 days following the effective date of any Reopener Notice in order to establish a new price/exchange differential. During such period of renegotiation, the price/exchange differential in existence on the effective date of the Reopener Notice shall remain in effect.

If the Parties are able to agree upon a new price/exchange differential during the aforesaid 30 day period, such new price/exchange differential shall become effective at the time agreed to by the Parties and shall be evidenced by a duly authorized amendment, in writing, to the Agreement.

If the Parties are unable to agree upon a new price/exchange differential within such 30 day period, then either party may terminate the Agreement at the end of the 30 day period by delivering written notice of termination to the other party no later than 35 days following the effective date of the Reopener Notice.

In the event either party delivers such notice of termination, either party may then elect, by delivering an additional written notice within 5 days after receipt of the foregoing termination notice, to continue this Agreement for a period from the 31st day up to but not beyond the 90th day following the effective date of the Reopener Notice at the price/exchange differential last proposed in writing by the other party. Such last proposed price/exchange differential must have been proposed in good faith during the negotiations.

ARTICLE 11. SUPPLIER/PURCHASER REGULATIONS

Section 11.1. Mutual Intentions as to Termination

The Parties hereby agree that under any "freeze" of supplier/purchaser relationships imposed under any future governmental regulation which requires the consent of either or both Parties to the termination of such relationships, such consent to termination shall be given by either party at the request of the other should the Agreement terminate or be terminated in whole or in part in accordance with the termination provi-

sions provided herein. In order to implement the foregoing under governmental regulations, the Buyer hereby agrees to include a similar provision in any contract for resale of the ANS crude oil delivered to it under the Agreement.

Section 11.2. Supplier/Purchaser Relationship

The Parties agree that except as set forth in the Agreement, no obligation to buy, sell or exchange oil has been established. The parties further agree that the Agreement does not form a supplier-purchaser relationship similar in form or substance to that concept as previously defined under Department of Energy Regulations pursuant to the Emergency Petroleum Allocation Act of 1973, as amended. In the event any such similar conceptual relationship were to be mandated and enforced in the future, whether pursuant to federal, state, or local law, and whether on a retroactive and/or prospective basis, it is agreed by the Parties that either party, without limiting its other rights may immediately cancel the Agreement by giving written notice to the other.

ARTICLE 12. ROYALTY OIL

In the event the State of Alaska or the U.S. Government elects to take in-kind all or any portion of its royalty share of ANS crude oil produced from the Prudhoe Bay Unit, or from any other production which at that time constitutes BP Oil Supply Company's supply of ANS crude oil, BP Oil Supply Company at its option may reduce accordingly the quantity of ANS crude oil to be exchanged or sold by it hereunder, with a corresponding reduction in the quantity of crude oil to be exchanged by the Buyer to BP Oil Supply Company hereunder. BP Oil Supply Company shall notify Buyer of any action by the State of Alaska or the United States Government as soon as BP Oil Supply Company learns of such action. Any reduction in quantity under this provision shall not begin prior to the date the State of Alaska or the United States Government receives title to and takes delivery of its royalty share of ANS crude oil in-kind.

ARTICLE 13. FORCE MAJEURE

Any delays in or failure of performance by either party, except in respect to the obligation to make payments under the Agreement, shall not constitute default hereunder if and to the extent such delays or failure of performance are caused by occurrence(s) beyond the reasonable control of the party affected. If such incidents occur, which by the exercise of due diligence such party is unable to prevent, then "Force Majeure" shall be declared. Force Majeure occurrences include but are not limited to: acts of God or the public enemy, sabotage, war, mobilization, revolution, civil commotion, riots, strikes, lockouts, fires, accidents, or breakdowns, floods, hurricanes or other actions of the elements, acts in furtherance of the International Energy Program, restrictions or restraints imposed by law, rule or regulations or other actions of governmental authorities.

Quantities affected by any declarations of Force Majeure shall be deleted from supply obligations for the period in question and need not be made up unless and to the extent otherwise mutually agreed in writing by the Parties. In any such event, the party claiming Force Majeure shall notify the other party in writing and, if possible, of the extent and duration thereof and shall exercise due diligence to prevent, eliminate or overcome such cause where it is possible to do so and resume performance at the earliest possible date.

Notwithstanding the above, and in the event that the Agreement is an exchange of crude oil, the Parties shall have the rights and obligations described below in the circumstances described below:

(a) If, because of Force Majeure, the ANS Seller is unable to deliver part or all of the quantity of ANS crude oil the ANS Seller is obligated to deliver hereunder, the ANS Buyer (referred to as the "Exchange Partner" in this Article 13) shall have the right but not the obligation to reduce its deliveries of the exchange crude oil to the ANS Seller hereunder by an amount not to exceed the exchange ratio multiplied by the number of barrels of ANS crude oil that the ANS Seller fails to deliver.

(b) If, because of Force Majeure, the ANS Seller is unable to receive and take delivery for the full quantity of exchange crude oil to be delivered by the Exchange Partner hereunder, the Exchange Partner shall have the right but not the obligation to reduce its receipts of ANS from the ANS Seller hereunder by an amount not to exceed the ANS Seller's shortfall.

(c) If, because of Force Majeure, the Exchange Partner is unable to deliver part or all of the quantity of exchange crude oil to be delivered by the Exchange Partner hereunder, the ANS Seller may, at its option, nevertheless provide the full quantity of ANS crude oil to be delivered by it to the Exchange Partner hereunder, or reduce the quantity to be delivered to the Exchange Partner hereunder by not more than the inverse of the exchange ratio multiplied by the number of barrels of crude oil that the Exchange Partner fails to deliver hereunder.

(d) If, because of Force Majeure, the Exchange Partner is unable to receive and take delivery of the full quantity of ANS crude oil to be delivered by the ANS Seller hereunder, the ANS Seller shall have the right but not the obligation to reduce its receipts of exchange crude oil from the Exchange Partner hereunder by an amount not to exceed the exchange ratio multiplied by the Exchange Partner's shortfall hereunder.

ARTICLE 14. ALLOCATION

Buyer expressly agrees and accepts that in case of a reduction in the total supply of ANS crude oil available to BP Oil

Supply Company due to Force Majeure or any act or omission by a government, or an agreement between governments or by a cartel of oil production nations or by the effect of any governmental laws, regulations, decrees, guidelines, request or for any other reason, BP Oil Supply Company may first satisfy its needs and those of its affiliates before allocating any remaining available supply of ANS crude oil. Under no circumstance whatsoever, shall BP Oil Supply Company be required to purchase additional quantities of crude oil to fulfill contractual requirements hereunder. Should BP Oil Supply Company so purchase additional crude oil from other sources, it shall not be required to allocate the such crude oil to Buyer.

ARTICLE 15. ASSIGNMENT

Neither Seller nor Buyer may assign its rights and obligations under the Agreement, in whole or in part, to any party without the written consent of the other party, except that each party may assign such rights and obligations to any affiliate, without the written consent of the other party. A written notice of such assignment shall be given by the assignor to the other Parties to the Agreement. No such assignment shall relieve the assignor of its obligations under the Agreement.

ARTICLE 16. WARRANTIES

Seller expressly warrants that at the time of delivery the Seller shall hold full and unencumbered legal and equitable title to the crude oil sold by it hereunder and that Seller shall have full right, authority and power to transfer and convey such title to Buyer and to effect delivery of the crude oil to Buyer.

The Seller further warrants that the crude oil has been produced, handled, and transported to the delivery point, in accordance with the laws, rules and regulations of all local, state, or federal authorities having jurisdiction thereof.

The Seller further warrants that the crude oil delivered hereunder shall conform to the description of physical attributes and volumes stated under Part 1 of the Agreement. **OTHERWISE THERE ARE NO GUARANTEES OR WARRANTIES, EXPRESSED OR IMPLIED, OF MERCHANTABILITY, FITNESS OR SUITABILITY OF THE CRUDE OIL FOR ANY PARTICULAR PURPOSE. THERE ARE NO OTHER ORAL OR WRITTEN GUARANTEES OR WARRANTIES.**

ARTICLE 17. WAIVER

The delay or failure on the part of either party here to insist upon specific performance of one or more terms and conditions hereunder, shall not be constituted as a waiver of any such terms and conditions, rights and privileges. No waiver by either party of any of the terms or conditions of the

Agreement shall be construed as a waiver of any subsequent breach of the same or any other terms and conditions.

ARTICLE 18. NON-PERFORMANCE

Section 18.1. Definitions

As relates to Article 18 of this Part 2 of the Agreement, the Parties hereto acknowledge that the term "Forward Contract" means this Agreement or any other written agreement between the Parties for the purchase, sale, or exchange of crude oil that is a forward contract as defined in the U.S. Federal Bankruptcy Code or applicable banking laws or regulations, (b) the term "Contract Value" of any Forward Contract means the product of the number of barrels of crude oil covered by that Forward Contract multiplied by the price per barrel of the crude oil specified in that Forward Contract, and (c) the term "Market Value" of any Forward Contract at any time means the product of the number of barrels of crude oil covered by that Forward Contract multiplied by the then current market price per barrel for that type of crude oil covered thereby for delivery at the delivery date or in the delivery period specified in that Forward Contract, as determined by the Performing Party in any commercially reasonable manner.

