

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672

2634 SCOMM 117 JOINT SPECIAL COMMITTEE ON MERGERS, 1999-2000



GREATER MELTWATER

Exhibit B

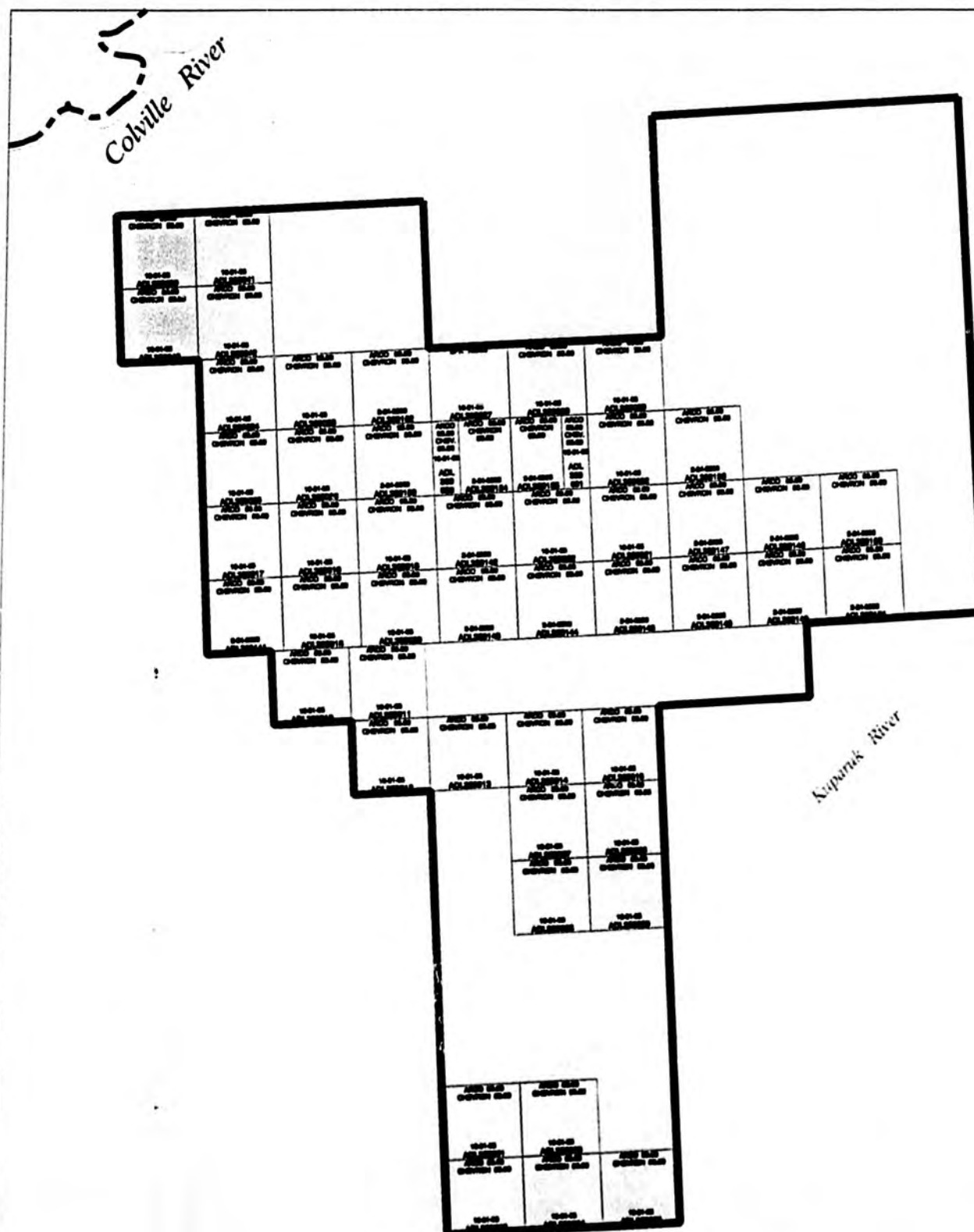




Exhibit B

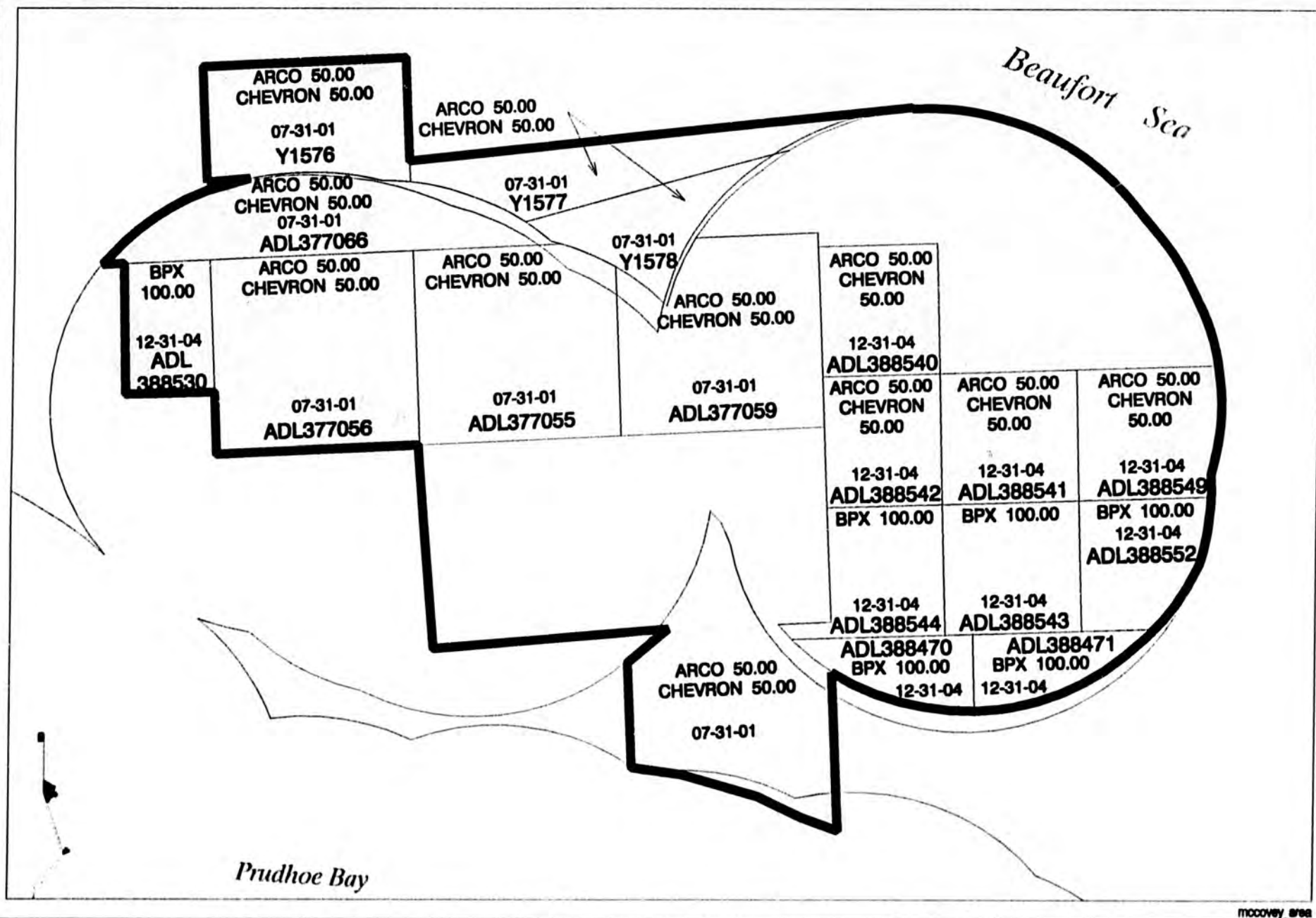
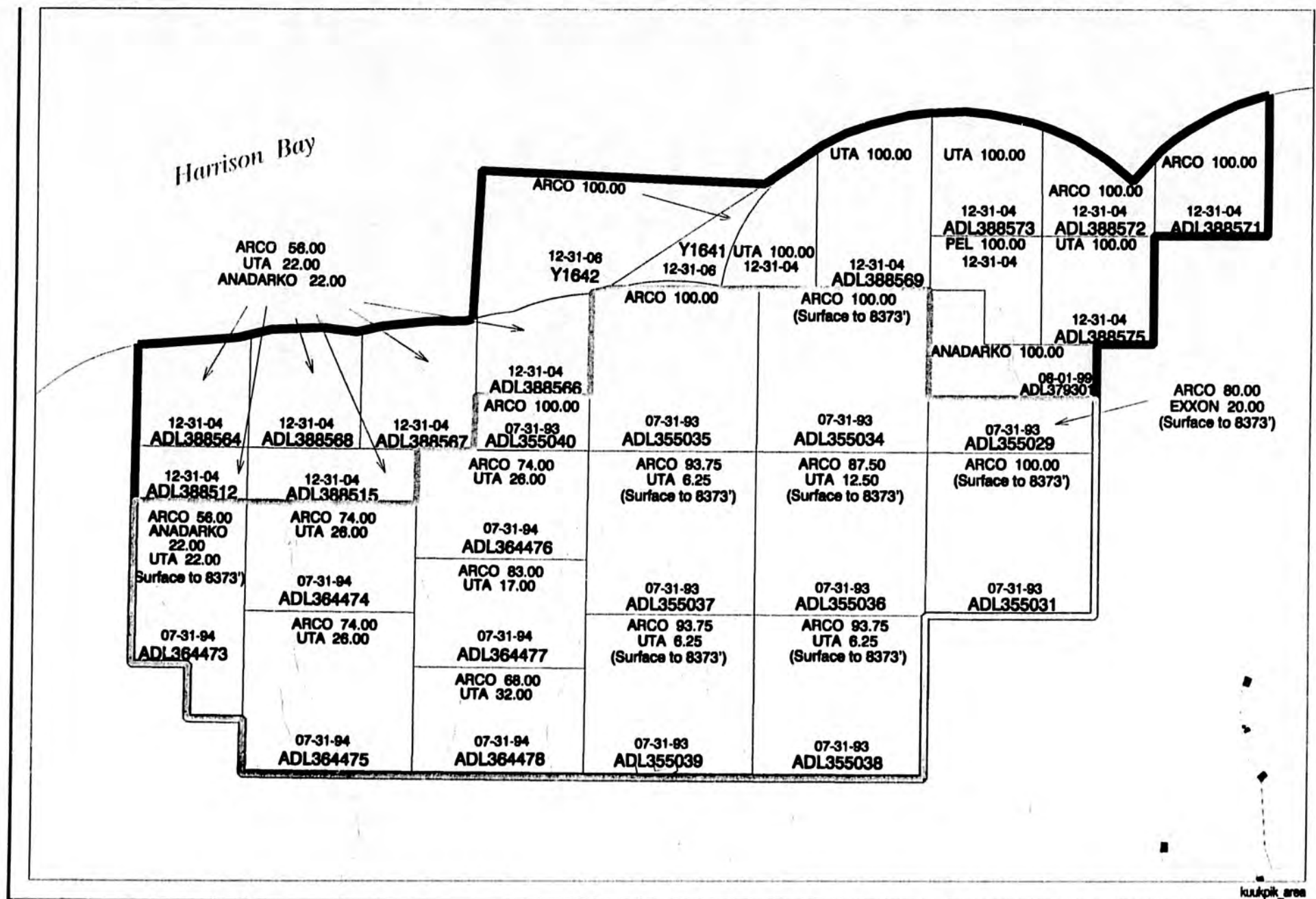
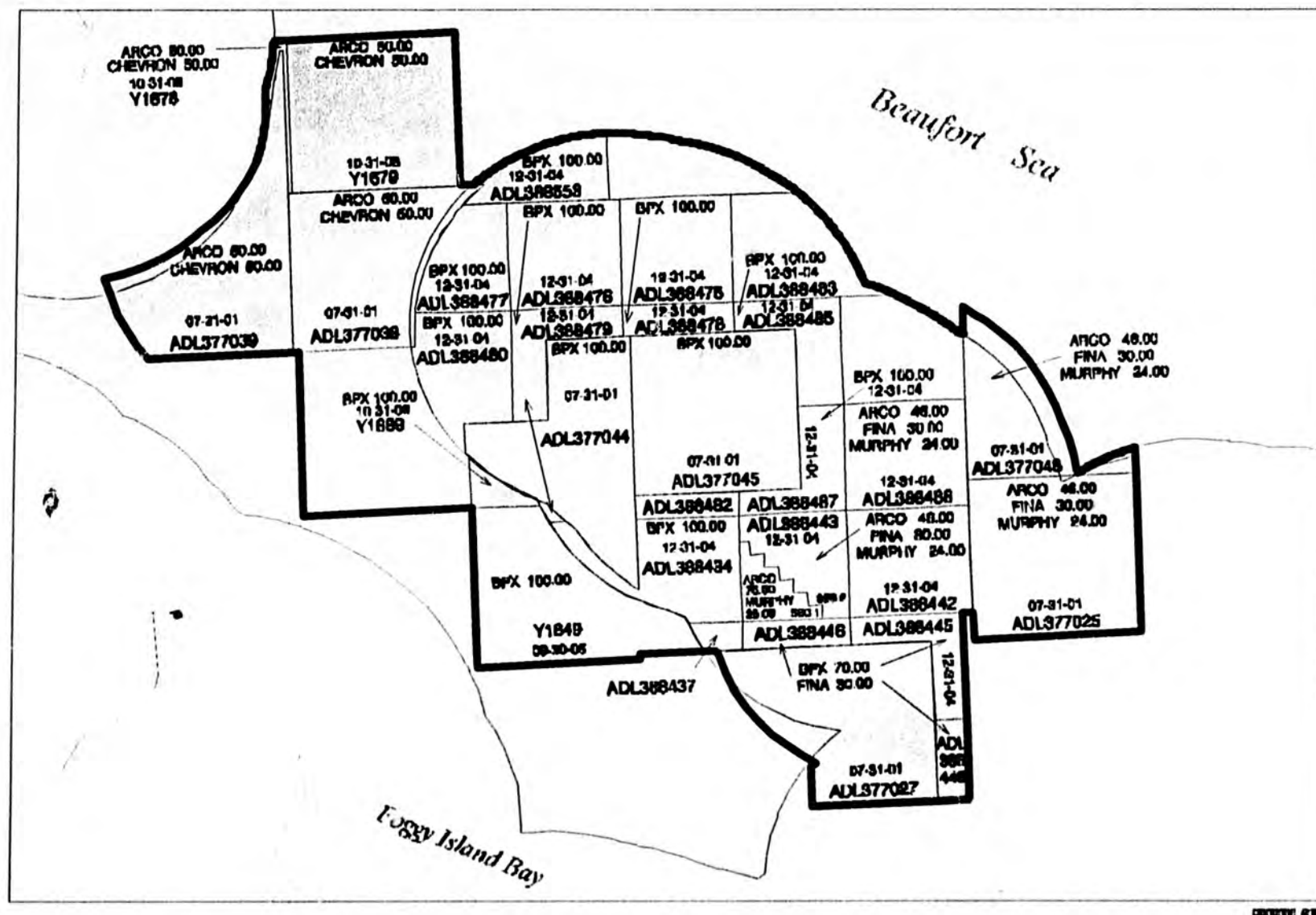




