

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672

2637 SCOMM 117 JOINT SPECIAL COMMITTEE ON MERGERS, 1999-2000

Any resolution of the proposed merger that enhances BP's position on the North Slope or the West Coast¹² is liable to augment that company's power to inhibit competition in Alaska, thereby contributing to continuation of the dramatic decline of producers, operators, potential developers and explorers witnessed on the North Slope during the 1990's. One of the stated primary purposes of FTC merger review is "to assure that competition not be reduced one iota;" FTC's preference is for clean, up-front divestitures to parties who understand what they are buying.¹³ Accordingly, I believe the infirmities of the pipeline provisions of the State of Alaska's proposed Charter agreement with BP constitute compelling and sufficient grounds for rejection of the proposed ARCO-BP merger unless BP agrees to divest its 72% of TAPS (and North Slope common-carrier feeder pipelines) to a private or quasi-public entity with no exploration or production interest on the North Slope.

Sincerely,



Richard A. Fineberg

enc.

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

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

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

From the desk of

Richard A. Fineberg

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January 25, 2000

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

Dear Senator Halford and Members of the Committee:

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

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

1. Although ARCO is operating quite profitably (and the North Slope has always been a viable profit center for ARCO), the proposed Charter proposes to break up ARCO's North Slope interests by transferring a portion of those assets to BP, with the remainder going to two new, smaller North Slope entities; it is highly unlikely that this division of ARCO Alaska into three smaller parts will produce competition to BP comparable to that provided historically (and presently) by ARCO.
2. The Charter assumes that BP will, through these myriad complicated transactions, endeavor to replace ARCO by creating viable competition for itself on the North Slope; this is something BP cannot be expected to do.
3. Historically, companies with interests smaller than those of ARCO have not fared well on the North Slope.

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

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

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

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

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

Sincerely,

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

Senator Halford

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

Bradley J. Fluetsch, CFA

	<u>oil hedging .doc</u>	Name: oil hedging_.doc Type: Winword File (application/msword) Encoding: base64 Download Status: Not downloaded with message
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The Administration and Legislature: Speculating With Your Future - Oil

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

Today, with prices at \$19 - \$21 per barrel, the Legislature is willing to gamble the stability of our primary source of income in hope of "no money." Yet in doing so, they risk losing the opportunity to lock in today's higher prices and protect the State's budget against another price decline.

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

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

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

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

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

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

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

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

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

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

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

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

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

Gee, does this begin to sound familiar?

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

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

Price goes down

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

Price goes up

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

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

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

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

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

Bradley J. Fluetsch, CFA
Raven Asset Management, LLC
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(907) 586-8945

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

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

What's good for Alaska

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

What's not so good for Alaska

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

What's uncertain for Alaska

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

What's Alaska to do?

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

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

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

Thanks for listening,

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

Short Bio

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

Foster

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

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

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

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

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

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

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

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

Again, thanks for a great speech.

Jerry Foster
2540 Brandy Cir.
Anch, AK 99516

Foster

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

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

BPA-ARCO Acquisition
12-21-99

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

In my humble opinion, this acquisition is the result of some very poor and self-serving decisions by ARCO's CEO Mike Bowlin. Prior to the most recent drop in oil prices, ARCO acquired Union Texas Petroleum (UTP) and paid a ridiculous premium. Further, ARCO workers close to the deal complained bitterly that ARCO management did not do "due diligence". Less than a year after the deal, hundreds of millions of dollars were written off the books. Clearly Mike Bowlin and his group made a terrible mistake.

During the period of low oil prices, Bowlin proclaimed that ARCO would remain independent at the same time he was shopping the company to BPA. Many felt that Bowlin was on the way out for his blunders, but by selling ARCO to BPA (at historically low oil prices no less), he would leave with tens of millions of dollars in his pocket and shareholders would be happy. Bowlin's big lie still haunts him now that oil price has rebounded and ARCO is making record profits; that being that ARCO is not viable without BPA. ARCO's recent profits are a clear sign that this company can thrive. Further elimination of massive overhead burden at the LA corporate headquarters and the research center in Texas would set ARCO up as a profitable company for many years. ARCO spun off its Houston company (VASTAR); that company is now the industry leader in all the Gulf of Mexico for exploration success and low cost production.