Section 18.2. Liquidation

Notwithstanding any other provisions of this or any other commodity contract between the Parties, in the event (each a "default") either party ("the Defaulting Party") shall (a) default in the payment or performance, when due, of any obligation to the other party under the Agreement or any other Forward Contract(s), or (b) file a petition or otherwise commence or authorize the commencement of a proceeding or case under any bankruptcy, insolvency, reorganization, or similar law for the protection of creditors, or have any such petition filed or proceeding or case commenced against it and it is not successful in having such petition, proceeding, or case dismissed within 60 days, or (c) have a liquidator, administrator, receiver or trustee appointed with respect to it or any substantial portion of its property or assets, or (d) become bankrupt or insolvent, however evidenced, or be unable to pay its debts as they fall due, or (e) fail to provide adequate security for, or assurances of its ability to perform, all of its obligations under the Agreement or any other Forward Contract(s), within 48 hours of a demand therefor when the other party has reasonable grounds for insecurity;

then in any such default the other party (the "Performing Party") shall have the right to liquidate the Agreement and any and all Forward Contracts then outstanding at any time or from time to time thereafter by:

(i) Closing out each Forward Contract being liquidated at its Market Value at the time of liquidation, so that each such Forward Contract is cancelled and a settlement payment in a

amount equal to the difference between such Market Value and the Contract Value of such Forward Contract shall be due to the Buyer under that Forward Contract if such Market Value exceeds such Contract Value and to the Seller under such Forward Contract if the opposite is the case; and

(ii) Discounting each amount then due under clause (i) to the present value as at the time of liquidation (to take account of the period between the date of liquidation and the date on which such amount would have otherwise been due pursuant to the relevant Forward Contract) at the applicable Commercial Paper rate for that period as determined by the Performing Party in any commercially reasonable manner; and

(iii) Setting off or aggregating, as appropriate, any or all settlement payments, and (at the election of the Performing Party) any or all other amounts owing between the parties hereunder or under any Forward Contract, so that all such amounts are aggregated and/or netted to a single liquidated amount payable by one party to the other.

The net amount due after any such liquidation shall be paid by the close of business on the next business day via telegraphic transfer in immediately available funds.

Section 18.3. Set Off

The Performing Party's rights under this Article shall be in addition to, and not in limitation or exclusion of, any other rights which the Performing Party may have (whether by operation of law or otherwise), including any rights and remedies under the Uniform Commercial Code. If a default occurs, the Performing Party may (at its own election) from time to time set off any or all amounts which the Defaulting Party owes to it, whether or not then due (expressly excluding any contracts for off-exchange commodity transactions pursuant to 17CFR 32.4, as amended, and the Commodity Exchange Act of 1936, as amended) against any or all amounts which it owes to the Defaulting Party, whether or not then due (expressly excluding any contracts for off-exchange commodity transactions pursuant to 17CFR 32.4, as amended, and the Commodity Exchange Act of 1936, as amended), provided that any amount not then due which is included in such setoff shall be discounted to present value as at the time of setoff (to take into account the period between the date of setoff and the date on which such amount would have otherwise been due) at the applicable Commercial Paper rate for that period as determined by the Performing Party in any commercially reasonable manner.

Section 18.4. Indemnification

The Defaulting Party shall indemnify and hold the Performing Party harmless from any and all costs and expenses of collection, including reasonable attorneys fees, incurred in the exercise of any remedies hereunder; provided however,

no claim shall be made hereunder for any indirect, special, incidental, or consequential damages.

ARTICLE 19. GOVERNING LAW

THE AGREEMENT AND ALL TRANSACTIONS HEREUNDER SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF OHIO, U.S.A. (WITHOUT REFERENCE TO ANY CONFLICT OF LAW RULES). EACH PARTY EXPRESSLY SUBMITS TO THE JURISDICTION OF THE STATE OF OHIO, U.S.A. AND TO THE VENUE OF FEDERAL AND STATE COURTS SITUATED IN THE CITY OF CLEVELAND AND AGREES TO ACCEPT SERVICE OF PROCESS BY REGISTERED MAIL.

ARTICLE 20. NOTICES

Any notice required hereunder shall be sent in writing by certified mail, telefax, or telex, to the address specified in Part 1 of the Agreement. The effective date of a notice shall be the date of receipt by the addressee. Changes of contacts or addresses of either party shall be notified immediately in writing to the other party.

ARTICLE 21. CRUDE OIL EXCHANGE IMBALANCE SETTLEMENT

Section 21.1. Intent

In the event that the Agreement is an exchange of crude oil, the Parties undertake to exchange equal amounts of crude oil as set forth in the Agreement and shall make best efforts to keep delivery quantities equal on a monthly basis. In the event that the quantities actually delivered during the term of the Agreement are not equal, the Parties agree to balance the quantity as set forth in this Article 21.

Section 21.2. Imbalance Definitions

As relates to Article 21 of these Terms and Conditions, "Imbalance Buyer" shall be considered as the party that delivered a greater amount of crude, "Imbalance Seller" shall be considered as the party that delivered a lesser amount of crude, and the "Imbalance" shall be the difference between the nominal delivery volume of exchange crude oil as described in Part 1 of the Agreement, and the actual delivery volume of ANS as described in Part 1 of the Agreement. The Imbalance of less than 5000 net U.S. barrels shall be treated as a net sale hereunder without further physical delivery.

Section 21.3. Imbalance Crude Type

The Imbalance crude type shall be domestic sweet crude oil as delivered by Arco Pipe Line Company at Cushing, OK.

Section 21.4. Imbalance Delivery

Delivery of the Imbalance shall be subject to the following provisions as applicable:

(a) ANS Term Agreements with ANS delivered by Vessel or Pipeline

The Imbalance Seller shall deliver the Imbalance ratably into the facilities of Arco Pipe Line Company at Cushing, OK no later than the third calendar month immediately following the date the written notice of termination is received by the non-terminating party.

(b) ANS Spot Agreements with ANS delivered by Vessel

The Imbalance Seller shall deliver the Imbalance ratably into the facilities of Arco Pipe Line Company at Cushing, OK. If the ANS, as described in the Agreement, completes delivery prior to the 5th business day, inclusive, before the U.S. crude oil pipeline scheduling day that occurs during the calendar month in which the ANS is delivered, the Imbalance shall be delivered during the month immediately following the month in which the ANS is delivered. If the ANS, as described in the Agreement, completes delivery after the 5th business day, inclusive, before the U.S. crude oil pipeline scheduling day that occurs during the calendar month in which the ANS is delivered, the Imbalance shall be delivered during the second month immediately following the month in which the ANS is delivered.

(c) ANS Spot Agreements with ANS delivered by Pipeline

The Imbalance Seller shall deliver the Imbalance ratably into the facilities of Arco Pipe Line Company at Cushing, OK during the month immediately after the Imbalance is determined.

Section 21.5. Imbalance Price

In the event that domestic sweet crude oil delivered into Arco Pipe Line Company at Cushing, OK is one of the exchange crude oils in Part 1 of the Agreement, the Imbalance price shall be the price for domestic sweet crude oil delivered into Arco Pipe Line Company at Cushing, OK, as defined in Part 1 of the Agreement, applicable for the last delivery month in which the Agreement is in effect. In the event that domestic sweet crude oil delivered into Arco Pipe Line Company at Cushing, OK is not one of the exchange crude oils in Part 1 of the Agreement, the price shall be an average market price for the type of crude delivered during the delivery period as mutually agreed in writing between the Parties.

Section 21.6. Imbalance Payment

The payment for the Imbalance shall be subject to the provisions of Article 8 of this Part 2 of the Agreement.

ARTICLE 22. TAXES

Other than income or franchise taxes, any tax, license, inspection or other fee levied by any governmental authority upon, or which is measured by, or is incident to, or is a result of the transaction herein provided for shall be borne solely by Buyer whether paid directly to the governmental authority or as reimbursement to Seller. Any such reimbursement to Seller shall be due and payable to Seller by Buyer upon written demand (invoice) by Seller.

ARTICLE 23. ENTIRE AGREEMENT

Part 1 and Part 2 of the Agreement constitute the entire agreement between the Parties hereto regarding the subject matter hereof and supersede any and all prior negotiations, representations, or agreements related thereto, either written or oral. No changes, alterations, or modifications to Part 1 and/or Part 2 of the Agreement shall be effective unless agreed to in writing by an authorized representative of the Parties. The Article and Section headings have been included in this Agreement for convenience of reference only and shall not control or affect its construction or interpretation in any respect.

ARTICLE 24. DEFINITIONS

Where used in the Agreement, the terms listed hereunder shall have the following meanings:

- (a) The "Agreement" is defined as the contract between the Parties relating to the purchase, sale, or exchange of ANS crude oil, and is comprised of Part 1 and Part 2. Part 1 is the document in which certain specific items have been agreed between the Parties including without limitation the volume, price and the delivery period of crude oil sold, purchased, or exchanged. Part 2 is comprised of these Common Terms and Conditions for the Sale and Exchange of ANS Crude Oil, Effective November 1, 1991 as set forth herein.
- (b) The term "Buyer" refers to the party receiving crude oil and the term "Seller" refers to the party delivering crude oil. Buyer and Seller are collectively referred to as the "Parties".
- (c) The term "barrel" means 42 United States gallons of 231 cubic inches at 60° Fahrenheit.
- (d) The term "day" means a calendar day.
- (e) The term "month" means a calendar month.
- (f) The term "barrels per day" means barrels per calendar day.
- (g) Every reference to money or price pertains to United States currency.
- (h) The term "net outturn" means FOB destination.
- (i) The term "S&W" means sediment and water.
- (j) The term "ANS" means Alaskan North Slope crude oil and the term "exchange crude oil" means a non-ANS crude oil as set forth in Part 1 of the Agreement.
- (k) The term "delivery ticket" means a shipping/loading document(s) which states information regarding the crude oil.

delivered, including without limitation the type and quality, the delivered volume quantity, the method of measurement, the corrected specific gravity, temperature, and S&W content.