Exhibit B





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

DELIVERIES BY PRODUCER

QUALITY: Alaska North Slope (ANS) crude oil.

QUANTITY: Approximately _____ [not to exceed 5,000] 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 or ARCO] as the crude oil passes from _____ Pipeline Company through the Inlet flange of Trans Alaska Pipeline System at TAPS Pump Station No. 1, or as the crude oil passes through the ship's flange at Valdez, at the Seller's option.

PRICE: For purchases at PS-1, [BP or ARCO] agrees to pay [PRODUCER] a price based on the NYMEX settlement price for light sweet crude oil (WTI lead month average of means with a pricing period from the 21st day of two months prior to the delivery month to the 20th day of the month prior to the delivery month) minus \$3.03, minus the cost of transport through TAPS which shall be BP Pipeline's actual TAPS interstate PS-1 to Valdez tariff for the delivery month, adjusted up or down by the actual TAPS quality bank adjustment for the delivery month accorded to other crude oils reaching PS-1 through the same delivery means as the crude purchased under this contract. For purchases at Valdez, [BP or ARCO] agrees to pay [PRODUCER] a price based on the NYMEX settlement price for light sweet crude oil (WTI lead month average of means with a pricing period from the 21st day of two months prior to the delivery month to the 20th day of the month prior to the delivery month) minus \$3.03.

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

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.

**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 D.2**

<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
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, Inc.	ADNR	Prudhoe Bay	Low

EXHIBIT D.2 (continued)

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

Exploration 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

EXHIBIT D.3.A (continued)**Exploration Reserve Pits**

Company	Well Site Name
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
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

EXHIBIT D.3.A (continued)

Exploration Reserve Pits

Company	Well Site Name
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
ARCO	Hemi Springs St 1
ARCO	Highland St 1

EXHIBIT D.3.B (continued)

Exploration Reserve Pits

Company	Well Name
ARCO	Itkilik 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
ARCO	Sag Riv St 1
ARCO	Schrader Unit 1

EXHIBIT D.3.B (continued)**Exploration Reserve Pits**

Company	Well Name
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

November 17, 1999

TO: Honorable Tony Knowles, Governor, State of Alaska
Richard Campbell, President, BP Exploration (Alaska), Inc.
Kevin Meyers, President, ARCO Alaska, Inc.

FROM: Joint Special Committee on Mergers

RE: Charter for North Slope Development

To review the proposed Charter for North Slope Development, the committee is having a public hearing on Thursday, November 18, 1999. In addition to questions asked by the legislators at the meeting, the committee respectfully requests the preparation of the following information.

A general summary of the charter – what we have before the merger, what we would have had under the Governor's original proposed conditions and how that differs from the proposed Charter. We would also like the representatives appearing at the meeting to be prepared to answer the following questions.

General Questions

1. How does the Charter limit the ability of state, the legislature or the citizens of Alaska to bring antitrust litigation against the companies? Does the Charter limit legal actions by the Administration and/or preclude public interest litigation?
2. What are the consequences if BP Amoco and ARCO fail to perform any of the actions agreed to in the Commitments regarding Competition, Diversity and Growth section of the Charter?
3. What is the significance of the termination date of 1/15/08?
4. According to press reports BP has agreed to use the ARCO pricing structure in California in order to keep gas prices down. Have you reviewed this commitment to determine whether a similar agreement using Arco's pricing structure in Alaska is appropriate? Specifically, will BP be using ARCO's royalty and tax structure on ARCO barrels in Alaska?

The FTC Process

1. What is the timeline for the FTC?
2. What information have you received from the FTC about the charter?
3. Has the FTC told you what is going on with other states with respect to the merger? If so, what?

4. Does the FTC generally require divestiture or approval of the actual divestiture and buyers before approving mergers?

Divestiture

Please describe how the divestiture will be accomplished, particularly:

1. Does this Agreement create a post-merger situation that approximates the current competitive significance of ARCO?
2. Based on your conversations with prospective buyers, are the assets being divested what they need to be a viable competitor on the North Slope?
3. Can "Buyer A" and "Buyer B" be the same? If yes, are you encouraging divestiture to one company? Have you identified what companies are interested and which acreage they are interested in?
4. How will the price be set?
 - a. Will the prices for the working interests in production sold to Buyer B and to any other buyers be set in the same manner as they would be set for Buyer A?
 - b. What method will be used to sell, i.e. auction or bidding?
 - c. Has BP Amoco/ARCO committed to sell no matter how low the best qualified offer is?
 - d. Assume there are only two buyers for the production acreage. Assume Buyer number one is a company that the state believe will become an aggressive explorer on the North Slope and buyer number two is looking to purchase the oil solely to diversify its extensive world wide inventory and has no plans to explore on the North Slope. Does the state have the power to compel BP to sell to Buyer Number One?
 - e. What means do the state have to identify and assure itself that whomever buys the production interests will be as aggressive an explorer on the North Slope as was ARCO? How can the state be sure that the buyer is not simply making an investment decision to acquire North Slope oil to balance its portfolio?
5. Regarding Exhibits A and B, what is the total acreage in each of the "play fairways" listed?
6. When is the Colville River Unit expected to begin production and when is its output expected to reach 80,000 barrels per day?
7. The total divestiture earmarked for "Buyer A" and "Buyer B" does not equal the total divestiture required, either in production acreage or exploration acreage, how will the additional acreage for divestiture be chosen? Will the buyers choose from where the additional acreage to be purchased?

- a. Assuming BP Amoco/ARCO sells a 40% working interest in the Kuparuk River Unit to Buyer A, this would be (in 2001, according to the Alaska DNR) about 93,000 barrels per day, from which production units would the balance of the 125,000 barrels per day be sold to Buyer A? If not certain, what are the possibilities?
 - b. Assuming BP Amoco/ARCO sells a 40% working interest in the Colville River Unit to Buyer B, and that total production at the is 80,000 barrels per day, this would be, at most, 32,000 barrel per day of production. Is it BP Amoco/ARCO's intent to give preference to Buyer B for the remainder of the 50,000 barrel per day production working interest sale commitment? If not, how will the other buyer be chosen?
 - c. If Buyer B were to be Anadarko, which already owns 22% of the Colville Unit, would only 18% of the total interest be sold, leaving BP Amoco/ARCO with a 60% interest? From which production units would the balance be sold and to whom? If not certain, what are the possibilities?
 - d. BP Amoco/ARCO committed to sell at least 220,000 net acres of their NPRA lease holdings and at least 400,000 net acres of their onshore/nonunitized state leases. Other than the 100,000 NPRA net acres earmarked for Buyer A or Buyer B, is it BP Amoco/ARCO's intent to earmark additional lease acreage for either Buyer A or Buyer B?
8. Is it BP Amoco/ARCO's intent to retain a majority interest in all the production units from which these working interests are sold, in NPRA exploration and development lease areas, and in onshore/non-unitized state exploration and development lease areas? If no:
- a. Is BP Amoco/ARCO willing to sell Buyer A more than a 50% interest in the Kuparuk River Unit? Could Buyer A purchase 125,000 barrels per day of working interest in the Kuparuk River Unit from BP Amoco/ARCO?
 - b. Please indicate the steps that will be taken by BP Amoco/ARCO to sell majority interests in exploration and development lease areas to others.
9. Will lease commitments be maintained in leases that are divested under this agreement, including work commitments?
10. What will happen with excess state lease acreage that BP has acquired before a purchase contract is signed to divest it? What is the state law regarding limits on exploration acreage and how it is divested?
11. How do the non-consent provisions work? Will they be sufficient to not impede development on the North Slope? What are the consequences to "not consenting" to exploration?
12. What is the process for BP to reacquire acreage or TAPs ownership under this Charter? Does it involve a public process?

Facilities Access

Does inclusion of I.F.2 in any way compromise the Commissioner's standing in a dispute? Will it compromise the state's position if a satellite operator cannot come to an agreement for facilities access?

Transportation

Could you please explain why different pipeline companies have different tariffs since all of them use the same TSM agreement for calculating their tariff. Was there discussion of reducing TAPs tariffs?