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

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

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

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

FOSTER, GERALD W
2540 BRANDY CIR
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Gage

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

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

Gentlemen:

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

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

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

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

Respectfully yours,

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

June 1, 1999

JUN 07 1999

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

Dear Honorable Senator Halford:

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

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

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

Sincerely,

Deborah Helton

Kiernan

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

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

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

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

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

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

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

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

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

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

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

Subject: [Fwd: Fw: Let's really become the OWNER State we like to think we are!]

Date: Mon, 18 Oct 1999 15:58:19 -0800

From: "George M. Hansen" <wwgeorge@alaska.net>

Organization: Hansen Enterprises

To: Senator_Tim_Kelly@legis.state.ak.us, Senator_Rick_Halford@legis.state.ak.us,
Senator_Loren_Leman@legis.state.ak.us, senator_jim_duncan@legis.state.ak.us,
Senator_Jerry_Ward@legis.state.ak.us, Senator_Drue_Pearce@legis.state.ak.us,
Senator_Dave_Donley@legis.state.ak.us

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

Subject: Fw: Let's really become the OWNER State we like to think we are!

Date: Sun, 17 Oct 1999 23:37:44 -0700

From: "John Kiernan" <jjkiernan6@email.msn.com>

To: <robert_bloomfield@natchiq.com>, <remerson@ptialaska.net>, <wwgeorge@alaska.net>,
<nrhogge@prodigy.net>, <ivey@gci.net>, <cary@alaska.net>, <kty@gci.net>,
<owenak@worldnet.att.net>, <mrادford@alaska.net>, <Alaskaod@alaska.net>

-----Original Message-----

From: John Kiernan <jjkiernan6@email.msn.com>

To: Governor@gov.state.ak.us <Governor@gov.state.ak.us>

Date: Sunday, October 17, 1999 11:33 PM

Subject: Fw: Let's really become the OWNER State we like to think we are!

-----Original Message-----

From: John Kiernan <jjkiernan6@email.msn.com>

To: Governor@gov.state.ak.us <Governor@gov.state.ak.us>

Date: Sunday, October 17, 1999 11:02 PM

Subject: Fw: Let's really become the OWNER State we like to think we are!

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

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

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

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

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

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

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

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

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

Subject: FW: Two Sides of the Story**Date:** Thu, 1 Apr 1999 08:42:46 -0900**From:** Ray Latchem <rlatchem@fngas.com>

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

> -----Original Message-----

> From: Sievert, Sharon SR [SMTP:Sievert.Sharon.SR@bhp.com.au]

> Sent: Thursday, April 01, 1999 4:05 AM

> To: Paver, Howard H; Griggs, Paul PM; 'Dave Edmunds'; 'Betty Jinks';

> Regan, David DG; 'Amjad Bseisu - U.K.'; 'Harold Inman'; 'Steve

> Barakis'; robbie.gulledge@bus.utexas.edu

> Subject: Two Sides of the Story

>

> April 1, 1999

>

> To: All ARCO Employees

>

>

> Today we are announcing that ARCO will merge into BP Amoco in a

> transaction

> expected to conclude by 12/31/99.

>

> As you can well imagine, none of us finds it easy to contemplate

> hauling down

> the ARCO flag, which for decades has symbolized achievement,

> innovation,

> environmental stewardship, and social responsibility.

>

> Given ARCO's legacy, executive management, the Board and I personally

> felt a

> strong draw to remaining independent, but we also believed that it was

> critical for us to review all alternatives during these very

> challenging times

> in our industry. Consequently, we did explore every course of action,

> from

> continuing as an independent company to combinations with companies of

> all

> sizes. In the

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

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

Public Opinion Message

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

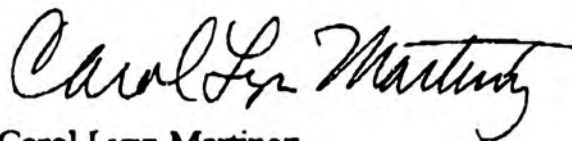
The Honorable Drue Pearce
Senate President
Alaska State Legislature
Via Fax: (907) 465-3872