(l) The term "commercial invoice" means a statement which includes without limitation the date(s) of the delivery; the location(s) of delivery; the volume(s); price(s); the specific gravity and gravity adjustments to the price(s) (where applicable); and the terms of payment.

(m) The term "delivery month" means the month in which crude oil is to be delivered as set forth in Part 1 of the Agreement.

(n) The term "affiliate" of a party shall mean a person, corporation or other entity that directly or indirectly (i) controls, or (ii) is controlled by, or (iii) is under common control with, such party.

(o) The term "exchange ratio" means the number of barrels of the exchange crude oil divided by the number of barrels of ANS crude oil as set forth in Part 1 of the Agreement.

(p) The term "spot agreement" means an agreement with a delivery period of one month or less in duration as set forth in Part 1 of the Agreement.

(q) The term "term agreement" means an agreement with a delivery period greater than one month in duration as set forth in Part 1 of the Agreement.

(r) The term "arrival in berth" means finished mooring when at sea terminal, or all-fast when alongside a wharf, or when barge lighter or lightering vessel is alongside when lightering.

**CHARTER FOR DEVELOPMENT
of the Alaskan North Slope
EXHIBIT D.1**

<u>Site Name</u>	<u>Facility Owner</u>	<u>Landowner</u>	<u>Location</u>	<u>Priority</u>
Lupin River Explosives	unknown	ADNR	12 miles SE of Happy Valley	N/A
May Creek	unknown	ADNR	SW of Happy Valley	N/A
Aufeis Unit #1	unknown	BLM*	between Kuparuk an Toolik Rivers	N/A
Echooka	unknown	ADNR	Cache One Lake - 30 m. E of Sagwon	N/A
Pt. Storkenson #1	unknown	ADNR	Hamilton Bros site on coast of Pt. Storkenson	N/A
Toolik River	unknown	ADNR	10 miles W. of Franklin Bluffs airstrip	N/A
Service City Pad	unknown	ADNR	Prudhoe Bay	High
Arctic Coiled Tubing	unknown	ADOT&PF	Deadhorse	High
Deadhorse Hotel Pad	unknown	ADOT&PF	Deadhorse	High
Block 900 lots 9 & 10	unknown	ADOT&PF	Deadhorse	High
Former Cold Weather Contr., B70 L5A	unknown	ADOT&PF	Deadhorse	High
East Kuparuk Unit #1	unknown	ADNR	near Umiat	N/A
West Kavik	unknown	ADNR	near ANWR	N/A
Deadhorse lease tract	CR Lewis	ADOT&PF	Deadhorse	High

* state selected

**CHARTER FOR DEVELOPMENT
of the Alaskan North Slope
EXHIBIT D2**

<u>Site Name</u>	<u>Facility Owner</u>	<u>Landowner</u>	<u>City</u>	<u>Priority</u>
ARCO 100% Pad	ARCO Alaska, Inc.	ADNR	Deadhorse	High
ARCO Alaska crude oil topping unit	ARCO Alaska, Inc.	ARCO	Deadhorse	High
ARCO Drill Site 2	ARCO Alaska, Inc.	ADNR	Prudhoe Bay	High
ARCO Drill Site Maint. Pad	ARCO Alaska, Inc.	ARCO	Prudhoe Bay	High
ARCO Kuparuk 2U Drill Site Spill	ARCO Alaska, Inc.	ADNR	Kuparuk	High
ARCO Pad 10 East OU Dock Bioventing	ARCO Alaska, Inc.	ARCO	Prudhoe Bay	High
Drill Site L-2 Bioremediation	ARCO Alaska, Inc.	ADNR	Prudhoe Bay	High
Point McIntyre PM-1	ARCO Alaska, Inc.	ADNR	Pt. McIntyre	High
ARCO Itkillik River Unit #1	ARCO Alaska, Inc.	ADNR	Colville River	High
ARCO C Pad Stoddard Solvent Site	ARCO Alaska, Inc.	ADNR	Prudhoe Bay	Medium
ARCO Building U5A	ARCO Alaska, Inc.	ADNR	Prudhoe Bay	Medium
ARCO CPF-1 Recycle Facility	ARCO Alaska, Inc.	ADNR	Kuparuk	Medium

**CHARTER FOR DEVELOPMENT
of the Alaskan North Slope
EXHIBIT D2**

<u>Site Name</u>	<u>Facility Owner</u>	<u>Landowner</u>	<u>City</u>	<u>Priority</u>
ARCO EOA Fire Training Area	ARCO Alaska, Inc.	ADNR	Prudhoe Bay	Medium
ARCO Kuparuk CPF1 Divert Tank A	ARCO Alaska, Inc.	ADNR	Kuparuk	Medium
ARCO Kuparuk Lab Service	ARCO Alaska, Inc.	ADNR	Kuparuk	Medium
ARCO Pad 3 (East End)	ARCO Alaska, Inc.	ADNR	Prudhoe Bay	Medium
Kuparuk Construction Co. (Camp?)	ARCO Alaska, Inc.	ADNR	Kuparuk	Medium
Warm Storage Fac @Drill Site Maint.	ARCO Alaska, Inc.	ARCO	Prudhoe Bay	Medium
Geofoam Pad	ARCO Alaska, Inc.	ADNR	Deadhorse	Medium
Kuparuk Ind. Cntr Facility Drum Pit	ARCO Alaska, Inc.	ADNR	Kuparuk	Low
Sand Dunes Landfill - ARCO Alaska	ARCO Alaska - 2 -, Inc.	ADNR	Prudhoe Bay	Low
Kuparuk River State 1	ARCO Alaska, Inc.	ADNR	Prudhoe Bay	
North Prudhoe Bay State No. 1	ARCO Alaska, Inc.	ADNR	Prudhoe Bay	
West Sak 24	ARCO Alaska, Inc.	ADNR	Kuparuk	

**CHARTER FOR DEVELOPMENT
of the Alaskan North Slope
EXHIBIT D2**

<u>Site Name</u>	<u>Facility Owner</u>	<u>Landowner</u>	<u>City</u>	<u>Priority</u>
West Sak 3	ARCO Alaska, Inc.	ADNR	Kuparuk	
West Mikkelsen Unit 2	ARCO Alaska, Inc.	ADNR		
West Mikkelsen #1	ARCO Alaska, Inc.	ADNR		
West Sak 2	ARCO Alaska, Inc.	ADNR	Kuparuk	
Northwest Eileen 1 & 2	ARCO Alaska, Inc.	ADNR	Prudhoe Bay	
West Sak SWPT #1	ARCO Alaska, Inc.	ADNR	Kuparuk	
Toolik Fed 1	ARCO Alaska, Inc.	ADNR		
Lake State 1	ARCO Alaska, Inc.	ADNR	Prudhoe Bay	
Hemi Springs Unit 3	ARCO Alaska, Inc.	ADNR	Kuparuk	
West Sak 26	ARCO Alaska, Inc.	ADNR	Kuparuk	
BP Milne Point CFP Turbine Module	BP Exploration (Alaska), Inc.	ADNR	Milne Point	High

**CHARTER FOR DEVELOPMENT
of the Alaskan North Slope
EXHIBIT D2**

<u>Site Name</u>	<u>Facility Owner</u>	<u>Landowner</u>	<u>City</u>	<u>Priority</u>
MPU CFP Unlined Relief Pit	BP Exploration (Alaska), Inc.	ADNR	Milne Point	High
Milne Pt. E Pad Reserve Pit	BP Exploration (Alaska), Inc.	ADNR	Milne Point	Medium
Milne Pt. A Pad Reserve Pit	BP Exploration (Alaska), Inc.	ADNR	Milne Point	
Prudhoe Bay WOA D Pad	BP Exploration (Alaska), Inc.	ADNR	Prudhoe Bay	
Niakuk #4 Island	BP Exploration (Alaska), Inc.	ADNR	Prudhoe Bay	
West Kuparuk State 3-11-11	BP/Mobil	ADNR	Prudhoe Bay	

CHARTER FOR DEVELOPMENT
of the Alaskan North Slope
Exhibit D.3.A
Production Reserve Pits

Company	Well Site Name
BP Amoco	A Pad WOA, 3 sumps
BP Amoco	B Pad WOA, 3 sumps
BP Amoco	C Pad WOA, 4 sumps
BP Amoco	D Pad WOA, 3 sumps
BP Amoco	E Pad WOA, 2 sumps
BP Amoco	F Pad WOA, 2 sumps
BP Amoco	G Pad WOA, 2 sumps
BP Amoco	Gathering Center 1
BP Amoco	Gathering Center 2
BP Amoco	Gathering Center 3
BP Amoco	H Pad WOA, 3 sumps
BP Amoco	J Pad WOA, 3 sumps
BP Amoco	K Pad WOA, 3 sumps
BP Amoco	M Pad WOA, 3 sumps
BP Amoco	N Pad WOA, 3 sumps
BP Amoco	Q Pad WOA, 1 sump
BP Amoco	R Pad WOA, 3 sumps
BP Amoco	S Pad WOA, 2 sumps
BP Amoco	T Pad WOA, 1 sump
BP Amoco	U Pad WOA, 2 sumps
BP Amoco	X Pad WOA, 2 sumps
BP Amoco	Y Pad WOA, 2 sumps
BP Amoco	Z Pad WOA, 2 sumps
BP Amoco	Milne Point A Pad
BP Amoco	Milne Point B Pad
BP Amoco	Milne Point C Pad
BP Amoco	Milne Point D Pad
BP Amoco	Milne Point E Pad
ARCO	Drill Site 1
ARCO	Drill Site 2
ARCO	Drill Site 4
ARCO	Drill Site 5
ARCO	Drill Site 6
ARCO	Drill Site 7
ARCO	Drill Site 9
ARCO	Drill Site 11
ARCO	Drill Site 12
ARCO	Drill Site 13
ARCO	Drill Site 14
ARCO	Drill Site 15
ARCO	Drill Site 16
ARCO	Drill Site 17