How would Buyer A and Buyer B, or any other purchaser, acquire access to tanker transportation services so as to be able to transport their combined 175,000 barrels per day from Valdez to the West Coast?

1. Is there tanker capacity that could be leased from third parties?
2. Would new operators have to buy or lease tankers? If yes, could such a relatively small tanker fleet be efficient and cost competitive with the much larger BP Amoco/ARCO tanker fleet?
3. Would BP Amoco/ARCO consider allowing the purchasers of these working interests in production (Buyer A, Buyer B, and any other purchasers), as well as the existing minority interest owners (MIOs), to participate in the ownership of the combined BP Amoco/ARCO tanker fleet so as to provide them access to tanker transportation and to have them share in the risks/liabilities associated with such tanker transportation?
4. Will there be excess Jones Act Tankers to sell under provision I.I. of the Charter?
5. How firm are BP Amoco/ARCO's commitments regarding the tankers? Would BP Amoco/ARCO be willing to make the tanker commitments firm (i.e., to contractually commit to them)?

Natural Gas

Section I.J. of the Charter calls for "up to 1.2 BCF per day "working interest gas" to a project to commercialize Alaska North Slope gas."

1. Is a period until December 31, 2001 long enough?
2. Does this include royalty gas?
3. Does BP plan to use this amount for its own GTL project?
4. If the gas is from BP, what "partner approvals" are needed?
5. If 1.2 BCF is committed now, what is "full ramp-up"?
6. How were the netback price and delivery point determined?

Environmental Concerns

1. What are the environmental concessions in the Charter that are different from existing law? Does their inclusion in the Charter affect existing statutes?
2. Regarding II.A.5, how are BP and ARCO's proportionate shares determined?
3. Regarding II.A.6, shouldn't the Alaska Oil and Gas Commission be involved in corrosion monitoring?

Other

1. Have you determined how the merger will impact the State revenue stream? Specifically, do you anticipate any increase or decrease in revenue over that which you expected had no merger occurred?

Alaska LNG Project

Benefit Analysis



Benefits to the United States

- Reduces Trade Deficit
- Helps the US meet the Kyoto Accords
- Potential to supply LNG to Lower 48, if a future shortage develops



Benefits to Alaskans

- Increased Royalties
& Severance Taxes: \$239 m / yr
- Increased Corporate Taxes: \$68 m / yr
- Cash to Communities: \$325 m / yr
- Cash to State: \$316 m / yr
- **Total: \$948 m / yr**

Assumes a \$3.00/MMbtu sales price in Japan. Based on purchase of incremental raw gas. Numbers will vary depending on gas sales, prices and configuration of facilities and certain decisions to be made by Producers.



Benefits to Alaskans

- Inexpensive gas for Alaskan communities
 - Cheaper power and heating costs
 - Potential spur line to Anchorage
 - Helps maintain State budgetary commitments
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Benefits to Alaskans

- Jobs during construction: 8,000
- Local contribution to economy: \$900 m
- Impact on the economy with multiplier effects: \$ 4-5 billion during construction



Benefits to Alaskans

- 400 permanent jobs during operations
- \$100 m /yr impact on local economy during operations
- Environmental benefits from use of gas instead of more polluting fuels along pipeline corridor



Benefits to Oil Companies

- Increased oil production: \$588 m / yr
- Increased Gas Liquids for TAPS: \$22 m / yr
- Income from gas sales: \$349 m / yr
- Total Revenues to Producers: **\$959 m / yr**



Benefits to Oil Companies

- Additional CO₂ for reinjection
- May facilitate Point Thompson and other field development



Comparison of Benefits to State

	Port Authority \$0.30 Gas Price	Private Project \$0.30 Gas Price	Private Project \$1.00 Gas Price
Lean Residue Gas	\$472 million	\$115 million	\$261 million
Rich Residue Gas	\$802 million	\$140 million	\$302 million
Raw Gas	\$948 million	\$306 million	\$469 million
<i>Includes:</i>	<i>Royalties Severance Tax Corporate Income Tax Excess Cash from Project</i>	<i>Royalties Severance Tax Corporate Income Tax</i>	<i>Royalties Severance Tax Corporate Income Tax</i>

Taylor-DeJongh, Inc.

International Project Development and Finance
Washington * London * Cairo * Istanbul * Johannesburg * Bahrain

WHO WE ARE:

Taylor-DeJongh is a leading international project development and finance advisory firm. We assist multinational clientele in developing, structuring, negotiating and financing major capital projects worldwide.

Our principals have extensive experience in structuring and arranging financings for major capital projects in power generation, oil & gas, petrochemical facilities, pipelines, LNG plants; telecommunications; water and wastewater treatment; industrial plants, mining projects, "BOT" ports, airports, transportation, and other infrastructure projects. We have arranged financings with virtually all major international banks, and have expertise placing debt with institutional investors and trading companies worldwide. We are globally recognized experts in all major OECD export credit agency and multilateral financings.

Taylor-DeJongh is also an equity fund manager, having been mandated as Fund Manager for OPIC's \$350 million New Africa Infrastructure Fund.

Our principals have closed transactions in over 75 countries.

OUR SUCCESSES:

Privatisation International Adviser League Tables for 1998-99 ranked Taylor-DeJongh as:

3 rd Globally by number of advisory projects	1 st in MidEast/Africa,
1 st by number of deals in the power sector	1 st in Eastern Europe/NIS
2 nd in the telecommunications sector	2 nd in Latin America;

Taylor-DeJongh has ranked in TOP SIX Financial Advisers in the World by *Project Finance International* every year from 1995 through 1998.

In 1996, the company Chairman & CEO, Terry Newendorp received a 25-year All-Star award from *Independent Energy*. *Global Finance* has selected Taylor-DeJongh as "Superstar Team of Project Finance: Middle East/Asia, Oil & Gas."

HOW WE WORK:

Taylor-DeJongh's business philosophy is to provide experienced, senior level international project development and financing advice to developers, investors, governments, and suppliers. We design development plans and project structures that are soundly based on the unique commercial, legal and financial environment of the host country.

Our seasoned judgment and in-depth market knowledge generates viable financing and risk mitigation plans for major projects. We are independent advisors who offer our clients true long-term experience in successfully structuring and protecting investments around the world.

WHO OUR CLIENTS ARE:

Taylor-DeJongh's clients include project sponsors, developers, lenders, institutional investors, international development agencies, and host governments. We take pride that so many of our clients have rewarded our performance with repeat business.

WHAT WE HAVE DONE:

Taylor-DeJongh has over 20 years of international experience structuring and arranging financing for industrial and infrastructure projects, both public and private.

We have advised on, structured, negotiated and financed major capital projects in more than 70 countries, for investments totaling more than \$50 billion.

Currently the company is active in 25 countries.

Selected Project Advisory Assignments
(Recently Completed & Pending)

1. \$2.2 billion 3500 MW of Gas-Fired BO Power Projects Turkey	14. \$130 MM Cellular Telecom India
2. \$360 MM Telecom Network South Africa	15. \$2.5 billion Gas Pipeline Philippines
3. \$8 billion Gas Development (pipeline & LNG plant) Alaska, USA	16. \$2 billion Copper/Gold Mine Indonesia
4. \$1,000 MM Aluminum Smelter Kuwait	17. \$300 MM Coal-Fired Power Poland
5. \$500 MM Gas Pipeline and Power project Bangladesh	18. \$640 MM Hydro Power Brazil
6. \$800 MM BOT Power Turkey	19. \$1.2 billion Oil Pipeline Romania-Italy
7. \$800 MM PURPA Power Portfolio Refinancing USA	20. \$100 MM Gas Pipeline Mozambique
8. \$1,640 MM Power Plant and Privatization Morocco	21. \$1.4 billion Oil Development Indonesia
9. \$3 billion Trans-Caspian Pipeline Turkmenistan	22. \$40 MM Water Privatization Namibia
10. \$60 MM BOT Water Pipeline Egypt	23. Two 200 MW Power Plants Slovakia
11. \$400 MM 600 MW Gas-Fired Power Plant Mexico	24. Privatization of Energy Sector Moldova
12. \$400 MM Thermal Power Brazil	25. \$400 MM Pulp Mill Projects Indonesia, Russia, Brazil
13. \$60 MM Acquisition of Oil&Gas Properties Italy	26. BOT Gas-Fired Power Project Viet Nam

Representative Clients

Power Generation

Arab Bank
Black & Veatch
CEA (PSEG)
CMS Generation
CSW International
El-Paso Power Services
Enron Europe
Entergy
Foster Wheeler
GVA
Houston Industries Energy (Reliant)
Marathon Power
Nations Energy
Nissho Iwai
Parsons-Power
PP&L Global
Raytheon Engineers & Constructors
Unocal
U.S. Ex-Im Bank

Telecommunications

BBN Communications
Motorola
Netrix Systems
SAIC
Distacom
MCHI
Ellipsat
Vula Communications
Modicom

Financial Institutions

U.S. Ex-Im Bank
InterAmerican Development Bank
World Bank
OPIC
MIGA
SACE
OEBK
AON
American Express Corporation
Global Environmental Fund
Swiss Re New Markets

Environmental/Hazardous Waste/Water

BFI International
CH2M Hill
Dames & Moore
Global Environment Fund
IT Corporation
Metcalf & Eddy
Ogden-Yorkshire Water
Badger Engineering
Molten Metal Technologies
NUS Halliburton

Governments

India
Bosnia
Slovakia
Moldova
Poland
Philippines
Egypt
Turkmenistan
Mozambique
Senegal

LNG/Petrochemical

Alaska Gasline Authority
Badger Engineers
British Gas
Charger Petroleum
CCC
ENH (Mozambique)
Foster Wheeler
Itochu
Nissho Iwai
Raytheon Engineers
Unocal
M.W. Kellogg
Ralph M. Parsons Co.
Stone & Webster
Tenneco Gas International
Unocal
U.S. Ex-Im Bank
Petrocan

Industrial/Transportation

A. Ahlstrom
ABB
Ogden Corporation
Nissho Iwai
Parsons Corporation
Raytheon Company
Black & Veatch

Mining

Resource Development Ltd.
Sunshine Mining
U.S. Ex-Im Bank

Taylor DeJongh, Inc.

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Bechtel

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San Francisco, CA 94105-1895
Mailing address: P.O. Box 193965
San Francisco, CA 94119-3965

Press Release:

Bechtel Corporation is pleased to announce today the signing of a Memorandum of Understanding with the Alaska Gasline Port Authority to design, procure and construct a gas pipeline from the Alaska North Slope to Port Valdez, together with a LNG facility to supply the Asian market.

Mr. Adrian Zaccaria, President of Bechtel stated today, "We are very pleased to be able to play a part in this historic project, which will enable Alaska to commercialize its vast gas reserves some 30 years after their discovery."

"We look forward to working with the Port Authority and the negotiation of definitive contracts for this project. We believe that Bechtel, Yukon Pacific Corporation and the Port Authority, working together with Alaska, will be able to build a project that will be a safe and environmentally sound pipeline system and one of the most competitive LNG facilities in the world today. The project will ensure significant revenues for producers and Alaskans well into the next century."



Bechtel Corporation

PROBLEMS WITH CHARTER AGREEMENT

1. Only 1.2 Bcf need at least 2.5 Bcf
2. Price is way too high – need minimum net back price of \$0.30 based on gas with a heating value of 1145 btu's per cubic foot.
3. BP should not be allowed to retain right to recover liquids downstream in Valdez.
4. Take or pay contract should be changed to requirements contract.
5. Need a decision on buyer of gas based on three factors which will be given equal weight:
 1. Net benefit to State of Alaska
 2. Base case net back pro forma
 3. The project which has the earliest commercial operating date.