Dear Senator Pearce

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

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

Sincerely,



Carol Lynn Martinez

Subject: BPA / ARCO Alaska Joint Special Commission on Mergers

Date: Thu, 10 Jun 1999 16:10:22 -0800

From: Russ <sell@alaskalife.net>

To: Senator_Rick_Halford@legis.state.ak.us, Senator_Drue_Pearce@legis.state.ak.us,
Senator_Johnny_Ellis@legis.state.ak.us, Representative_Joe_Green@legis.state.ak.us,
Representative_Brian_Porter@legis.state.ak.us,
Representative_Beth_Kerttula@legis.state.ak.us,
Representative_Jim_Whitaker@legis.state.ak.us

June 10, 1999

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

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

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

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

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

Thanks for your time and consideration,

Russell and Rebecca Maier-Sell
Anchorage

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

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

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

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

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

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

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

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

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

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

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

Very truly yours,

Russell M. Sell
Anchorage
sell@alaskalife.net

Subject: British Petroleum - Employment of Alaskans

Date: Fri, 9 Apr 1999 17:06:38 -0800

From: "J & B Mishko" <mishko@alaska.net>

To: <senator_stevens@stevens.senator.gov>, <email@murkowski.senator.gov>, "Don Young" <Don.Young@mail.house.gov>, "Governor" <governor@gov.state.ak.us>, <fran_ulmer@gov.sate.ak.us>, "Attorney General - AK" <Bruce_Botelho@law.state.ak.us>, "Director of Natural Resources" <John_Shively@dnr.state.ak.us>, <wilson_condon@revenue.state.ak.us>, "State's Wash DC office" <jwkatz@sso.org>, <Senator_Robin_Taylor@legis.state.ak.us>, <Senator_Kim_Elton@legis.state.ak.us>, <Senator_Jerry_Mackie@legis.state.ak.us>, <Senator_John_Torgerson@legis.state.ak.us>, <Senator_Jerry_Ward@legis.state.ak.us>, <Senator_Drue_Pearce@legis.state.ak.us>,

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

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

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

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

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

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

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

Longer schedules encourage non Alaskan employees.

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

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

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

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

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

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

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

Subject: BP Agreement

Date: Fri, 17 Dec 1999 08:14:31 -0900

From: "Vince Porto" <portov@ak.net>

To: "Tony Knowles" <office_of_the_Governor@Gov.state.ak.us>,

"John Shively" <johns@dnr.state.ak.us>, <Bruce_Botelho@law.state.ak.us>,

<Representative_Alán_Austerman@legis.state.ak.us>,

<Representative_Albert_Kookesh@legis.state.ak.us>,

<Representative_Allen_Kemplen@legis.state.ak.us>,

<Representative_Andrew_Halcro@legis.state.ak.us>,

<Representative_Ben_Grussendorf@legis.state.ak.us>,

"Representative Beth Kerttula" <Representative_Beth_Kerttula@legis.state.ak.us>,

<Representative_Beverly_Masek@legis.state.ak.us>,

<Representative_Bill_Hudson@legis.state.ak.us>,

<Representative_Bill_Williams@legis.state.ak.us>,

<Representative_Brian_Porter@legis.state.ak.us>,

<Representative_Carl_Morgan@legis.state.ak.us>,

<Representative_Carl_Moses@legis.state.ak.us>,

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

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

Sadly,

Vince Porto 3065 Bettles Bay Loop
Anchorage

Porto

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

Dear Senator Halford;

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

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

Pro's;

BP will make lots of money

ARCO Senior management will bury their mistakes which force this sale

ARCO Senior management will assure themselves of golden parachutes

Cons;

IT IS BAD FOR AMERICA - -

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

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

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

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

IT IS BAD FOR ALASKA - -

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

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

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

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

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

High paying jobs will be lost throughout the state.

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

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

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

IT IS BAD FOR ANCHORAGE - -

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

Commercial vacancy rates will increase.

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

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

IT IS BAD FOR THE NORTH SLOPE BOROUGH - -

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

IT IS BAD FOR THE ENVIRONMENT - -

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

IT IS BAD FOR PEOPLE - -

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

Thanks again for your consideration, with Best Regards,

Vincent Porto

PORTO, VINCENT C

3065 BETTLES

ANCHORAGE AK 99515

District: 17-347 Party: R Sex: M



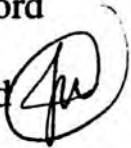
Smay

JAN 26 2000

SENATOR JERRY WARD

ALASKA STATE LEGISLATURE

TO: Senator Rick Halford

FROM: Senator Jerry Ward 

DATE: January 25, 2000

RE: BP/ARCO Merger

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

Mr. Robert Smay
PO Box 110235
Anchorage, Alaska 99511

January-May: STATE CAPITOL • JUNEAU, AK • 99801-1182 • (907) 465-4940 • FAX (907) 465-3766
ANCHORAGE: 716 W. 4th AVE. • STE. 450 • ANCHORAGE, AK 99501 • (907) 269-0106 • FAX (907) 269-0109
KENAI: 145 MAIN STREET LOOP • KENAI, AK • 99611 • (907) 283-7996 • FAX (907) 283-3075