Company	Well Site Name
ARCO	Drill Site 18
ARCO	NGI
ARCO	WGI
ARCO	Drill Site 1A
ARCO	Drill Site 1B
ARCO	Drill Site 1C
ARCO	Drill Site 1D
ARCO	Drill Site 1E
ARCO	Drill Site 1F
ARCO	Drill Site 1G
ARCO	Drill Site 1H
ARCO	Drill Site 1L
ARCO	Drill Site 1Q
ARCO	Drill Site 1R
ARCO	Drill Site 1Y
ARCO	Drill Site 2A
ARCO	Drill Site 2B
ARCO	Drill Site 2C
ARCO	Drill Site 2D
ARCO	Drill Site 2E
ARCO	Drill Site 2F
ARCO	Drill Site 2G
ARCO	Drill Site 2H
ARCO	Drill Site 2T
ARCO	Drill Site 2U
ARCO	Drill Site 2V
ARCO	Drill Site 2W
ARCO	Drill Site 2X
ARCO	Drill Site 2Z
ARCO	Drill Site 3A
ARCO	Drill Site 3B
ARCO	Drill Site 3C
ARCO	Drill Site 3F
ARCO	Drill Site 3H
ARCO	Drill Site 3I
ARCO	Drill Site 3J
ARCO	Drill Site 3K
ARCO	Drill Site 3M
ARCO	Drill Site 3N
ARCO	Drill Site 3Q
ARCO	Lisburne L-1
ARCO	Lisburne L-2
ARCO	Lisburne L-3
ARCO	Lisburne L-4
ARCO	Lisburne L-5

**CHARTER FOR DEVELOPMENT
of the Alaskan North Slope
Exhibit D.3.B
Exploration Reserve Pits**

Company	Well Name
BP Amoco	East Ugnu #1
BP Amoco	Sag Delta #1
BP Amoco	Sag Delta #2 10-11-16 Sag Delta 2A
BP Amoco	Prudhoe Bay Unit Term C
BP Amoco	(Eileen) West End 21-11-12
BP Amoco	Milne Point 18-1
BP Amoco	Milne Point M Pad
BP Amoco	Milne Point N Pad
BP Amoco	Put River 1-10-14
BP Amoco	Put River 11-10-14
BP Amoco	Put River 12-10-14
BP Amoco	Put River 19-10-15 (PBU 19-10-15)
BP Amoco	Put River 24-10-14
BP Amoco	Put River 33-12-13
BP Amoco	Getty State #1
BP Amoco	West Sak 14
BP Amoco	West Sak 9
ARCO	Coville # 1
ARCO	N Prudhoe Bay St # 1
ARCO	Pt McIntyre 01
ARCO	Pt McIntyre 02
ARCO	Toolik Fed # 1
ARCO	West Sak 25571 18
ARCO	West Sak River St # 03
ARCO	Beechey PT ST 1 Beechey PT ST 2
ARCO	Delta ST 1
ARCO	Delta ST 2
ARCO	East Bay State 1
ARCO	Gyr 1

**CHARTER FOR DEVELOPMENT
of the Alaskan North Slope
Exhibit D.3.B
Exploration Reserve Pits**

ARCO	Hemi Springs St 1
ARCO	Highland St 1
ARCO	Itkillik River Unit 1
ARCO	Kavik Unit 3
ARCO	KRU Ugnu SWPT-1
ARCO	KRU W Sak SWPT-1
ARCO	Kuparuk River State 1
ARCO	Kuparuk Riv Unit 02-OB1 (UGNU DS2-OB1)
ARCO	Kuparuk Riv Unit 1B-05
ARCO	Kuparuk Riv Unit WT-02
ARCO	Kuparuk Riv Unit WT-03
ARCO	Kuparuk Riv Unit WT-04
ARCO	Kuparuk River Unit CPF 01-A (CPF-1)
ARCO	Kuparuk River Unit CPF #2 (CPF-2)
ARCO	Lake St 1
ARCO	Little Twist Unit 1
ARCO	NW Eileen St 1
ARCO	N W Eileen St 2
ARCO	Nora Federal 1
ARCO	Pingut St 1
ARCO	Pipeline State # 1
ARCO	Prudhoe Bay Unit Term-A
ARCO	Prudhoe Bay Unit TR T-3C
ARCO	Prudhoe Bay Unit PWDW1-1 (Flow Station # 1)
ARCO	Prudhoe Bay Unit PWDW-2 (Flow Station 2)
ARCO	Prudhoe Bay Unit PWDW3-1 (Flow Station 3)
ARCO	Put Riv St 1
ARCO	Ravik St 1
ARCO	S E Eileen ST # 1 S E Eileen St # 2
ARCO	Sag Delta #6

**CHARTER FOR DEVELOPMENT
of the Alaskan North Slope
Exhibit D.3.B
Exploration Reserve Pits**

ARCO	Sag Riv St	1
ARCO	Schrader Unit	1
ARCO	South Bay State	1
ARCO	South Point State	1
ARCO	Susie Unit	1
ARCO	Toolik Fed	2
ARCO	Toolik Fed	3
ARCO	Ugnu	1
ARCO	West Beach St	1
	West Beach St	1-A
ARCO	West Beach St	2
ARCO	West Beach St	3
ARCO	West Beach St	4
ARCO	West Mikkelsen St	1
ARCO	West Mikkelsen Unit	2
ARCO	West Sak 25517	25
ARCO	West Sak 25519	17
ARCO	West Sak 25523	16
ARCO	West Sak 25548	11
ARCO	West Sak 25590	15
ARCO	West Sak 25606	13
ARCO	West Sak 28242	24
ARCO	West Sak Riv St	01
ARCO	West Sak Riv St	02
ARCO	West Sak Riv St	B-10
ARCO	West Sak Pilot Pad	

Oil and Gas Audit

Memo

TO: Wilson L. Condon
Commissioner of Revenue

From: Dan E. Dickinson
Director of Oil and Gas Audit

Date: January 13, 2000

RE: Effect of the Proposed Arco/BP Acquisition on Fall Revenue Forecast

I. INTRODUCTION

On December 2, 1999 the State and BP Amoco signed the Charter for the Development of the Alaska North Slope, setting forth the conditions upon which the State would support BP Amoco's proposed takeover of Arco. On December 8, 1999 the Department of Revenue released its biennial revenue forecast. The report-in-hand, prepared by the Oil & Gas Audit Division of the Department of Revenue, discusses the effects of the proposed merger on the forecasted revenues. An important assumption underlying the forecast, as well as this analysis, was that the merger, if it occurred, would follow the plan outlined in the charter.

However, the merger now appears to be stalled before the Federal Trade Commission (FTC) in Washington. Either FTC or BP may take actions contrary to the key assumptions underlying the forecast. We have decided to go ahead and release this report, even though it must be viewed as a work in process. Some of the steps proposed to win FTC approval may well affect state revenue. I have speculated on some of these effects in this report. However, absent specific actions, I believe it is premature to perform specific analyses. We will of course supplement this report if and when there are changes on the merger front.

The State of Alaska, in its roles as sovereign and landowner, realizes revenue from the oil and gas industry through four mechanisms:

1. Oil and gas production/severance taxes – which are dependent on crude production levels and the value of the crude;
2. Oil and gas royalties – which are also dependent on production levels and the value of the product;
3. Oil and gas property taxes; and
4. Income taxes on the oil and gas industry.

Forecasts of these four revenue sources constitute the oil and gas portion of the department of revenue's biannual revenue forecasts. The division has analyzed each of these, as well as the underlying factors that affect them – value of crude oil, production and transportation costs, and production volumes – to try to understand the effect of the merger on Alaska's future revenue. **Based on this analysis, the division's conclusion is that the most likely effect from the merger on the first three revenue sources will be immaterial.** The division is unable to estimate the potential effect on state income tax from corporations in the oil and gas business.¹

¹ The department used its standard procedure without making any adjustments for the proposed merger or Charter to forecast state income tax revenue from corporations in the oil and gas business because it has proven very difficult, if not impossible, to forecast the discreet effects of the merger with any level of confidence. On the one hand, forecasters combined prior year returns from the merging companies and analyzed the resulting tax liability. This analysis suggests that income tax revenues may fall as a result of the merger. On the other hand, the purpose of the merger is to increase profitability, which ought to translate into increased taxable income and increased income tax revenue. While these effects may not precisely cancel each other out, they argue against making adjustments, in either direction, to our standard forecast procedure.

Why so little effect? There are three reasons:

1. The merger – either as originally proposed or as modified by the Charter – will not affect the anticipated production volume from currently known resources. The department's forecast of oil revenue – currently the primary source of Alaska's unrestricted revenue – has always been based on projected taxes and royalties for the anticipated production volumes from both 1) currently producing oil and gas fields and 2) discovered but not yet developed oil and gas reserves. Following a convention the department adopted more than 30 years ago, it has not included any revenues from future oil and gas discoveries in the fall revenue forecast. The department does not expect volume produced from already discovered resources to vary significantly in the near future as a result of the merger.
2. Neither the proposed merger nor the Charter will alter the value of ANS in destination markets or the average transportation costs to move ANS to those markets. As a result, there should be no effect on projected royalty or production tax revenue.²
3. The value of oil and gas property and, thus, the revenue derived from the property tax, will be unaffected by who owns the assets that are being taxed.