A decision on the preferred contract must be made no later than January 30, 2000, and a requirements contract signed no later than March 20, 2000, which contract will expire if certain reasonable milestones are not met.

OPTION 1:

2.9 Bcf of raw gas (measured minus CO₂) taken from the field separators. CO₂ taken out of the gas will be traded for butanes and propanes that cannot be shipped down the TAPS. The heating value of this gas will be approximately 1160 btu's per standard cubic foot.

\$0.30 minimum net back price for this case

OPTION 2:

2.9 Bcf of residue gas (measured minus CO₂) taken from the residue gas discharge point of the Low Temperature Separators at the Prudhoe Bay Unit Central Gas Facility, spiked with Propane and Butane from the Stabilizer overhead to give the gas a heating value of 1145 btu's per standard cubic foot.

\$0.30 minimum net back price for this case

OPTION 3:

2.6 Bcf of residue gas (measured minus CO₂) taken from the residue gas discharge point of the Low Temperature Separators at the Prudhoe Bay Unit Central Gas Facility. The heating value of this gas will be approximately 1090 btu's per standard cubic foot.

\$0.10 minimum net back price for this case.

**Testimony on the BP Amoco – State of Alaska
“Contract for Development of the Alaskan North Slope”
before the Special Joint Legislative Committee on Mergers
November 18, 1999**

*by Karen Cowart, General Manager
Alaska Support Industry Alliance*

My name is Karen Cowart, General Manager for the Alaska Support Industry Alliance. The Alliance membership includes nearly 350 businesses that contract directly with producer companies to provide products and services in support of oil and gas exploration, development and production.

Our members have weathered one of the toughest years in this decade by laying off workers, cutting operating budgets, reducing charitable contributions. Some didn't make it. Some won't make it much further.

Now that oil prices have risen, oil and gas activity in other states and countries is on the rebound. But not in Alaska. Not only is the industry stagnant here, it is declining. And that is taking a painful toll on hundreds of Alaskan contractor and supplier businesses and thousands of employees and their families.

We know that many of our members have lost up to 75% of their workforce. Just yesterday a member told me that he had employed 120 Alaskans. But because of the industry's ongoing stagnancy, he won't begin a significant oil and gas contract for months. He had to lay off 85 employees. An that's just ONE company.

It's time that Alaskan businesses resume profitable contracts and regain jobs that can pay the mortgage and educate the kids. It's time for BP Amoco and ARCO to

finalize the merger. We believe the proposed "Charter for Development" between BP, ARCO and the state will help keep Alaska competitive in the energy arena, provide meaningful employment for Alaskans, ensure environmental stewardship on the North Slope, and contribute positively to communities statewide.

Perhaps having one major investor is not ideal for the state within the context of the "good old days." However, formation of a combined, strengthened investor may be just what Alaska needs to remain a competitive location for oil and gas development tomorrow. The merger is a business decision that is efficiency driven. And that is good. Indeed, consolidation among support industry businesses has meant the difference between belt-tightening and belly-up.

The oil and gas industry has proven its resiliency over many years, surviving lean times with ingenuity and sound decisions. Together, producers and support businesses have lowered production costs through advanced technologies. We've lowered operational costs by eliminating redundant services. We've consolidated resources and assets to remain competitive. Had the industry maintained the status quo, it would have failed. Let's let the private sector get on with business.

State and industry leaders have spent more than adequate time over the past eight months to address public concerns related to the merger. Alaskan support industry businesses and workers are running out of time. Right now Alaska needs at least one *active* corporate investor with a vision and commitment to develop Alaska's oil and gas resources. The flow of income and revenue is good for everyone ... the state, businesses, families and communities. Alaskan contractors and suppliers need something to look forward to in the new millennium. We want to go back to work.

Alaska Support Industry

ALLIANCE

4220 'B' Street, Suite 200

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Phone 907.563.2226

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GENERAL MANAGER

Karen Cowart



THE ALLIANCE

... for responsible development of Alaska's Oil, Gas & Mineral Resources

#99-04

ALASKA SUPPORT INDUSTRY ALLIANCE BOARD OF DIRECTORS RESOLUTION IN SUPPORT OF THE BP AMOCO AGREEMENT WITH THE STATE OF ALASKA REGARDING THE ACQUISITION OF ARCO

WHEREAS, Alaska must contend with a highly-competitive global market for oil & gas exploration and development investments; and

WHEREAS, the oil & gas industry provides 75% of the state's unrestricted revenue base; and Alaskan support industry businesses contribute significantly to Alaska's statewide economy and employment; and

WHEREAS, depressed oil prices over the past year have taken a heavy toll on the oil and gas and support industries, devastating all sizes of business and putting thousands of Alaskans out of work; and

WHEREAS, state and industry leaders have spent more than adequate time and resources to analyze and address public concerns related to the merger; and

WHEREAS, the Charter for Development of the Alaskan North Slope adequately addresses contractors' main areas of concern, such as maximizing Alaskan employment and use of Alaskan contractors, and restoring Alaska's competitive position; and

WHEREAS, Alaska support industry businesses and workers expect to capture a substantial portion of the funds BP Amoco has committed to spending on capital projects and operations once the acquisition is complete; and

WHEREAS, Alaska must encourage investment by new oil and gas producers in times of declining oil production as quickly as possible in order to foster a competitive industry environment conducive to the interests of the state and its residents; and

WHEREAS, the Alaska Support Industry Alliance is recognized as a statewide advocate for the environmentally sound exploration, development and production of Alaska's oil and gas resources to benefit all Alaskans.

NOW, THEREFORE BE IT RESOLVED, that the Alaska Support Industry Alliance Board of Directors does hereby urge expeditious approval of the Charter for Development of the Alaskan North Slope and forwarding the approved agreement to the Federal Trade Commission, thereby allowing the BP Amoco acquisition of ARCO to conclude.

BE IT FURTHER RESOLVED that The Alliance Board of Directors urges state leaders to pursue a long-range fiscal plan and balanced budget to demonstrate to potential new oil and gas investors that Alaska has a stable business environment with little risk of additional industry tax burdens.

Adopted this 12th day of November, 1999

by the Alaska Support Industry Alliance Board of Directors

**Testimony on the BP Amoco – State of Alaska
“Contract for Development of the Alaskan North Slope”
before the Special Joint Legislative Committee on Mergers
November 18, 1999**

*by Matthew Fagnani
President, Alaska Support Industry Alliance
President, WorkSafe Incorporated*

My name is Matthew Fagnani. Today I am speaking as President of the Alaska Support Industry Alliance, a trade organization that represents oil and gas contractors and suppliers.

I am also speaking as President of Worksafe, Incorporated. Worksafe, a wholly owned subsidiary of NANA Development Corporation, which employees 10 people, including four NANA shareholders. Worksafe is considered a third tier vendor to Alaska's oil patch, providing drug testing program administration for major oil field service companies, drilling operators, and transportation companies. Obviously the health of Alaska's oil and gas industry impacts my bottom line, my employees and my contributions to the communities.

People who do not work directly in the oil and gas industry may not understand how devastating this past year has been, with low oil prices squeezing production and bringing exploration and development to a near standstill. Today there are four to five drilling rigs operating on the North Slope. That's way down from the 23 rigs projected in early 1998. When drillers aren't drilling, wellhead workers aren't working, freight is not being hauled, security and maintenance is not needed. Over the past year, an alarming number of my company's clients have lost contracts, and laid off employees (thousands in the aggregate).

Through an informal polling of the Alliance membership in 1998 showed our 350 member business employed 29,000 people in Alaska (26,000 were permanent residents of the state). In February 1999, we again polled our members and found that about 3,000 jobs were lost among just 40 companies just in the last quarter of 1998. Seven months later, some members are reporting further employee reductions of between 20 and 75 percent. BP's commitment to use Alaska businesses, products and workers gives hope for the future.

The heart of Alaska's economy over the past 20 years has been based on oil and gas. Petroleum production provides ...

- 75% of the state's unrestricted operating revenue
- 75-100% of the income for oilfield contractors and suppliers
- A substantial chunk of income for transportation, engineering and construction businesses, as well as several municipalities and boroughs.
- A significant flow of income for third-and fourth-tier vendors and suppliers, like banks, insurance, office suppliers, communications companies, etc.
- Good-paying salaries that are spent on real estate, grocery, retail, entertainment, recreation and other enterprises.

Alaskans are depending on oil and gas activity to resume quickly, priming a healthy flow of revenue – from the driller to the retailer. We cannot wait for “the perfect agreement.” It does not exist. However, we believe the Charter includes important compromises that mitigate concerns over competition, natural gas development, the environment, Alaska hire and fiscal commitments to Alaskan communities. At the same time, it will allow BP Amoco to realize adequate profit, which is what *business* is formed to do.

Frankly, we will all profit when oil and gas producers get back to work, providing family incomes and revenues to the state. It's time to close the deal and get Alaska's economy pumping again.

Thank you for providing this opportunity to comment.

November 18, 1999

To: State of Alaska

Attention: Joint Legislative Committee on Mergers

From: Jerry Hendriks

Vice President Alaska Operations- Puget Sound Pipe

2120 Spar Avenue - Anchorage, Alaska 99501 - 263-6601

I became a resident of Alaska in 1966, having moved from California to Kenai, Alaska during the development years of the Cook Inlet oil field. During the last 33 years I have continued to work in the oilfield support industry, as a supplier of Pipe, Valves, and fittings, to Alaska's oil industry. My wife and I have raised 9 children here in Alaska and I currently manage a supply operation in Anchorage that employs 22 employees. Two of these employees were hired through BP Exploration's "Stepping Stones", a Welfare to Work Program. All 22 employees count on their employment to provide them with the financial support needed to provide for their families.

I have been an Alaskan long enough to know that when it comes to doing business with the Alaska oil industry, it has up and down years. This year, 1999 has been one of those dreaded "Down" years, beginning the year with low oil prices. Now that oil prices have rebounded the oil industry is getting back to normal everywhere except here in Alaska. In Alaska, exploration is non-existent. Development of new oilfields is on hold. We need at least one company to become active again soon or the state and its residents may never recover those good-paying jobs and the royalty revenues that have funded state government. I support the "Charter for Development of the Alaskan North Slope", as a fair way to get oil, family incomes and state revenues flowing again. Oilfield contractors and suppliers like my business have had to lay off thousands of workers in the wake of low oil prices. First we waited for oil prices to recover and then we were told we would have to wait for the merger to get completed, meanwhile I am still waiting for my business to recover. I appreciate the need to consider the impacts of the proposed merger. Over the past several months, the public, industry and government have had ample time and opportunity to do so. The proposed charter covers the main areas of concern, including competition, environmental protection, Alaskan employment and a commitment to Alaskan businesses.

In my 33 years spent supporting the Alaska oil industry I have seen many changes. Most of the major oil companies have pulled out of Alaska for one reason or another. I feel the major reason for their leaving was due to poor economic conditions. Few businesses survive a changing environment if they cannot change with it. Arco's offer to be acquired by BP was motivated by survival in an ever-more consolidated and competitive oil and gas industry. It is time for Alaska to come to grips with an environment of declining production. We need to acknowledge major shifts within the oil and gas industry worldwide, adjust our expectations, and move ahead with success and growth in mind. BP's acquisition of Arco and the charter with the state are justified and proactive responses to change.

I am encouraged to see that the state has found ways to provide opportunities for new investors and operators on Alaska's North Slope. However, having a combined, strengthened investor may be just what Alaska needs to remain a competitive location for oil and gas development for many years ahead. To stay competitive Alaska must be more efficient, this merger is an efficiency-driven business decision.

It's time to get Alaskans back to work! Let's not delay this process any longer, we need to complete the merger and move ahead with our future.