Chairman, Senate Transportation Committee • Chairman, Senate State Affairs Committee
Senator_Jerry_Ward@legis.state.ak.us

Smay

WHAT DO YOU THINK:

I Support S.J. R #28 & your effort to
cut waste in Government & to live within
our income,
and your vote Permanent Fund. Thanks.

B.P. & arcs. I feel that the state
should ask B.P. to set up a
\$50,000,000 Trust Fund to Train Alaskians
to work on North Slope & the
state trust off it used for Training Alaskians.
also help to set up a Trade School
for oil workers in Anchorage or
Fairbanks & H. R.J. Smay

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

POM

Attn: Senator Pearce
Rep. Porter

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

Sincerely

Heidi Stiff

Swenson

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

Dear Senator Halford

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

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

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

Executive Summary

Background

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

Facts

- After the buyout is complete, BP will own approximately 75% of North Slope oil reserves, 75% of the Trans-Alaska Pipeline and most importantly, will be the sole field operator on the North Slope.
- Maintaining an operator presence on the slope has historically been impossible for companies that are not operators in the Prudhoe Bay Field.
- Over the last 7 years, the combined expenditures of BP and ARCO have accounted for 70% of the total dollars spent at North Slope lease sales held by the State of Alaska.
- Over the last 7 years ARCO and BP have operated more than 90% of the exploratory wells that have been drilled on the North Slope.
- Over the last 7 years, ARCO has operated approximately twice as many exploratory wells as BP.
- Over the last 7 years ARCO and its partners have spent almost 400% more at State of Alaska lease sales than BP and its partners have spent.
- Over the last 7 years ARCO has been more aggressive in exploring for oil and gas in the State of Alaska than BP.

Conclusions

- The acquisition of ARCO by BP will result in reduced competition on the North Slope.
- Reduced competition will result in lower bids for leases offered by both State and Federal governments.
- BP has been less committed to exploration in Alaska than ARCO, and without significant corporate policy change in London, this trend will not vary.
- The amount of money spent on pre-exploratory drilling activities will decline sharply.
- As sole North Slope operator, BP will have the economic power to force undesirable terms on potential competitors because it will control the infrastructure.
- The presence of a single dominant company will discourage potential competitors and restrict options in partner negotiations.
- The only realistic way to maintain competition on the North Slope is to mandate that BP divest itself of ARCO Alaska and allow it to be a complete, viable entity.