As noted, the elements that most affect total revenue from oil and gas are production volume and production value, which are determined by the price of crude oil and the costs of getting it to market. Part II of this report deals with production volume issues, which were critical components of the negotiation of the Charter as well as our analysis of how the merger might affect the forecast. Part III focuses on the market value of ANS crude and the cost of transporting ANS to its market destination, two issues critical to forecasting the two largest revenue sources: production tax and royalties.

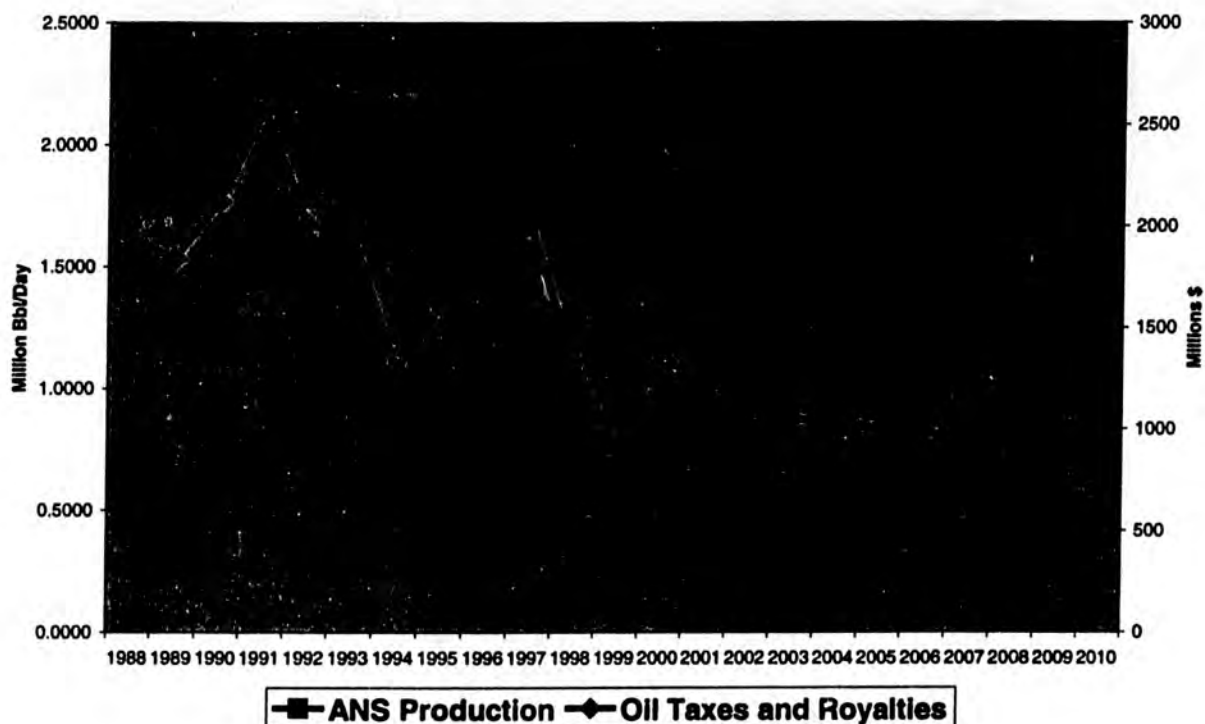
Finally, in Part IV, the revenue sources and the implications of the merger on them are discussed in more detail.

² If, however, the FTC were to condition approval of the proposed merger on terms that would shift the value of our oil resources from the upstream production sector downstream to West Coast refineries, the state's royalty and production tax revenue would certainly be reduced. This possibility is not reflected in the department's forecast.

II. PRODUCTION VOLUME

Over the long term, increases in state revenues from the oil industry will only result from exploration efforts that find and produce barrels to replace the declining production of the Prudhoe Bay and Kuparuk fields. Chart 1 below compares the total annual general fund revenue from oil (the right-hand axis) to the total production of ANS (left-hand axis). From 1988 through 1999, actuals are shown, and, although at times revenue increased despite a fall in production, the underlying trend is clear. The years 2000 through 2010 are presented as a forecast, and again, the relationship between revenue and volume is clear.

Oil Production and Oil Taxes and Royalties



The department's biannual revenue forecasts are based on fields currently producing or already discovered and about to come on line. These forecasts make no allowance for the role of future discoveries. As our consulting engineer points out, while production from satellite fields can be brought online within two years, production from new stand-alone fields is at best five to six years away. Traditionally it takes about a decade to bring a new discovery on line, although the industry is trying to cut that time significantly. However, an exploration season, a delineation season, and three years to design, fabricate, and install production

facilities add up to five years as the shortest possible time frame.³ All the production in the department's forecast comes from projects on line or in the works, and analysts believe nothing else is likely inside the next five years. In fact, with one minor exception, the long-range forecast does not include any new production from fields coming on line after 2005.⁴

In the long run, although the department believes that a merger undertaken with the divestitures required by the Charter will lead to more barrels being produced than a merger without divestitures, analysts cannot reliably predict how many barrels the new competition will produce. In any case, because the department limits its forecast to discovered barrels, the merger's potential effect on future exploration and development is not relevant.

There is general agreement that North Slope producers will engage in the activities required for new production only if they can keep costs in line with worldwide cost structures. Controlling costs is critical to long-term production. The analytic question posed by the merger was how the state ought to act to best facilitate industry efforts to control costs.

Basic economic theory tells us that a monopoly is efficient *in the short run* because it eliminates needless duplication and overhead and cuts down per-unit fixed costs. However, that same theory holds that *over the long run*, monopolies tend to become inefficient because they are sheltered from competition. With no competition, the monopoly's costs grow unchecked because they can be passed on to consumers. Because there is no competitive challenge, the monopoly does not need to innovate.

Analogous reasoning applies to the North Slope.⁵ Over the short term, a North Slope dominated by BP might generate lower costs, higher netbacks, and higher production. However, the state's negotiators concluded the best long-term guarantee for innovation, cost-cutting, and resulting future additional production was diversity and competition from other North Slope players. This is the long-term path the state opted for in the Charter and the rationale behind the required divestitures.

BP argued that it should not be required to divest, because the merger could create such large cost savings. BP claimed that, if the state did not interfere with the merger, it could slash unnecessarily duplicated North Slope costs and afford to reinvest \$5 billion in Alaska over the next five years, increasing production over that same period by 150,000 barrels per day. Those short-term cost savings, BP assured state negotiators, would translate directly into reinvestment and more barrels.

³ Furthermore the 'invest as you learn' approach to developing new fields suggests that it is unlikely there will be simultaneous parallel development at several separate fields by the same firm.

⁴ The production forecast includes some already discovered offshore production, which the department assumes will use existing production facilities coming on line in 2008 at roughly 15,000 barrels per day.

⁵ Analogous reasoning does not apply downstream. In the market where ANS is sold it constitutes less than half of the crude. Furthermore, that market is accessible by every major water-borne crude stream. The department does not believe BP is a monopolist supplier of crude. Again, the Department's forecast does not include the possibility that the FTC will conclude that BP is a monopolist.

The state did not accept BP's argument and insisted on divestiture, thus inviting new operators to the North Slope. As a result, it appears that North Slope production will still be saddled with the costs of two Anchorage office buildings, two legal departments, two marketing departments, and the like. It will not be as efficient, in the short run, as a combined BP/Arco that was not required to divest any holdings. Nevertheless, in the long run, these extra costs, required by reason of multiple North Slope operators, should be offset by the other efficiencies that competition brings.

When considering cost-control and its subsequent effect on production volume, it is important to focus on the role played by the operator rather than focusing on ownership percentages. The operator is hired by the owner or owners to run the field. The main responsibility for cost-control, innovation, and introducing efficiencies rests with the operator. An owner looks over the operator's shoulder and can sometimes even veto ideas it does not like. However, the operator runs the field. Prior to the merger, BP as operator was responsible for 37 percent of the production (Greater Endicott, Greater Milne Point, and half of Prudhoe Bay) while Arco, as operator, was responsible for 63 percent of the production (Greater Kuparuk, Greater Point McIntyre and the other half of Prudhoe Bay). After the changes in operatorship anticipated by the Charter take effect, BP, as operator, will be responsible for 72 percent of the production, and the new operators the other 28 percent. In short, the Charter largely perpetuates today's operating pattern, where one operator is responsible for about two-thirds of the production. To the extent that the percent of operations controlled by a single operator matters for cost-control, there will be little change from the current situation resulting from merger and divestiture.

On the other hand, Prudhoe Bay is one of the few places in the world with responsibilities split between two operators: Arco on the East Side and BP on the West Side. In the early eighties, each side produced more than 700,000 barrels per day. Industry analysts believe that it no longer makes sense to have two operators at Prudhoe now that its total production has fallen below 600,000 barrels per day. Many believe two operators at Prudhoe Bay simply add unnecessary costs to the operations there. For this reason, the Charter would not dilute BP's plan for a single Prudhoe operator and hoped-for cost savings at Prudhoe Bay.

II. CALCULATING ANS WELLHEAD VALUE FOR ROYALTY AND PRODUCTION TAXES

Royalties and production taxes have many differences that will be explored in Part IV below, but they have an essential similarity in that for both the amount due to the state is a function of wellhead value, calculated as a "netback." The starting point for the netback is the destination market, where the market value of the crude oil (ANS) is established. Then the value is "netted back" – by subtracting out the costs of 1) tanker transportation from Valdez to the destination market, 2) transportation of the oil through TAPS from the North Slope to Valdez, and 3) if necessary, getting the crude oil from the farther reaches of the North Slope to the inlet of TAPS. What is left over is "wellhead value," the basis for royalties and production taxes due the State. The higher the wellhead value, the more oil revenue the state collects.