Best Regards,


Jerry Hendriks

Testimony regarding BP/AMOCO's acquisition of ARCO.

18 Nov 1999

I am Maynard Tapp - President of Hawk Construction Consultants, Inc., a citizen of Alaska USA, member of the Alaska Support Industry Alliance, a proud contractor with Alyeska Pipeline Service Company, BP, ARCO, and UNOCAL.

Over ninety percent of my business comes from the oil industry. Hawk's job is to assist our clients in constructing cost effective projects so they can be the most competitive participants in the world wide oil market.

In 1998 when BP spent \$953 million dollars in capital projects with 80% going to Alaska businesses, Hawk had a good year. I like good years.

In 1999 during the fall in oil prices and the pending acquisition of ARCO by BP, the forecast for spending by BP is nearly half of 1998's expenditure. I have lost 50% of my people to the decline in capital activity and we are not alone.

Hawk is like the state of Alaska in many ways. When the oil flowing through the Alyeska Pipeline goes down, so does my revenue. When my revenue goes down I lose the talented people I have had the honor and pleasure in providing as resources to the Alaskan oil industry. They are truly my most important resources.

These talented people are also important resources of Alaska. But when their jobs go away, they go away. How can we "Buy Alaska" and "Hire Alaska" when companies and people who have built this industry and state are no longer here?

Remember, the oil industry has been providing 85% of the states revenues since before the 1990's. I believe those revenues have since declined to 70%. TAPS pipeline throughput has declined from over 2 million barrels of oil per day during the Gulf War in Kuwait to 1.1 million barrels today. That's almost a 50% reduction. This reduction is a strategic vulnerability for the United States and a financial catastrophe for the people and state of Alaska.

Alaska's revenue crisis is only partially related to the price of oil. Our big problem here is that we are not producing enough of it.

If the government wants to be involved, determining how to increase production would be time much better spent than fighting the acquisition. At a price of \$20 per barrel applying the states 12% royalty, we need oil production to raise by 1,142,000 BBL of oil per day to fill the pipeline and fill the \$1,000,000,000 revenue shortfall. In other words we need to double our production just to maintain the state services we now have.

Why is this a good deal for BP? They get a refining base and retail outlets in the western United States. They get to live in a great place, and do business where they have a talented workforce, and qualified companies.

BP is giving up an oil company the size of Unocal with proven reserves in the biggest oil field in the USA.

Why is this a good deal for Alaskans? BP and the oil industry pay for over 70% of our government costs, they provide Alaskan jobs in their industry, and those people's incomes go into the Alaskan economy providing jobs for a large portion of other Alaskan businesses. It's Economics 101.

WE CAN'T WAIT ANOTHER YEAR.

LET'S PUT ALASKAN PEOPLE AND COMPANIES BACK TO WORK.

THE ONLY BAD DEAL IS NO DEAL.

FROM THE DESK OF JIM SYKES

PO Box 696, Palmer, AK 99645 phone: 745-6962 email: jsykes@ak.net

DT: November 18, 1999

TO: Joint Legislative Committee on BP-Arco Merger

RE: Questions that still need to be answered as of November 18, 1999

1. Is the State of Alaska better off accepting the proposed "deal" or opposing the merger to allow Arco to go on its own again or possibly be bought by someone else? Evidence suggests no merger is better for Alaska.
2. BP has told the State of California that the retail prices will stay low and be revenue neutral. Why has Alaska been offered no such conditions? In Alaska, because BP could retain their well-head price structure, it could hurt the State of Alaska significantly. Because BP will take over most facilities, including electrical generation and diesel production they will have greater control over North Slope operations even by divesting Alpine and Kuparuk operations. They will also have cheaper shipping costs to the West Coast and available refineries.
3. The Governor declared the BP-Arco merger a monopoly in violation of state laws on October 31, 1999. By November 5, 1999 the "deal" had been negotiated to make it legal. Precisely what changed to make it legal? (Divestiture of Kuparuk and Alpine do not appear to satisfy state anti-trust laws).
4. BP gets to choose its competitor in this case, not the State. In Carr's -Safeway the state had the authority to decide what would be divested, to which company, along with strict penalties for noncompliance. Why should this vastly more important merger not have these same state controls?
5. What is different about the competition pledged in this contract than that pledged over the past decade, which shows that nearly all competitors were either run off the North Slope or absorbed by BP and Arco. [The Big Squeeze, Finberg 1997] There appears to be no "real" competition the way the "deal" is structured.
6. The weasel words in the "deal" appear to be so vague that the compact is unenforceable. Why not say these conditions will be met or fines of many millions of dollars will be levied each day?
7. Why are there no tariff reductions or divestiture of the pipeline? BP would ship to the West Coast, not the Gulf. In order to assure equal access, the pipeline should be a public utility, not a private one.
8. The only way to insure equal access to infrastructure is to divest utilities to independent companies so that things like electrical generation and diesel production are

produced on customer demand not ownership control. Why aren't these items slated for divestment?

9. The only way to track equal access on facilities is to make Facilities Sharing Agreements public, audited and regulated. None of this is presently being done, is the state ready to make these things happen?

10. In the charter provision 'D' Terms of Sales, it states that "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." Since these transfers are routinely approved, how can they be sure that interests are not reacquired?

11. In looking at the voting interests of field operators and voting interests within Joint Venture Agreements, it looks like BP could effectively leverage control over most of the leases they divest. Has this been analyzed? Is it true that oil-starved Arco was kept from fully developing the Alpine field by BP's veto?

12. What percentage of BP leases they plan to divest are expiring within the next two years?

13. Threats by BP not to explore or drill until after the merger are made larger by BP's refusal to sign contracts. It effectively holds oilfield workers hostage, forcing them to push for the "deal." In reality if no merger takes place Alaska retains competition through Arco or another company that may buy them, that will likely provide more job opportunities than BP itself. If the merger goes through Alaska can expect to be threatened in the same manner by a more powerful monopolistic BP. Does the State really want to expose itself to such threats?

14. Isn't it true that a non-merged Arco will supply more jobs, honest competition (instead of illusory competition), and more profit to the State?

15. The public has been able to learn very little about the merger due to the closed-door negotiations and limited public visibility. The State paid several consultants to prepare reports in advance of negotiations. Is the legislature prepared to ask for them to be made public? Is the legislature prepared to hold a special session and extensive hearings in order to expose many important issues to the public for a normal public process covering 30 to 60 days?

16. Attorney General Botelho has stated there is a deadline for getting this deal done, yet Federal Trade Commission officials have stated the opposite. Can we get a clear explanation in public? The FTC may operate in secret, but there is no excuse for the State to do so. It appears there is plenty of time for a full honest public process.

Chuck and Melissa Johnson

VIA FACSIMILE TO 907-269-0229

November 18, 1999

Senator Rick Halford
Chair, Joint Special Committee on Mergers
State of Alaska

Gentlemen:

As a long term resident of the state and the President of a company that employs over 550 Alaskans I have paid close attention to the many statements about the possible impacts of the BP Amoco acquisition of ARCO on Alaska, its people and its businesses.

I applaud the careful analysis and the open dialogue that have been displayed in working this challenge. It is "public process" at its best, with industry and government working together to address their respective concerns.

We trust this process and we hope that the "Charter for Development" will be signed soon. It is time to get on with business and what we all do best, namely making Alaska an attractive place to do business and a state where its citizens have rewarding job opportunities.

I am ready, along with the people who work under me, to roll up our sleeves to do our part to make this happen by putting our Alaskan employees to work in support of new oil development on the Slope and elsewhere. I look forward with optimism to opportunities to work with the combined organization in the future and we thank the State, BP and ARCO for the Charter's commitment to the use of Alaska businesses and the employment of Alaska residents.

I urge you to work through this process carefully, but with timeliness, so that the uncertainty that this process brings to the many lives directly affected can be brought to conclusion. I look forward to the future this new company will bring to the table.

Sincerely yours,



Chuck Johnson

18670 Harlequin Place, Anchorage, Alaska 99516
Phone: 907-345-9148 Facsimile: 907-345-9149

An ARCO employee who wishes to remain anonymous in order to protect their job, called the following comment into our office:

"A compact is not a contract. A contract is an enforceable instrument whereas this agreement is not. I am concerned that they will not keep their word if they have nothing to keep them honest. It strikes me as more of a feel good issue than a good faith one."

"Giving up a portion of the operations in the Kaparuk and Alpine fields will not change the fact BP will still own a majority in those fields. They will still be in a position to control investment decisions in these fields."

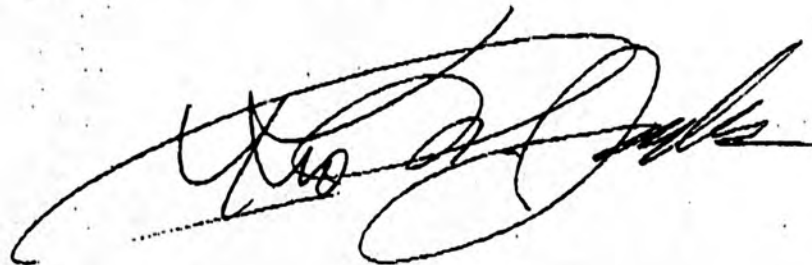
Phone: 907/566-5518
Fax: 907/566-5516

**SYSCO Food Service
Alaska**

Fax

To: Joint legislative From: King M. Jenks
Common Mergers Pages: 1
FAX: 2690229 Date: 11/18/99
Re: _____ CC: _____
Total Pages include cover page

We support the BP/Arco Menger.
We do not need a special session.
The delay in this merger is costing
our company sales and affects my
ability to hire. Lets move ahead.



AMENDMENTS TO "CHARTER"

Please note changes in the underlined bold portions of Sections B(2) and the addition of Section B(4) below. **Section V(C) re Enforceability of Section II must be deleted in its entirety.**

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.

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 fleet, and will order and purchase additional tankers to meet their combined fleet requirements on average one year earlier than required by OPA 90, with the expected result that the combined fleets will be entirely double-hulled by mid-year 2007. **At least nine new** tankers will each have safety related attributes substantially equivalent to or better than Millennium _____ 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).

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 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.

4. Reduction of Air Pollution. BP and ARCO will aid in reduction of air pollution from its tankers by committing \$30 million to a joint construction fund for expedited installation of an additional hydrocarbon vapor recovery system at the Valdez Marine Terminal.

C. Continued Commitment to Alaska Hire.



UNITED ASSOCIATION
of Journeymen and Apprentices of the
Plumbing and Pipe Fitting Industry of
the United States and Canada

Founded 1889

Letters should
be confined to
one subject

UA Local Union: **375**
3568 Geraghty Street, Fairbanks, Alaska 99709

Subject: **BP's Charter for Development with Alaska**

Martin J. Maddaloni
General President

Michael A. Collins
General Secretary-Treasurer

C. Randal Gardner
Assistant General President

November 16, 1999

U.A. Local 375 Plumbers and Pipefitters Union is in support of the Charter

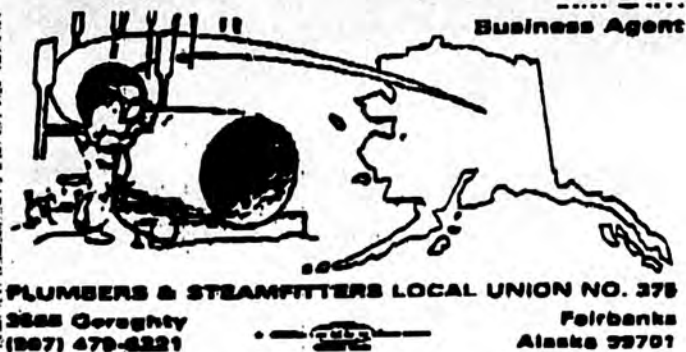
It is time to finalize the merger. We have discussed these issues for over seven months. Clearly there will be additional players in the Alaska oil industry. It is time for the State to finish this phase, approve this agreement and let us get on with finding out who we will be working with in the future. Delaying longer just makes more hype, and there has been too much of that already.