Introduction

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

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

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

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

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

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

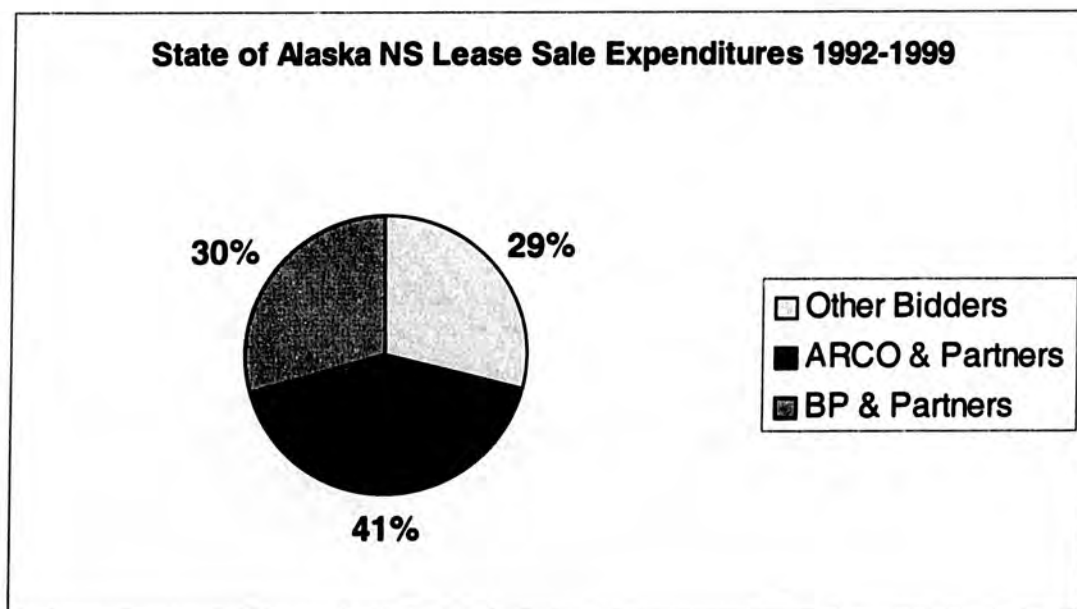


Figure 1

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

North Slope Exploratory Wells 1992-1999



Figure 2

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

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

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

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

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

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

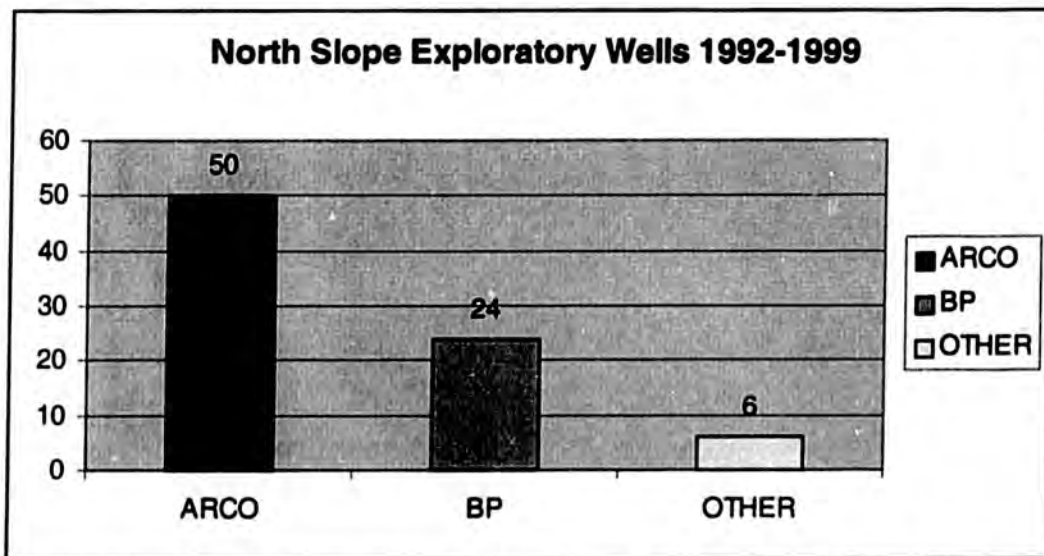
As can be seen from the previous discussion, we believe it is very likely that the advent of a single operator on the North Slope will also mean the end of competition. This in itself may not be totally detrimental to the State of Alaska. BP has stressed that a single operator will mean lower operating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

Is competition on the North Slope in the best interest of the State of Alaska?

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

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

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



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

Figure 3

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



Figure 4: Capital exposure to state lease sales.

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

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

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

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

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

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

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

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

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

Maintain ARCO Alaska as a separate operating entity.

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

Collateral effects on the State of Alaska

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

Job Losses

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

Charitable Donations

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

Capital Spending

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

WHITTAKER

APR 12 1999

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

April 8 1999

Dear Governor Knowles and team,

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

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

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

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

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

Sincerely,

Jed Whittaker



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

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL AND GAS

TONY KNOWLES, GOVERNOR

550 WEST 7TH AVENUE, SUITE 800
ANCHORAGE, ALASKA 99501

PHONE: (907) 269-8800

FAX: (907) 269-8938

February 12, 1999

Jed Whittaker
Jed and Associate
Box 101493
Anchorage, AK 99510

Dear Mr. Whittaker:

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

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

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

Sincerely,



James J. Hansen
Leasing Manager

January 26, 1999

Dear Director of the Division of Oil and Gas :

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

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

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

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

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

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

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

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

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

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

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

Sincerely, Jed Whittaker
Jed and Associates
Box 101493
Anchorage, Alaska
99510



529-7855

Subject: BP-Arco Merger and State Tax Issues

Date: Fri, 14 Jan 2000 22:55:04 -0900

From: "Thomas C. Williams" <tcw-ak@worldnet.att.net>

To: "Drue Pearce" <Senator_Drue_Pearce@legis.state.ak.us>,
"Rick Halford" <Senator_Rick_Halford@legis.state.ak.us>

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

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

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

Tom Williams

SCOMM

117:9



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

March 21, 2000

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

Dear Chairman Pitofsky,

The Joint Special Committee on Mergers of the Alaska State Legislature wholeheartedly endorses the purchase of all Arco's Alaskan assets by Phillips Petroleum Company.