The elements that determine the wellhead value, and how they may be affected by the proposed merger, are discussed below.

A. Market Value

Alaska's fiscal system is designed to get a fair market value for the state's oil in both the royalty and production tax contexts. For the past decade, fair market value for deliveries to the US West Coast has been measured by the ANS spot price.⁶

The bulk of the ANS is delivered to the U.S. West Coast. As a rule, Arco and Exxon have delivered most of their ANS to their own refineries. Producers with smaller shares of production generally sell their crude to one of the larger producers up-stream. As a result, BP has been the main merchant marketer of oil. Since the "spot price"⁷ reflects deals reported in the marketplace, BP's market performance is a major driver of that price. As a seller, BP tries to achieve the highest price possible. BP's interests have been aligned with those of the state in this regard, as both benefit from high ANS crude prices.

⁶ In the administration of the production tax, Prevailing Value is defined by the ANS spot price. Two of the three major royalty settlement agreements use the ANS spot price as a destination value, provided it falls within a range defined by a basket of six crudes. The final major royalty settlement agreement defines the destination value using this same basket – in which the ANS spot price is weighted at 18%.

⁷ The spot price is a daily assessment of deals being done in the market. At least four different organizations, Reuters, Telerate, Platts and OPIS give daily ANS quotes. These quotes have become accepted by both buyers and sellers in the industry, to the point where deals will be concluded based on a yet to be published set of ANS spot prices.

A special problem arises when the market becomes thin, and very few deals are made or reported. At the moment, most of the spot sales are made by BP. But after the merger, BP will have fewer, not more barrels for sale. Why? What is now Arco's production will continue to flow to what are now Arco's refiners. But BP must divest 175,000 bbls a day that it currently sells (or would sell, since this figure includes not-yet producing Alpine field). Of course, BP moves a lot of crude in long term contracts – sales that show up in the spot market at most once, when the deal is struck. If the party acquiring the 175,000 bbls is a merchant marketer, then the spot market may continue to be viable. But if not, or if BP commits most of its oil in long term contracts, or meets other FTC demands that get it out of the crude market, the market may become too thin, and the reported spot price unreliable.

The state and the FTC agree that BP has a great deal of influence on the spot price of ANS. But far from being concerned that BP will use its power to manipulate the spot price of the ANS upward, the state needs to be more concerned that the merger will give BP an incentive to manipulate the spot price of ANS downward.⁸ Analysts label this BP's "perverse incentive."⁹

If state officials become concerned that the spot price is no longer the appropriate marker, the state has the ability to change the applicable regulations and reopen royalty settlement agreements, to protect value. In forecasting future revenues, the department will always use fair market value.

B. Netback Costs

As noted, the costs of transporting crude oil are offset against the ANS market value to determine the netback value upon which taxes and royalties are based. These costs include both marine and pipeline transportation. Other costs, including overhead and production operations on the North Slope, are generally excluded from royalty and severance tax netbacks or included on a formulaic basis. Thus, increases or decreases in transportation costs will affect state revenue, while increases or decreases in other types of costs will not have an effect on revenue under current formulas and agreements. Each of these types of costs and the post-merger factors that may affect them will be discussed in more detail below. The department's forecast is based on an assumption that **no significant changes will occur in these costs as a result of the merger under the conditions of the Charter for Development. As a result, there will be no effect on the netback value of Alaska oil or the revenue stream from that oil.**

⁸ BP can actually increase its total take from ANS by using a low spot price to lower the severance taxes and royalties due to the State. With the merger, BP acquires a large number of internally refined barrels. Even though those barrels are never sold, the taxes and royalties BP owes the State for those barrels are still calculated using the ANS spot price. As the spot price increases, BP gets more revenue from the barrels that it actually sells, but it has higher tax and royalty costs on all of its barrels. There comes a point when the added tax and royalty bill from high spot prices on the internally refined barrels overwhelms the cash effect of moving BP's sales barrels at a higher sales price. At that point BP's incentive changes from raising spot prices to lowering spot prices and the interests of the state and BP are no longer aligned.

⁹ Ironically, some of the solutions being explored by the FTC and BP could easily establish a situation where BP would have this perverse incentive. The FTC is trying to reduce BP's market power by reducing the number of barrels in sells in the spot market even as the state seeks to have BP maximize the number of barrels it sells in the spot market. Since BP makes money from all aspects of the oil business, it may decide that giving up money as a merchant marketer is a price worth paying for the merger to go through. But the state sees no such trade-off.

1. Netback Costs--Tankers

ANS moves from Valdez to the West Coast on a fleet of "Jones Act" tankers, i.e., tankers built, owned and operated by U.S. companies. The market for these tankers is very restricted, and every Jones Act tanker appropriate for transporting crude oil and larger than 55,000 DWT is already in the ANS trade. Arco owns a fleet of five tankers. BP, as a "foreign-owned" corporation, cannot own Jones Act vessels and leases eleven ships from American owners.

It is generally accepted, and confirmed here, that Arco has lower transportation costs to the West Coast than BP. Some observers have predicted that the total post-merger transportation costs of the combined companies will increase, thus leading to a decrease in revenue to the state. However, despite the merger, we believe that essentially the same Jones Act fleet will be hauling ANS. The merged entity should have transportation costs to the West Coast very close to the average of the two if it continues to use the vessels currently in the ANS trade. As an example, suppose there were two companies, each with a tanker of equal size, and it cost \$1 per barrel to ship on one tanker and \$2.00 per barrel to ship on the other. If the two companies merged, the average shipping cost would be \$1.50. Thus in the calculation of costs, a merger would not affect the actual average netback or marine transportation costs. If a new player required by divestiture acquires some of the vessels, again, the overall average fleet cost will be the same -- it will just be divided up differently between royalty and tax payers. In other words, there should be no net effect on the transportation deduction. BP argues that there will be a synergy from combining the fleets, and that post-merger, average costs may be lower. However, most of the savings are likely to be in overhead, which, as discussed below, may have very little effect on the netback.

Why are Arco's marine costs lower? Mostly because it hauls its crude to its own refineries in Puget Sound and Los Angeles and it has been able to optimize the design of its fleet with those two ports in mind. BP, on the other hand, is a seller of ANS, and it must make deliveries wherever a customer has a refinery. BP has a wider range of ports it visits, and it has several customers in the San Francisco area. In general, Puget Sound is the least expensive destination to reach, Los Angeles the next, and, finally, the San Francisco Bay area, where lightering -- reloading the crude onto smaller vessels -- is required. In addition, frequently BP must discharge a portion of a load in one port and the balance of the load in another port. Having to make multi-port discharges adds significantly to the average per barrel cost. Again, the department assumes that if the distribution of destinations stays roughly the same after the merger, then average costs should remain unchanged.

Looking not at West Coast costs, but at the overall netback illustrates another reason for Arco's lower average shipping cost. BP ships ANS to the Far East. BP has pledged to use Jones Act vessels for these shipments, which means for them, shipping to the Far East is relatively expensive.¹⁰ (That is not to suggest that if the Far East placements were discontinued and that crude went to the West Coast that BP's average netback would increase; in fact, it would more likely decrease due to downward pressures on prices that the extra crude would create.) We project that the volume of Far East placements will not change over the short run as a result of the merger.

¹⁰ While the law allowing export called for American-flagged and American-crewed ships, it did not require American-built vessels.

Analysts anticipate that the current fleet will be replaced by new double-hulled tankers earlier than the schedule set by the Oil Pollution Act of 1990 (OPA 90). It is perhaps worth mentioning that these tankers are more expensive than the old 1970's era single-hulled tankers they are replacing. Many tankers must be replaced in 2006-2008. The department's model, used to help shape the state's negotiations with BP, starts replacing older tankers earlier, rather than assuming that a large number of different shipyards would build all the required tankers in a short time. Thus, the model parallels BP's promise in the Charter to replace older tankers one year sooner than required by OPA 90.

2. Netback Costs--Overhead

The state has fought for decades over what constitutes allowable actual transportation costs. In general, it has been successful in limiting the effect of overhead and indirect costs on royalty and severance tax netbacks. As mentioned, these are precisely the kinds of costs that BP intends to cut to make the new operation more efficient. When the costs that flow into the royalty or severance tax netback are cut, the netback goes up. However, the converse is also true – when costs are cut that did not flow into the netback, the netback does not increase. In fact, there may even be an incentive for cost cutters to cut non-allowable costs because they are fully aware that BP gets the entire benefit of those cuts. When it cuts a cost that formed part of the royalty or tax netback, on the other hand, BP will have to share those cost savings with the state.

3. Netback Costs--Upstream

Similarly, the costs of the production operation on the North Slope do not, for the most part, affect royalties or severance taxes. Except for common carrier pipelines, costs upstream of TAPS are either deducted on a formulaic basis or not permitted to reduce royalty or tax value at all.¹¹

C. Pipeline Transportation - Trans-Alaska Pipeline (TAPS)

As discussed earlier, state revenue from the oil industry comes in four types. Each type is structured differently and focuses on a different aspect of the industry, which provides the state with a balance in its revenue stream and a "hedge" against a major decline in any one aspect of the industry. For example, the claim is often made that a large reduction in the TAPS tariff would lead to **increased** severance tax and royalty revenues for the state because the netback adjustment to the market price would be less. This is only half the picture. If there are "obscene" profits in TAPS, the income tax and the property tax (which uses the present value of all future net income (not revenue) to arrive at an assessed value for TAPS) each take their piece of those profits. A reduction in the TAPS tariff would therefore lead to a partially offsetting **decrease** in income and property tax revenues for public finances. In fact, **almost half of the increase in production tax and royalty would be offset by a decrease in income and property tax.** Furthermore, because of the way the property tax is divided

¹¹ If the State determines that those upstream costs have changed, i.e. if post-merger BP is able to introduce cost savings in production, it may want to try to revisit some of the formulas.

between the state and municipalities, about one third of the net increase in state revenue would come from the pockets of the pipeline municipalities rather than from the industry. This was one reason the state's negotiators did not require a reduction in the tariff.