The plumbers and pipefitters of Local 375 have worked with BP since the beginning. Together with BP and our contractors we've helped to strengthen the Fairbanks economy. This relationship has been a *win win* situation for our contractors, our members, and the Fairbanks community and we would like it to continue.

The agreement between the State and BP/AMOCO resolves dozens of issues. It guarantees at least one new operator on the slope. It even provides that new operator with existing oil production. It assures natural gas availability. There are loads of community projects and environmental extras added in. Local 375 and I say it is time to get on with business and take advantage of the many benefits which Governor Knowles and his team have negotiated for us. Not tomorrow; not sometime in the future; but now!

Respectfully submitted,

J.C. Wingfield
Business Manager
Financial Secretary-Treasurer



SENT BY FAX

DATE 11-19-99 FAX Number _____

Total # of pages: _____ Call _____ to correct problems w/transmission

FROM: U.A. Local 375 of the Plumbers & Steamfitters Union
3568 Geraghty Street
Fairbanks, Alaska 99709
Telephone: 907-479-6221

TO:

JOINT LEGISLATIVE COMMITTEEPLEASE EXPEDITE MERGER -* THIS MEANS JOBS FOR ALASKANS* MAINTAINING THROUGHPUT FOR TAPS- 30¢ GAS APPEARS UNREALISTIC- THANK YOU Jim Saiti

715 Muir Avenue
Kenai, Alaska 99611-8816
November 19, 1999

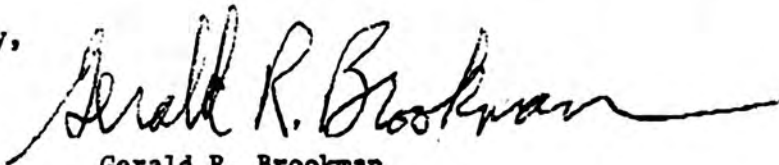
To: Whom it may concern
Alaska State Senate and House of Representatives

I am sending, as page 2 of this message, a copy of my testimony given on Monday evening, November 15.

I note with much interest the article on page 1 of today's ANCHORAGE DAILY NEWS that the only end-of-the year deadline was one self-imposed by the Governor (or perhaps by his masters in the oil industry). THIS MATTER DESERVES GREAT SCRUTINY BY THE ALASKAN PUBLIC. IT SHOULD NOT BE ALLOWED TO BE SHOVED DOWN OUR THROATS BY THE PRESENT STATE ADMINISTRATION!

I note, also, that Representative Croft states that he will be supporting a special session of the legislature, in order to examine fully the consequences of the B.P.-ARCO merger. I would urge all members of the legislature to support such a special session.

Sincerely,



Gerald R. Brookman

715 Muir Avenue
Kenai, Alaska 99611
November 15, 1999

To:

Governor Tony Knowles

Others who may have influence in the British Petroleum-ARCO merger policy of the State of Alaska

I would like to say that I believe that what is alleged to be the "public process" in this matter is a sham.

The crux of the matter is: will the state of Alaska control the actions of the oil industry within its borders, or will the oil industry in Alaska control the state government?

The Governor has obtained some "concessions" from British Petroleum. These are far less than would be necessary to ensure a "level playing field".

The effects on the state, both economic and environmental, if the merger as proposed is allowed to go forward will be unacceptable to me, and, I believe, to many Alaskans. The vote, last September, on whether or not the state should be allowed to tap a portion of the earnings of the permanent fund to finance some of the operations of the state government was widely debated, and an election was held on the matter. I believe that this matter is far, far, more important to the future of the state, than that ballot question. It should receive at least as much public debate, and be subject to a public vote.

I have heard the merger questioned because British Petroleum is a foreign-owned corporation. I do not believe that any one corporation, foreign or domestic, should be allowed to control so large a proportion of this state's economy. I do not believe that British Petroleum, or the oil industry in general, is comprised of people who are wicked or evil; however, I do not care who they are, or how pure their motives may be. I do not believe that the state's best interests should permit any one company to exercise as much economic control over this state's destiny. Under our system, economic power translates almost directly into political power. The founding fathers of our country are dead and gone, so we can't consult them as to whether or not they would approve of this merger. I find it impossible, however, to believe that they would approve. I'm equally sure that Theodore Roosevelt would not approve of it. Are we, at the end of this century, to return to the policies of the last century? I certainly hope not!

To make it clear and explicit: this state should reject the B.P.-ARCO merger, no matter what conditions might be attached to it!

Sincerely,



Gerald R. Brookman

FAIRBANKS ALASKA AREA
PLUMBERS AND PIPEFITTERS
JOINT APPRENTICESHIP COMMITTEE
1978 BURGESS AVENUE
FAIRBANKS, ALASKA 99709
456-5989

DATE

11/19/99

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FROM:

John Plutt

TO:

Joint Legislative Committee

COMMENTS:

BP + Agre. have done well for ALASKANS with
jobs and local business support. I believe
this merger is a good agreement and we
must keep the Oil Companies WORKING. When they
WORK THEN ALASKANS WORK. Jobs are the issue.
Alaska is dependant on the Oil Companies. I
think we need to move forward.

John Plutt

FAIRBANKS ALASKA AREA
PLUMBERS AND PIPEFITTERS
JOINT APPRENTICESHIP COMMITTEE
1978 BURGESS AVENUE
FAIRBANKS, ALASKA 99709
456-5989

DATE

11-19-99

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TRANSMISSION

FROM:

Bret Helms

TO:

Joint Legislative Committee

COMMENTS:

The proposed BP & Arco merger will bring
a increase of jobs to the Fairbanks area.
These jobs will be well paying jobs that
will impact the Fairbanks area as well as the state.
I urge you to expedite the merger.

Thank you Bret Helms

Richard L. Larew
10160 Voyager Circle
Anchorage, Alaska 99515

VIA FACSIMILE: (907) 269-0229
November 19, 1999

Senator Rick Halford
Chairman
Joint Special Committee on Mergers

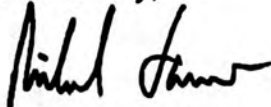
Dear Senator Halford,

I would like to express my support for the BP Amoco acquisition of ARCO. This merger is needed to provide the necessary capital resources for future North Slope oil development.

This continued development will provide jobs and tax revenues for the State of Alaska. I believe the agreement reached by Governor Knowles with BP Amoco addresses the concerns we Alaskan's have.

Please move quickly forward with the approval of this charter and let Alaska move on to new opportunities.

Yours truly,



Richard L. Larew

FROM THE DESK OF JIM SYKES

PO Box 696, Palmer, AK 99645 phone: 745-6962 email: jsykes@ak.net

DT: November 19, 1999

TO: Joint Legislative Committee on BP-Arco Merger, please distribute to all members.

Dear Members,

I had planned to come to Anchorage and testify today, but I won't be able to make it. I will send written comments to you soon. Here's a couple thoughts.

I know people are trying to figure out financial impacts of a possible merger and compare them with a "no merger" scenario. Something that popped out from a report in today's ADN Compass piece by Representative Eric Croft:

"It is fundamentally unfair for our partners in the oil industry to gain substantial savings at our expense without sharing some of those increased profits, or at least guaranteeing no net loss to the state."

Where BP takes Arco assets and keeps their BP tariff, the State loses, at a minimum hundreds of millions of dollars. BP will now ship to the West Coast instead of the Gulf Coast and they will control more North Slope infrastructure than they already do. They do not deserve to keep the high tariff.

While BP has said they will increase the flow of oil, so the state will get more revenue, this is a red herring. Even if BP is able to increase production, (which is only an unenforceable promise, particularly with divestment of Alpine), they will profit even more handsomely by keeping their tariff structure. So even with increased production it means the state stands to lose even more potential income from increased production.

The TAPS tariff agreement was negotiated based on the situation at the time. If this merger goes through, that will no longer be the case. The state needs to take the authority to modify it and ensure we don't cheat ourselves out of income that we should have. This change can be easily justified.

Also, the State needs to take a strong position on divested leases and properties. Divestment should be total so that there is not even a small percentage of control by BP. BP could exercise veto power with some level of minority ownership within a Joint Venture Agreement. They should also be forced to completely divest of facilities that can be managed by independent utilities such as electrical and diesel production.

I still think the current framework of the "deal" cannot be massaged to be in the best interest of Alaska, or keep BP from having a dangerous monopoly. I still oppose the merger.

Jim Sykes

Alliance Members: Take EVERY opportunity to voice your opinion!

Provide supportive comments on BP Amoco's agreement with the State. You're making a difference! To follow is a letter from BP President Richard Campbell and ARCO Alaska President Kevin Meyers that outlines the opportunities to comment and how important your voice is to the industry and to Alaska.

- 1. Testify before the Joint Legislative Committee on Mergers**
6:00-8:00 p.m. Thursday, November 18 • 9:00 a.m., Friday, November 19
Anchorage Legislative Information Office - 1st Floor Conference Room
Comments may be **FAXED** to (907) 269-0229
- 2. Testify at the Administration's second public hearing in Anchorage**
10:00 a.m. to 3:00 p.m., Saturday, November 20
Wendy Williamson Auditorium, University of Alaska Anchorage
- 3. Write to the State Administration by November 26**
Send written comments to the Attorney General's office:
fax 907-465-2075 • email attorney_general@law.state.ak.us
- 4. Send copies to your own legislators!!!**
Let your senator and representative know that it is important to your business and employees to get back to work NOW.
Legislator Faxes and Email addresses are in your 1999 Oil & Gas Industry Directory and are available on the state's web site — www.legis.state.ak.us

Please fax a courtesy copy of your comments to The Alliance, 561-8870.

THE ALASKA SUPPORT INDUSTRY ALLIANCE

4220 B STREET, SUITE 201 • ANCHORAGE, AK 99503 • (907) 563-2226 • FAX 561-8870



FAX MESSAGE

November 19, 1999

To: Joint Legislative Committee on Mergers
 Legislative Information Office
 716 W. 4th Avenue
 Anchorage, AK 99501
 Fax: 907-269-0229

From: R.C. Gardner
 Fairweather E & P Services Inc.
 715 L Street
 Anchorage, AK 99501
 Fax: 907-258-5557

Post-It® Fax Note	7871	Date	11/19	# of pages	2
To	JOINT LEGISLATIVE	From	R.C. GARDNER		
Co./Dept	COMMITTEE ON	Co.	FAIRWEATHER		
Phone #	MERGERS	Phone #	258-3446		
Fax #	269-0229	Fax #	258-5557		

Re: Support for BP Amoco Acquisition of ARCO
 and the BP Amoco Charter with Alaska

Members of the Committee:

I am unable to be present in person today to testify on the above referenced matter. I respectfully request that the contents of this letter be included in the formal record of your Committee Hearing this date.

My comments are made on behalf of Fairweather Exploration and Production Services; Fairweather Inc.; Fairweather Geophysical LLC; and Fairweather Marine Services, Inc. The Fairweather companies are currently working in support of various petroleum exploration and production operations throughout Alaska. We presently employ approximately 50 persons, down significantly from the 100 employees we enjoyed during times of maximum development work on the North Slope.

The Fairweather Companies are also trying to become more active internationally, recognizing the increasing globalization of the petroleum industry. The economic forces that have driven this globalization have produced a wave of industry mergers and acquisitions aimed principally at reducing operating costs and maintaining competitiveness in an environment of unstable, and for the most part low, oil prices.