We believe that this divestiture addresses the concerns regarding competition previously expressed to you by this committee and our consultants. With this in mind, we urge the FTC to enter into a consent decree allowing the BP Amoco/Arco merger as soon as possible, thereby finalizing Phillips' acquisition.

Thank you for your continuing attention to the Joint Special Committee's, and Alaskan's, concerns.

Sincerely,

A handwritten signature in cursive script that reads "Rick Halford".

Rick Halford
Chairman, Joint Special Committee on Mergers
Alaska State Legislature

A handwritten signature in cursive script that reads "Drue Pearce".

Senator Drue Pearce
President of the Senate
Alaska State Legislature

A handwritten signature in cursive script that reads "Brian S. Porter".

Representative Brian Porter
Speaker of the House
Alaska State Legislature

Alaska State Legislature



State Capitol
Juneau, AK 99801-1182

December 9, 1999

Mr. Robert Pitofsky
Chairman, Federal Trade Commission
600 Pennsylvania Avenue, N.W.
Washington, DC 20580

Dear Mr. Chairman,

As members of the Alaska legislature, we are writing to express our support for the charter executed December 2, 1999 by the State of Alaska and BP-Amoco. It is our understanding that this agreement will be presented formally to the Federal Trade Commission later this week by the Alaska Attorney General.

We believe that the charter will promote competition within the oil industry on Alaska's North Slope. By requiring the divestiture of significant amounts of existing production and lease acreage and by providing access to transportation and other facilities, the agreement ensures that one or more major oil companies will enter into vigorous competition with BP-Amoco on the North Slope. In particular, the divestiture of acreage and control within the Kuparuk and Alpine oil fields and within the National Petroleum Reserve-Alaska will create the critical mass necessary to secure this result. To our knowledge, this divestiture of production would be the largest in U.S. history.

At the same time, the agreement will create significant efficiencies in development and production that will enable BP-Amoco to obtain cost savings at Prudhoe Bay and elsewhere. These savings will facilitate increased production and the secure supply of Alaska North Slope crude oil to the markets where it now competes. We believe that it is important that Alaska North Slope crude oil be able to compete freely and effectively against imports to benefit both Alaska and West Coast consumers. While perhaps beyond the purview of the FTC, the charter we support also contains important provisions to protect the environment, to maintain and create jobs, and to provide monetary support to educational and charitable institutions in Alaska.

We understand that the proposed merger of BP Amoco and Arco raises important issues within the jurisdiction of the FTC. Nevertheless, we are hopeful that the commission's analysis and deliberations can be completed in the near future. Alaska's economy is heavily dependent on a healthy competitive oil industry. Much of the State's budget is derived from oil revenues, and the industry employs wage earners in many Alaska families.

Despite relatively high oil prices, exploration and development on the North Slope have slowed. A principal reason is uncertainty about the future structure of the industry. Speaking as elected representatives of Alaska's citizens, we believe that the Charter agreement between Alaska and BP Amoco is a one which protects Alaskans' interests and provides BP Amoco with the certainty and the opportunities it needs to move forward with its plans to increase investment and production. In effect, it represents Alaska's bottom line on what is necessary to make this merger work for us.

Mr. Chairman, we recognize that your mandate under the Federal anti-trust laws requires you to view the proposed BP-Amoco merger from a national perspective. In addition to the benefits to Alaska mentioned previously, we think the merger as modified by the charter, provides important national benefits as well. In our judgment, the merged companies would be able to operate more efficiently in a competitive environment.

Thank you for consideration of our views.

Sincerely,



Senator Tim Kelly
Chair, Senate Rules Committee

Representative Ramona Barnes
Chair, World Trade Committee

Representative Andrew Halcro
Co-chair, Community & Rural Affairs Com.