III. REVENUE EFFECTS

As noted, the State of Alaska receives revenue from the oil industry in four ways: through the property tax, royalties from production on state land, the production or severance tax, and the income tax on oil and gas producers and pipelines. Before the discussion of each of these, however, two other factors are worth mentioning.

A. Additional Factors Affecting Revenue to the State of Alaska

1. *State As a Stockholder*

The state's most immediate exposure to the effects of the proposed merger is through ownership of BP Amoco and Arco stock, though this ownership played no role in the state's negotiating strategy. As of October 31, 1999, the State of Alaska, through both treasury-managed funds and the Permanent Fund, owned \$100 million of BP stock. When BP shares fell by 9 percent from 57¾ to 52¼ in the first week of November, the state lost about \$9 million. Over the following week BP's price rebounded by 14 percent, up to over 60, giving the state over \$10 million in additional investment earnings. None of the other effects discussed below will happen nearly that fast. The State of Alaska should not forget that it is a financial investor as well as sovereign and landowner.

2. *Industry Job's Impacts on State Revenue*

Neither an increase nor a decrease in industry employment will affect state revenues because the state's fiscal system does not include a personal income tax¹² or sales tax. Therefore, increased (or decreased) personal income or even resulting changes in purchasing power associated with the level of employment in the oil industry have no effect on state revenues. Although there may be very large effects on Alaska's overall economic health, with ripples that move from the oil sector to affect all other private sectors of the economy, the state as revenue collector is often situated similarly to the corporations in the oil patch. In this context, jobs can be thought of as costs that take away from the bottom line, whether it is the corporation's profit or the state's revenue. In other words, however relevant employment levels may be to the overall economic health of Alaska's economy, they are not pertinent to the state's fiscal picture in the absence of a broad-based revenue source tied to personal income or consumption. In fact, the costs of providing governmental services generally increase with increased employment, while revenues do not.

B. Oil and Gas Property Tax (AS 43.56)

The department's revenue forecast does not anticipate any increases or decreases in revenue from the property tax in the near future. Under the provisions of AS 43.56, the state levies a 20 mill tax on all oil and gas property in Alaska. Municipalities can also levy their local mill rate against the same property, and the taxes paid to the municipalities become a credit against

¹² The state also lacks a broad-based business income tax. In 1997 there were 70,525 business registered to do business in Alaska. Of those, 62,598 choose a corporate form (proprietorship, partnership, or S corporation) not subject to income tax in Alaska.

the state tax. In FY 1999, the state and municipalities collected \$270 million¹³ from oil and gas property taxes.

The amount of tax collected is independent of who owns the assets. If increased industry activity in a post-merger period results in increased assets in the state, the tax base will increase. If cost cutting means cutting back on assets in Alaska, the tax base will decrease. However, it may take years for either the decreasing or increasing scenario to play out.

The vast majority of the taxable property consists of production facilities on the North Slope. The next biggest piece of taxable property is TAPS. The Department of Revenue's regulations (15 AAC 56.100 (c)) call for the use of "standard appraisal methods such as replacement cost less depreciation, capitalization of estimated future net income, analysis of sales or other acceptable methods" in determining the value of a pipeline. For over twenty years, the state has relied on the income model, which sets a value for the pipeline using the present value of "estimated future net income." Currently, TAPS' value is assessed at just over \$3 billion, based on the income that the pipeline owners will receive under the TAPS Settlement Methodology (TSM), which will be in effect until 2008. The department believes the merger will have no direct quantifiable effect on property tax.

C. Royalties from Oil and Gas Production on State Land (AS 38.05)

The North Slope fields are on state land, and the state as landowner gets 12.5 percent (and in some instances more) of the oil produced in exchange for granting the companies the right to produce that oil. The state collected over \$517 million in oil and gas royalties in FY 1999.¹⁴ Royalties are determined by a contract between the landowner and the producer. The department does not anticipate a significant change in royalty returns to the state as a result of the merger. The merger should have little effect on either market behavior or the costs of transportation, the elements that determine the value on which royalties are calculated.

In the early 1990s Arco and BP each reached a separate resolution with the state about how they would calculate their royalties, including how allowable costs would be determined. These resolutions included different transportation allowances that resulted in Arco deducting a much lower transportation cost than BP. This has led some to conclude that applying BP's higher transportation rate will reduce royalties to the state in the post-merger period.

While there may be some reduction, fleet synergies may also lend to a reduction in costs and an increase in royalties. Both the Arco and the BP formulas were intended to approximate the respective company's actual costs to be deducted in the royalty netback. To the extent that either party to the respective settlement believed it did not, the state or the company could ask to renegotiate the formula. In December 1998, Arco exercised its right to reopen the royalty formula because of its view that its allowed transportation charges did not reflect its true costs. Also in 1998, the state requested a reopening of BP's destination value formula.

¹³ Of this, \$48.8 million was state revenue and the rest went to the municipalities.

¹⁴ Of this, \$348 million was unrestricted revenue, while the rest was divided between the Constitutional Budget Reserve (CBRF), the Permanent Fund, and the School Fund.

Both those negotiations were suspended pending the resolution of the larger merger issue. Both reopener processes are subject to binding arbitration in the event that the parties are unable to reach agreement, and both incorporate retroactive revisions back to the time of the reopener. Thus, any comparison between Arco and BP wellhead values since 1999 is a comparison of interim figures, representing two ways of approximating royalty value, both of which will be retroactively revised -- and neither of which currently represents a meeting of the minds between industry and the state. Over the long term, state royalty cost deductions will be what the state and the industry can negotiate and, if those negotiations fail, whatever an arbitrator finds fair. In either case, they will closely track the company's or companies "actual costs."

E. Production (Severance) Tax (AS 43.55)

The state has imposed a tax on oil production in the State of Alaska. For most oil the rate is 15 percent of the 87.5 percent left over after the royalty has been withdrawn, times the Economic Limit Factor (ELF). The ELF currently averages about 80 percent, so the effective tax on all barrels is about 10 percent. The State raised \$395 million in severance taxes from the oil industry in FY 1999.¹⁵ Production taxes are essentially levied on the same netted-back wellhead value as royalties.

Based on preliminary evaluations, the acquisition should have no effect on production taxes. As long as the oil is delivered to the same market, and the assets used to ship it are the same, there will be little, if any, change.

F. Income Taxes on Oil and Gas Producers and Pipelines (AS 43.20.072)

The state has an income tax of 9.4 percent with special rules that apply only to companies that have pipelines or oil production in the State of Alaska. In FY 1999, the State realized \$165 million in income tax from the petroleum industry.¹⁶ This tax is the hardest to analyze, both for our forecast and in terms of merger-related effects. As a result, we did not modify our standard forecasting process in the Department of Revenue's fall forecast to account for the effects of the merger. The merger may reduce state revenue, or it may increase state revenue. The available information is insufficient to support a change from our standard procedure.

Alaska's oil income tax uses a modified apportionment system. To build a bottom-up forecast of income tax revenue, the department first needs to know or project the total unitary income: how much the BPs, Arcos, Exxons, Mobils, and Amocos of the world make worldwide.¹⁷ This tells us how big the pie is. The larger and more diversified the business entity, the harder that projection becomes.

¹⁵ Of this \$371 million was unrestricted. The rest came from settled disputes and went into the CBRF.

¹⁶ Of this, \$145 was unrestricted and the rest came from settled disputes and went into the CBRF.

¹⁷ No annual returns from recently merged companies have yet been filed. The BP Amoco combination was effective in 1999, and the first full returns covering that period have not yet been filed.

Then, for modified apportionment, a forecaster needs to know, or project, each of three apportionment factors: the firm's extraction (or production), sales, and assets, for Alaska alone and for the rest of the world. The three factors are then averaged to arrive at an apportionment factor, which tells us how big a slice of the pie is taxable as Alaska income. The unitary income is then multiplied by the apportionment factor, and the result is taxable Alaska income. Needless to say, any bottom-up prediction of revenue from this tax is difficult, especially with reference to the post-merger period.

There are other difficulties associated with predicting this source of revenue. The income tax is a tax on what is left over after subtracting expenses from revenues. The three mechanisms already discussed -- property taxes, production or severance taxes, and royalties -- are all deductible expenses. First-order changes in those revenues will create second-order effects in the eventual income tax revenues. In addition, huge swings in unitary income can result from events outside Alaska, or changes in either the federal tax code or the tax code of some other jurisdiction in which oil companies are doing business.

Department of Revenue analysts do not apply a bottom-up analysis in forecasting incomes, but use three different techniques. First, they look at past and current quarterly estimated payments and analyze carry-forwards and refunds due to figure out the amount of tax expected in the next year. Second, they run a regression model that uses production times price to give a general forecast of income tax, assuming that the relationship between those factors will be the same in the future as in the past. A merger of two large entities such as BP and Arco is the classic example of a situation in which a regression developed from separate entities is not likely to be appropriate for the merged entities. Finally, for the more distant years, analysts step down from current year figures. The roundness of the projections suggests the accuracy of the forecast. The best that can be done is to estimate the general level of tax.