From a more provincial viewpoint, for many years Alaska has been the beneficiary of sustained major petroleum industry investments. As Alaskans, we have become accustomed to reasonable access to high-paying petroleum industry jobs, a strong local economy, and significant annual increases in the permanent fund dividend, all almost in spite of a recent prolonged period of depressed oil prices and economic hardship for the state's principal industry.

The need for the industry to reduce operating costs has been, and still is, a necessity, if a viable petroleum industry presence is to remain in Alaska, and we as Alaskans are to continue to receive the benefits of that presence. The pressure to reduce operating costs is not unique to Alaska, as the anti-oil and the-sky-is-falling crowds would have you believe, but is world wide within the petroleum industry. I do not for a minute believe the buyout of ARCO by BP Amoco is orchestrated by some sinister foreign corporate strategy designed to capture total control of North Slope oil fields and impoverish Alaskans. Rather, it is the local manifestation of the cost-saving consolidations that are taking place throughout an industry beset by a long period of unfavorable economic conditions.

Most of us don't like changes much; and we particularly don't like those that challenge the ways we have done things for a long time. The original announcement of the ARCO buyout admittedly had some provisions that gave many of us in the service sector pause; particularly in the areas of reduced work opportunities, the potential to strongly influence service company compensation, and undisclosed barriers to entry for new operators interested in North Slope projects. The State of Alaska had every reason to declare "time out" while the effects this buyout would have on the Alaska business climate were investigated.

We at Fairweather believe the BP Amoco Charter with Alaska, announced on November 5, 1999, now adequately addresses the concerns that many of us in the service sector had previously. We believe the terms of the Charter will deliver the operating cost reductions that BP Amoco needs in order to sustain investments in Alaskan projects, and which are necessary to maintain Alaska's competitive position within a global economy. Without these operating cost reductions, Alaska's competitive position will continue to degrade, and local business opportunities will deteriorate commensurately.

We also believe that under the terms of the Charter, the barriers to entry to new North Slope operators are perhaps even fewer than they were when ARCO and BP operated independently. This is good for the service sector of the petroleum industry, and we at Fairweather see some significant opportunities here.

The Fairweather Companies want to go on record as supporting the BP Amoco acquisition of ARCO under the terms of the Charter with Alaska. We believe this acquisition should now move forward with dispatch. Further delays will only contribute to "paralysis by analysis", as Alaskan investments by both BP Amoco and new operators alike will remain on hold. It is now time for all of us to go back to work.

Sincerely,



R.C. Gardner
President

Subject: Support of the ARCO/BP Amoco Merger
Date: Thu, 18 Nov 1999 12:16:25 -0900
From: ed@takas.com (Cronick, Edward)

November 18, 1999
The Honorable Governor Knowles
State of Alaska
Office of the Governor
550 West 7th Avenue, Suite 1700
Anchorage, Alaska 99501
RE: Alaska's Prompt Approval of ARCO/BP Amoco Merger

Dear Governor Knowles:

I am writing to you in my capacity as President/CEO of ClearWater Environmental, Inc. We are an Alaska Native owned and operated corporation. Our corporate office is located in Anchorage, with satellite offices in Washington, Idaho, California, Utah, and Kentucky. We offer a comprehensive range of services including environmental studies, engineering design support, site remediation, construction management, civil construction, and on-site construction.

For the last eight months I have followed the state's review of the anti-trust implications of the ARCO/BP Amoco merger. I thank you and your commissioners for the leadership and courage you have shown in resolving through negotiation, a set of merger conditions that protect Alaska's long-term oil development interests.

The uncertainty created by the divestment requirement has slowed oil field activities and I am seriously concerned that the entire Alaska economy may fall into a recession. My company and employees will be harmed by any further delays in implementing the ARCO/BP Amoco merger; therefore, I urge you now to take all the necessary steps with the Federal Trade Commission to move the merger forward.

I recognize that the Alaska oil industry will change significantly with the loss of ARCO and the entry of one or more new operators. I welcome this change as an opportunity and look forward to jointly using our energies to forge a better future for Alaska.

Sincerely,

Edward S. Cronick
President / CEO

/mlh

SCOMM

117:4



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

AGENDA

Tuesday, January 18, 2000

1:00 pm

Senate Finance Room

Presentation by Committee Staff and Consultants

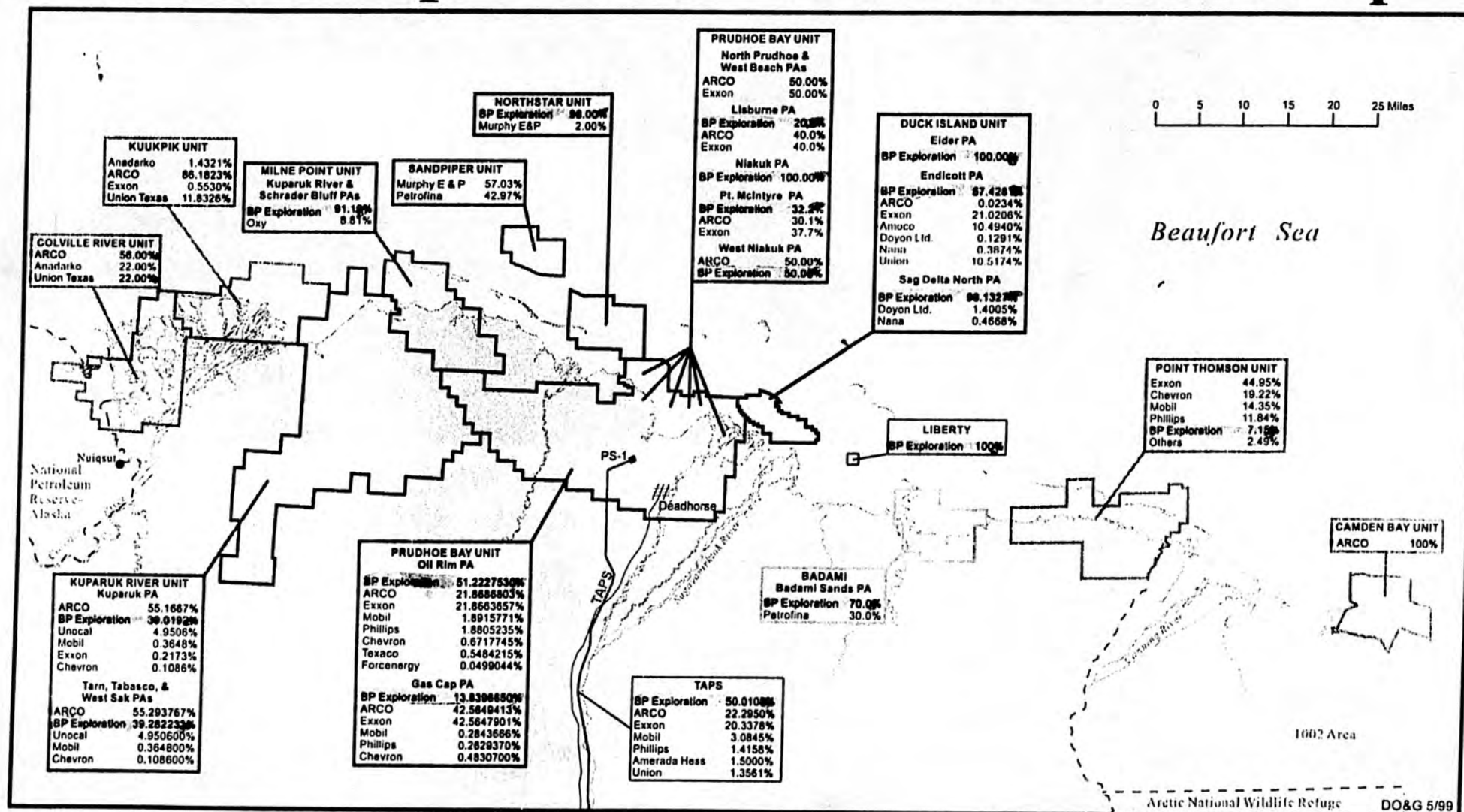
Fred Boness, Attorney, Preston Gates & Ellis

William MacLeod, Attorney, Collier, Shannon, Rill and Scott

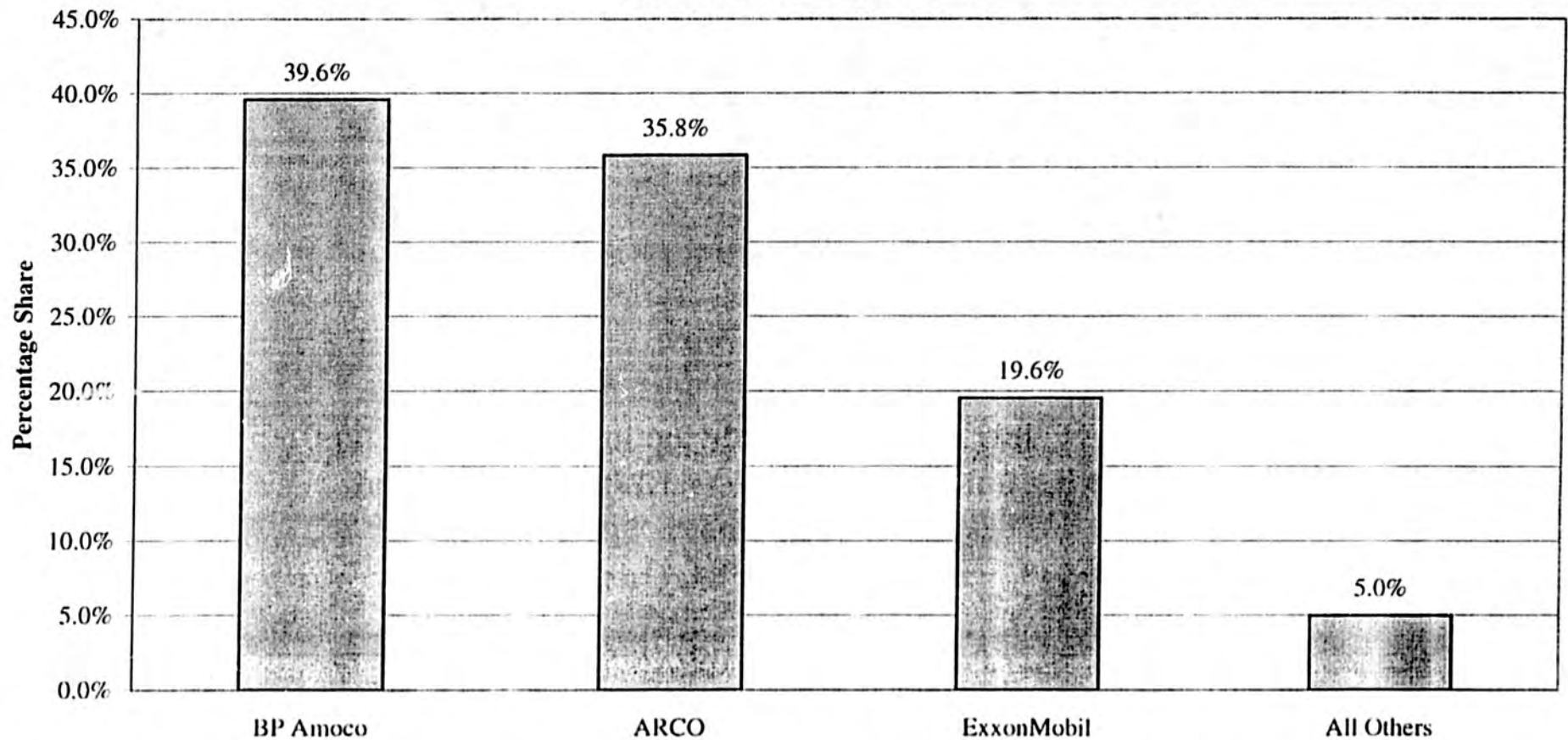
David Scheffman, Economist and Professor, Owen Graduate School
of Management, Vanderbilt University