Representative Pete Kott
Chair, House Judiciary Committee

Representative John J. Cowdery
Chairman, House Rules Committee

Senator Al Adams
Senate Finance Committee Member

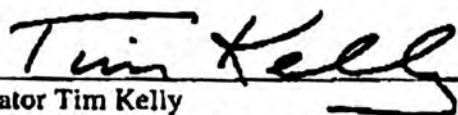
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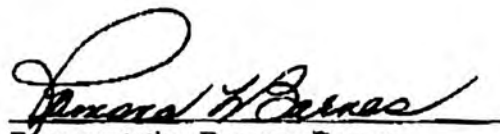
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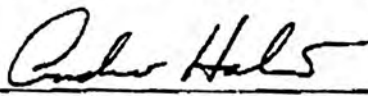
Mr. Chairman, we recognize that your mandate under the Federal anti-trust laws requires you to view the proposed BP-Amoco merger from a national perspective. In addition to the benefits to Alaska mentioned previously, we think the merger as modified by the charter, provides important national benefits as well. In our judgment, the merged companies would be able to operate more efficiently in a competitive environment.

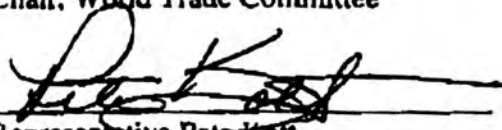
Thank you for consideration of our views.

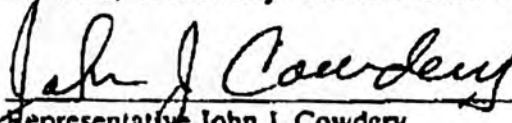
Sincerely,


Senator Tim Kelly
Chair, Senate Rules Committee

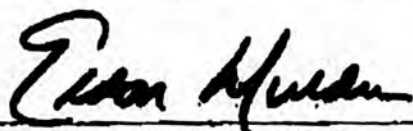

Representative Ramona Barnes
Chair, World Trade Committee

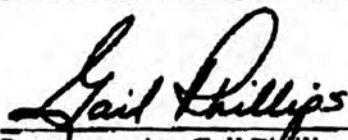

Representative Andrew Halcro
Co-chair, Community & Rural Affairs Com.


Representative Pete Kofi
Chair, House Judiciary Committee


Representative John J. Cowdery
Chairman, House Rules Committee


Senator Al Adams
Senate Finance Committee Member


Representative Eldon Mulder
Co-Chair, House Finance Committee


Representative Gail Phillips
Chair, Legis. Budget & Audit Comm.
Former Speaker of the House

Hal Smalley
Representative Hal Smalley
Member, House State Affairs Committee

Mary Kapsner
Representative Mary Kapsner
Member, House Resources Committee

Beverly Masek
Representative Beverly Masek
Co-Chair, House Resources Committee

Reggie Joule
Representative Reggie Joule
House Minority Whip

Richard Foster
Representative Richard Foster
House Majority Whip

cc: Commissioner Sheila Foster Anthony
Commissioner Orson Swindle
Commissioner Mozelle Willmont Thompson



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

February 8, 2000

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

Dear Chairman Pitofsky,

Today, the Joint Special Committee on Mergers of the Alaska State Legislature met and adopted our consultant's report dated January 24, 2000 as our committee's recommendation. We passed the following motion with unanimous consent of the committee members:

"The Joint Special Committee on Mergers oppose(s) the original merger and the merger configuration of BP Amoco and ARCO as embodied in the current version of the amended Charter, dated December 2, 1999, for the reasons enumerated in the consultant's report, dated January 24, 2000, as not in the best interests of Alaska."

Thank you for your attention to the Joint Special Committee's concerns.

Sincerely,

A handwritten signature in cursive script that reads "Rick Halford".