Alaska's taxable income can increase because either there is a bigger slice of smaller pie, a bigger slice of a bigger pie, or a smaller slice of a bigger pie. Alaska taxable income can decrease because either there is a smaller piece of a bigger pie, a smaller piece of a smaller pie, or a larger piece of a smaller pie. Neither a bigger slice or a bigger pie automatically means more revenue.

Auditors from the Division of Income and Excise Audit have analyzed prior income tax returns for the five companies involved in the completed or proposed mergers. In each of several years, analysts combined older returns of companies that had proposed merging. They compared the tax that would have been due from the combined returns with the sum of the taxes shown on the individual returns. Some of the combined returns generated less income tax than the sum of the individual returns. Other times the combined returns generated more income tax than the returns showed individually. The net effect of all the combining activity was a decrease in tax compared to the returns filed individually. Specifically when the five returns of merging firms were considered individually and then combined into pertinent groups of two and three, resulting income taxes fell by an average of \$20 million a year. That means the tax fell, not because unitary income fell, but because the State of Alaska took a smaller slice of the same sized pie. Although this may seem like a significant sum, it should not be considered a forecast of falling revenue. Combining companies is a very different proposition from combining the historical returns of separate companies. Companies merge to use the same assets to create more income. In a simplified world, more income would mean

more income tax. However, in the real world, total tax can fall even when net income stays the same. Because the merger will rearrange how assets, production, and sales are divided between Alaska and the rest of the world, we cannot predict how much of that income would be attributable to Alaska, and thus taxable by Alaska.

On the other hand, even though much of the potential merger-related cost savings will not result in increased wellhead values for the State of Alaska, it will result in increased unitary income. In fact, the whole billion dollars that BP hopes to achieve in cost-savings from its acquisition of Arco would feed into unitary income. However, if those cost savings resulted in a larger decrease in Alaskan assets than in worldwide assets, Alaska's return through the income tax would be smaller.

In conclusion, analysis of past returns suggests a merger might result in lower income tax revenues. The common-sense notion that the purpose of the merger is to increase income suggests that a merger might increase taxable income. These two effects are laid over the inherent difficulties associated with projecting modified apportionment income. The result is that we believe our current income tax projection is the best estimate of revenue, whether the merger occurs or not.

V. SUMMARY

Our analysis demonstrates that the state's revenues are determined not so much by who owns the barrels, but how many of them are produced. Consequently, for the short to medium term, we have tentatively projected no material change in state oil revenue resulting from the merger. I say tentatively because the FTC certainly might compel changes in the marketplace as a consequence of the merger that would reduce state revenue.

The goal of the Charter for Development of the Alaskan North Slope was to keep North Slope competition alive in the long term and create replacement barrels for the fields that drive our current production. It will be many years before our forecasts will begin to reflect whether that attempt was successful or not.

STATE OF ALASKA

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

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HAND DELIVERED

February 24, 2000

The Honorable Rick Halford
Alaska State Senate
State Capitol, Room 121
Juneau, AK 99811

Dear Senator Halford:

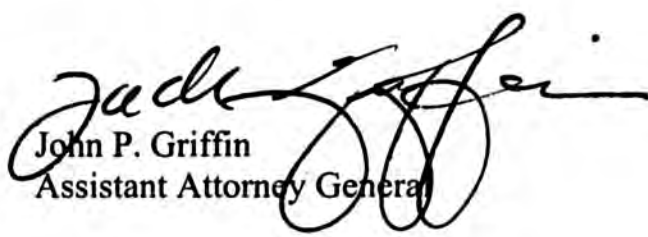
Attached to this letter is the "fiscal note on the merger," which was prepared by the Department of Revenue in accordance with the request of the Joint Special Committee on Mergers. Enclosed with this letter is a CD rom containing the data from our expert, Rick Warren-Bolton, that the Attorney General agreed to provide you in his letter of February 18, 2000. Most of the data is in SAS ("Statistical Analysis System") format, which I understand is the software used by most economists doing significant data analysis.

Please call me if you have questions.

Sincerely,

BRUCE M. BOTELHO
ATTORNEY GENERAL

By:


John P. Griffin
Assistant Attorney General

JPG:kh

Attachment: Fiscal Note

FISCAL NOTE

STATE OF ALASKA
2000 LEGISLATIVE SESSION

BILL NO. _____

Revision Date/Time (Note if correction) _____ Dept. Affected Revenue/Natural Resources
Title BP Amoco/ARCO Acquisition BRU N/A
Component N/A
Sponsor N/A
Requester N/A Component No. N/A

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()	0.0	0.0	\$0-80,000	\$0-80,000	\$0-80,000	\$0-80,000
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2000) cost: _____

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

We currently believe that the proposed BP/ARCO transaction will most likely not affect the State's projected revenue over the next five years. However, there is a small chance the proposed transaction could lead to a substantial increase in North Slope investment in the near term and a consequent increase in State revenue.

The "detailed analysis" of the revenue effect that the Administration anticipates will occur as a result of the BP Amoco/ARCO merger, which the Joint Special Committee on Mergers requests in Senator Halford's February 14 letter to Attorney General Botelho, is contained in the January 13 report of Dan

Prepared by: Dan D. Dickinson, Director Phone 269-1033
Division Oil and Gas Audit Division Date/Time 2/24/00, 11:46 AM
Approved by Commissioner Wilson L. Condon, Commissioner Date 02/24/2000
Agency Department of Revenue

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ANALYSIS CONTINUATION

Dickinson, Director of the Oil and Gas Audit Division. That analysis was based on the assumption that there would be no additional production attributable to the merger. Mr. Dickinson's analysis identified "production" as the driving force behind any major effect of the merger on State revenues.

According to BP, their merger with ARCO would create synergies and efficiencies on the North Slope that would result in significant reductions in the cost of North Slope oil production operations. BP announced that it would use these cost savings to increase its planned investment in North Slope development. BP claimed this additional investment would, within two year's time, increase North Slope oil production 150,000 barrels a day above the level forecast by the Department of Revenue's Fall Revenue Forecast. If the average wellhead value of ANS over the first five years of increased production is \$10 per barrel and the State's combined royalty and tax share is approximately 20 percent, the additional State revenue attributable to the merger over those five years would be approximately \$400 million.

Under the Charter, BP and ARCO were required to make substantial divestitures of interests in producing fields, exploration acreage, and infrastructure to secure the benefits of robust competition in future North Slope lease sales and development. Nevertheless, the Charter was also crafted to permit the North Slope producers to capture most of the important synergies and efficiencies contemplated by the merger. Thus, we believe that if the Charter were implemented, the operators on the North Slope would be able to achieve most of the synergies and efficiencies BP originally anticipated. If these cost savings resulted in increased investment of the magnitude suggested by BP, it would be reasonable to anticipate receiving a maximum of \$400 million in additional state revenue over the five year period after increased production commences.

Given the concerns raised by the Federal Trade Commission about the proposed merger and the resulting litigation, the likelihood of the increased investment level on the North Slope has been significantly reduced. As a consequence, it is possible the proposed merger transaction will neither increase nor decrease the revenue we have forecast. This fiscal note, therefore, reflects a range of possible outcomes attributable to the merger.

ADDENDUM TO THE CHARTER FOR DEVELOPMENT Of the Alaskan North Slope

This **Addendum to the Charter for Development of the Alaskan North Slope** ("Addendum") is entered between the State of Alaska, BP, ARCO, BP Amoco p.l.c. ("BP Amoco"), and Phillips Petroleum Company ("Phillips") on March 15, 2000, to confirm their common interpretation of the Charter in connection with anticipated divestitures. Words and terms have the same meaning in this Addendum as in the Charter.

1. The parties agree that the sale of ARCO as a going concern will satisfy the commitments made by BP and ARCO in Charter paragraph I.A. (Sale of Current Production), paragraph I.B. (Sale of NPRA Lease Interests), paragraph I.C. (Sale or Relinquishment of State Leases), subparagraphs I.H.1.-3. (Divestiture of TAPS and Feeder Lines), and paragraph I.I. (Offer to Sell Excess Jones Act Ships).
2. The sale of "ARCO as a going concern" under this Addendum means transfer to Phillips or a Phillips subsidiary of (a) all of the stock in (i) ARCO (subject to the requirement that ARCO's owned assets at the time of any stock sale be substantially the same as at the time the Charter was entered) and (ii) ARCO's affiliates owning associated North Slope feeder pipelines and TAPS, as well as (b) associated ANS shipping capacity.
3. In the event of such a going concern sale, BP and ARCO may, where appropriate, provide for separate performance of the Charter commitments by BP and ARCO, so long as BP and ARCO each remain jointly and severally accountable for complete performance of their commitments under the Charter.
4. This Addendum does not change the notice and review provisions of Charter subparagraph V.E.2, or the commitments of ARCO, BP, and BP Amoco under any other Charter provision not specifically identified in paragraph 1 of this Addendum.
5. Phillips agrees that, if it is approved as the purchaser of ARCO as a going concern and completes that purchase, it will, subject to the terms of this Addendum, ensure ARCO's performance under the Charter to the same extent and in the same manner as BP Amoco has ensured the performance of BP and ARCO in Charter Section IV.
6. Subject only to the terms of this Addendum, the parties agree that the Charter is and will remain in full force and effect according to its terms.

State of Alaska

By _____
Tony Knowles, Governor

By _____
Bruce Botelho, Attorney General

BP Amoco, p.l.c.

By _____
Rodney Chase, Deputy CEO

Phillips Petroleum Company

By _____
J.J. Mulva
President and
Chief Operating Officer

BP Exploration (Alaska) Inc.

By _____
Richard Campbell, President