George Schink, Economist and Independent Consultant

North Slope Oilfield and Pool Ownership

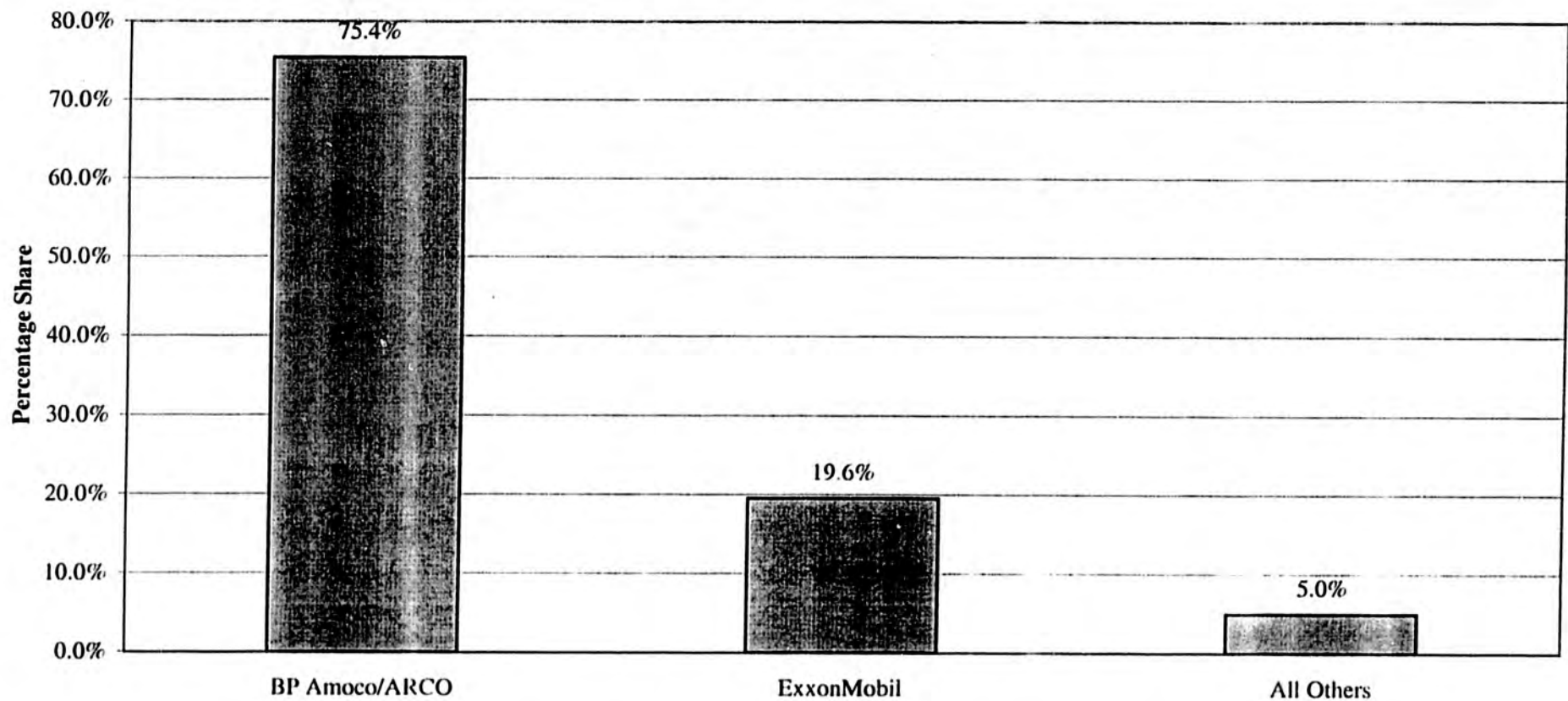


**An Absent the Merger Comparison of
Estimated 2001 Percentage Shares of ANS Crude Oil Production
for BP Amoco, ARCO, ExxonMobil, and All Others
(Percentage Shares)**



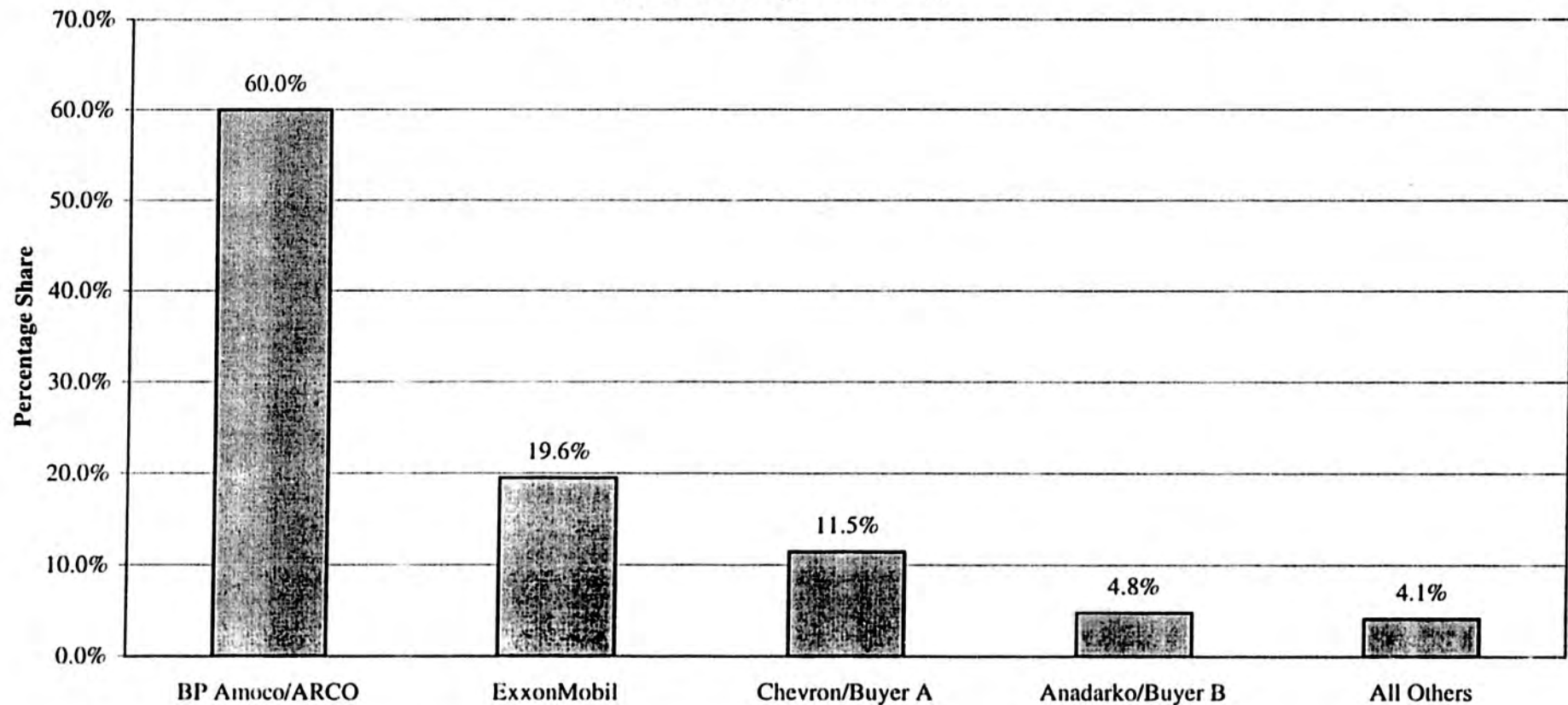
Sources: Alaska Department of Natural Resources, Historical and Projected Oil and Gas Consumption, May 1999;
Charter for the Development of the Alaskan North Slope, December 2, 1999.

**A With the Merger and No Divestitures Comparison of
Estimated 2001 Percentage of ANS Crude Oil Production
for BP Amoco/ARCO, ExxonMobil, and All Others
(Percentage Shares)**



Sources: Alaska Department of Natural Resources, Historical and Projected Oil and Gas Consumption, May 1999;
Charter for the Development of the Alaskan North Slope, December 2, 1999.

**A With the Merger and Charter Divestitures Comparison of
Estimated 2001 Percentage Shares of ANS Crude Oil Production
for BP Amoco/ARCO, ExxonMobil, Chevron as Buyer A,
Anadarko as Buyer B, and All Others
(Percentage Shares)**



Sources: Alaska Department of Natural Resources, Historical and Projected Oil and Gas Consumption, May 1999;
Charter for the Development of the Alaskan North Slope, December 2, 1999.

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.

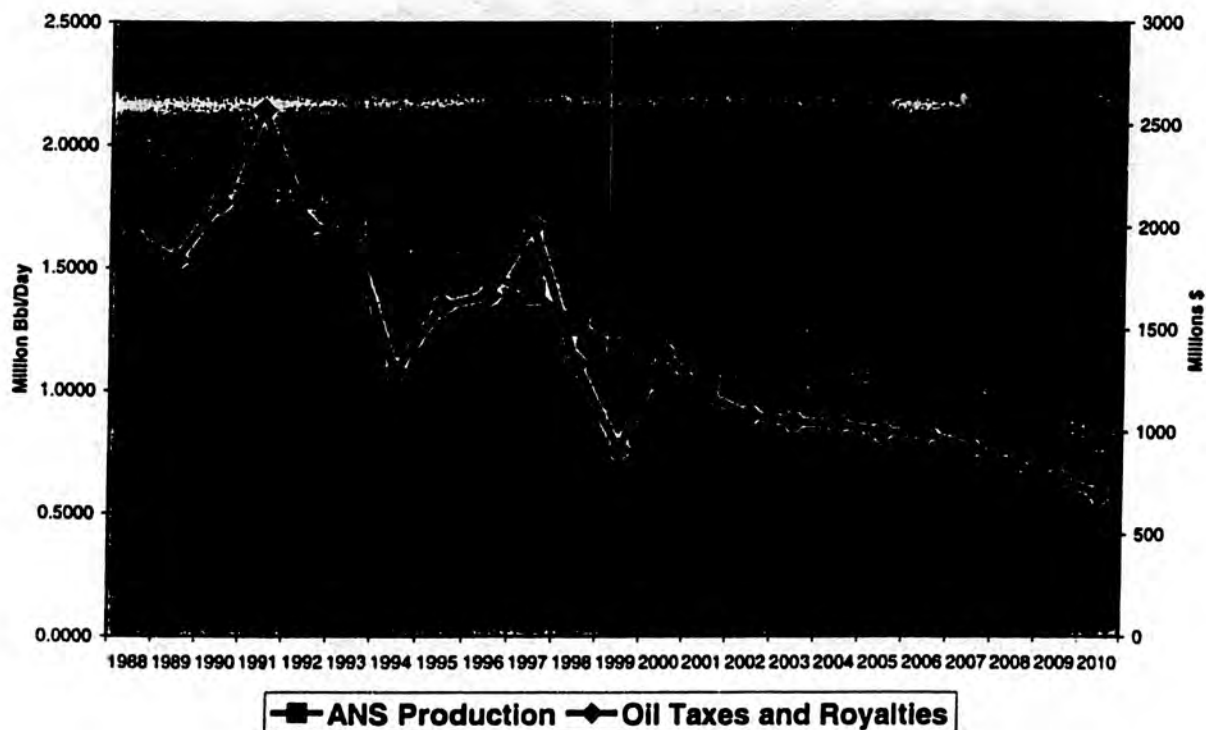
Finally, in Part IV, the revenue sources and the implications of the merger on them are discussed in more detail.

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 57¼ 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.