Rick Halford
Chairman, Joint Special Committee on Mergers
Alaska State Legislature

faxed to Pitofsky & Molly Boast 2/9/00 HC sent to Pitofsky

Joint Special Committee on Mergers
Committee Membership

Senator Rick Halford, Chairman

Senate Resources Committee Chairman

Past Senate President

Past Senate Majority Leader

Past House Majority Leader

Past Executive Committee Member, The Energy Council

Senator Drue Pearce

President of the Senate

Past Chair and Executive Committee Member, The Energy Council

Past Chair, House Special Committee on Oil and Gas

Senator Johnny Ellis

Senate Minority Leader

Representative Joe Green, Vice Chairman

House Majority Leader

Member, House Special Committee on Oil and Gas

Member, Society of Petroleum Engineers

Retired Petroleum Engineer

Past Director, Minerals & Energy Management, Alaska Department of Natural Resources

Representative Brian Porter

Speaker of the House

Member, House Special Committee on Oil & Gas

Past House Majority Leader

Representative Beth Kerttula

Past Assistant Attorney General, Natural Resources, Oil, Gas & Mining Sections

Co-Author, Alaska Outer Continental Shelf Oil and Gas Lease Sale Review and Coastal Management, 1993

Representative Jim Whitaker

Chair, House Special Committee on Oil & Gas

Member, House Resources Committee

SCOMM

117:10



PRESTON GATES & ELLIS LLP
ATTORNEYS

June 25, 1999

VIA FACSIMILE: ORIGINAL TO BE MAILED

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

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

Dear Bruce:

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

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

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

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

Mr. Bruce M. Botelho

June 25, 1999

Page 3

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

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

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

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

Sincerely,

PRESTON GATES & ELLIS LLP

By

Frederick H. Boness

FHB:ska

Attachments

K:\0209\00001\UKD\UKD_L205A



Official Business

ALASKA STATE LEGISLATURE

Joint Special Committee on Mergers

State Capitol
Juneau, AK 99801

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

August 20, 1999

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

Sent via Fax
Original to follow via mail

Dear Governor Knowles:

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

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

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

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

Revenue Impacts

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

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

I. Royalty Oil

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

II. Taxes and Royalty Impacts

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

III. Tariffs, Tankers, and West Coast Crude Prices

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

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

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

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

The Merger's Impact Upon Competition

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

I. Access to Production Facilities.

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

II. TAPS Tariff Competition.

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

III. Access to Tankers

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

CONCLUSION

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

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

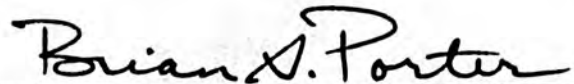
Sincerely,



Senator Rick Halford
Chair, Joint Special Committee on Mergers



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



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

RH:jl
Enclosure

State of Alaska
Office of the Governor

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



Bob King
Press Secretary
Claire Richardson
Deputy Press Secretary
907-465-3500
FAX: 907-465-3533

FOR IMMEDIATE RELEASE: August 23, 1999

· 99-174

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

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

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

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

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

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

-more-

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

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

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

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

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

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

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

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

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

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

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

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

-30-

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

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

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

(Text subject to change.)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

STATE OF ALASKA

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

TONY KNOWLES, GOVERNOR

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

November 30, 1999

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

Dear Governor Knowles:

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

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

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

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

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

A. The Review Process

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

B. The Charter's Rationale

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

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

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

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

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

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

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

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

A. Comments on the Process

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

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

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

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

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

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

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

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

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

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

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

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

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

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

B. Substance

1. MONOPOLY

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

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

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

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

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

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

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

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

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

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

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

2. TRANS ALASKA PIPELINE (TAPS)

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

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

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

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

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

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

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

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

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

3. GAS

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

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

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

4. ENFORCEABILITY

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

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

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

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

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

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

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

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

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

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

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

5. OTHER ISSUES

a. Commenters asked whether the environmental provisions were sufficient.

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

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

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

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

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

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

III. Conclusion

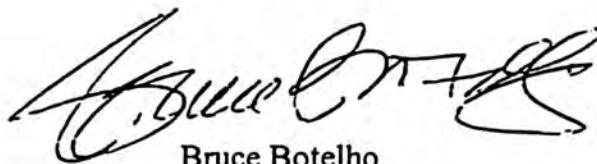
The proposed merger of BP-Amoco and ARCO presents fundamental issues of public policy to the State of Alaska and to your administration. There are no easy choices. We cannot go back to the petroleum industry that existed prior to the Exxon-Mobil and BP-Amoco-ARCO mergers. You have set as the Administration's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

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

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

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

Sincerely yours,

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

Bruce Botelho
Attorney General

BMB:kh

CHARTER FOR DEVELOPMENT of the Alaskan North Slope

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

F. Facilities Access.

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

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

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

H. Divestiture of TAPS and Feeder Lines.

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

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

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

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

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