

SCOMM

144:9

HOUSE COMMITTEE REPC T

(7)

Date Referred to Committee: March 18, 2005

FURTHER REFERRALS: Resources
Finance

Date of Committee Action: March 31, 2005

The HOUSE SPECIAL COMMITTEE ON OIL AND GAS considered:

HB 224

HOUSE BILL NO. 224

SALE/SECURITIZATION OF STATE ROYALTY OIL

"An Act relating to the sale or securitization of certain of the state's oil taken as royalty."

Recommends it be replaced with [] HCS or [] CS for _____ (_____)
For Senate Bills with new title: [] Technical Title [] New Title: HCR _____ [] Same Title [] New Title

☐ attach amendments

☐ add new referral to _____ Committee

☐ Letter of Intent _____ Committee

*List of
Abbrev
for
Depts.:*
ADM
CED
COR
CRT
EED
DEC
DFG
GOV
HSS
LEG
LAW
LWF
MVA
DNR
DPS
REV
DOT
UA

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Signing with recommendations		Printed Last Name	DP	DNP	NR	AM
Berta Gardner	Gardner				X	
Samuels	SAMUELS				X	
Dahlstrom	Dahlstrom				X	
McClure	McClure				X	
Roberts	Roberts			X		
Chair: Vic Hohing	Kehring					X
Chair:						

Alaska State Legislature

Representative Ethan Berkowitz



SPONSOR STATEMENT

House Bill 224

**"An Act relating to the sale or securitization of
certain of the state's oil taken as royalty"**

House Bill 224 asks the Alaska Royalty Oil and Gas Development Advisory Board to research the possibility of either selling or securitizing the State's royalty share of oil from currently producing fields. Under our current system, the royalties from oil, a non-recurring source of income, are used for recurring expenses. While the price of oil fluctuates, the volume produced by existing fields is declining. The State Division of Oil and Gas projects that by 2020, 160 million fewer barrels will be produced annually on the North Slope. HB 224 offers the state the option of taking a lump sum up front that can subsequently be invested, allowing for a stable and growing revenue stream for the State.

Besides benefits to the State, a royalty sale to the current producers would increase fiscal stability, reserves and potentially the economics of operating on the North Slope. While a royalty sale could involve the current producers on the North Slope, there is the potential that a sale could attract new Producers to the state and offer new companies a foothold on the North Slope.

Securitization can happen independently of the producers. Securitization would allow the State to receive money upfront for the forward sale of revenue over a given period of time.

HB 224 simply asks the question of the Alaska Royalty Oil and Gas Development Advisory Board whether a royalty sale or securitization of currently producing oil fields would be worthwhile.

Tobacco Settlement Payment Securitization

March, 2001

Alaska
Housing
FINANCE

State of Alaska

Overview of the Tobacco Settlement

- **The Master Settlement Agreement (“MSA”)**
 - **Benefits of the MSA**
 - **MSA Payments and Adjustments**
 - **Total MSA Payments to the State of Alaska**
- **Options for spending Settlement Money**
- **How Securitization works**
 - **Benefits**
 - **Risks and Costs**
 - **Uses of Bond Proceeds**
 - **Summary of NTSC 2000 transaction and 2001 proposal**
- **General Obligation vs. Tobacco Revenue Bonds**

The Master Settlement Agreement (“MSA”)

- **The MSA was signed on November 23, 1998 and included 46 states, five U.S. territories, the District of Columbia, and the four largest cigarette manufacturers.**
 - **The MSA requires the Participating Manufacturers (“PM”) to make unadjusted payments exceeding \$6.2 billion over the next 40 years, with additional payments in perpetuity.**
 - **Florida, Minnesota, Mississippi and Texas reached their own settlement agreements with the cigarette manufacturers.**
 - **Payments are for recovery of all claims and costs of the states.**
- **Most cigarette manufacturers are now parties to the MSA.**
 - **The Original Participating Manufacturers (“OPM”), Philip Morris, R.J. Reynolds, Brown & Williamson and Lorillard comprise approximately 96% of the domestic cigarette market.**
 - **24 other manufacturers (Subsequent Participating Manufacturers “SPM”) have also signed the agreement.**
 - **In total, the PMs comprise approximately 99.7% of the domestic cigarette market, indicating that the MSA is acceptable to the tobacco industry.**

Benefits of the MSA

- **From the State's perspective:**
 - Alaska should receive large cash payments annually in perpetuity;
 - The MSA is an industry-wide settlement with payments based on total domestic cigarette shipments nationwide;
 - The MSA has been financed by higher cigarette prices, making it similar to an excise tax on cigarettes.
- **From the PM's perspective:**
 - They are released from past, present, and future smoking-related claims of the States;
 - The cost of the settlement is spread out over many years and passed on to consumers through higher prices;
 - They pay in proportion to their market share.

MSA Payments

- **MSA payments are based on domestic cigarette shipments.**
 - **Payments are recalculated each year, based on relative U.S. market share, and are subject to other adjustments.**
 - **Payments can fluctuate significantly based on cigarette consumption in the U.S.**
 - **If cigarette brands are sold, payment obligations follow the brands to the new manufacturer.**
- **Payments are adjusted annually for several factors, including inflation and volume of domestic cigarette shipments.**
- **Payments are allocated to states based upon percentages specified in the MSA.**
 - **Alaska's Initial and Annual Payment percentage is .3414187%**

MSA Payments

(continued)

- **There are three types of payments to the states under the MSA:**

Initial Payments

- **Up front payments made by the OPM through 2003;**

Annual Payments

- **Annual payments made by the OPM and SPM based on market share, in perpetuity;**

Strategic Contribution Payments

- **Payments in 2008-2017 to reimburse states for their contributions to the legal costs associated with the MSA.**

MSA Payment Adjustments

- The MSA Payments are adjusted each year for a number of factors.
- The adjustments apply to certain payments. Some adjustments are expected to have little or no impact on Alaska's payments. However, other adjustments could be significant.

Adjustment	Initial Payments	Annual Payments	Strategic Payments
Inflation Adjustment		X	X
Volume Adjustment	X	X	X
Previously-Settled States Reduction		X	
Non-Participating Manufacturer Adjustment		X	X
Non-Settling States Reduction	X	X	X
Offset for Miscalculated or Disputed Payments	X	X	X
Federal Tobacco Legislation Offset		X	X
Litigating Releasing Parties Offset		X	X
Offset for Claims-Over		X	X

Total MSA Payments to the State of Alaska

(Without any offsets, reductions or adjustments other than the previously settled states reduction)

Payment Type	Scheduled			Amount	Aggregate Amount
	Date of Payment				
Annual Payment	(04/15/01)			13,358,196	13,358,196
Initial Payment	(01/10/02)			7,254,157	7,254,157
Annual Payment	(04/15/02)			17,267,462	17,267,462
Initial Payment	(01/10/03)			7,224,048	7,224,048
Annual Payment	(04/15/03)			17,195,793	17,195,793
Annual Payments	(04/15/04)	through	(04/15/07)	Various	87,206,129
Annual Payments	(04/15/08)	through	(04/15/17)	Various	244,340,648
Strategic Contribution Pmnts.	(04/15/08)	through	(04/15/17)	Various	147,674,050
Annual Payments	(04/15/18)	through	(04/15/25)	Various	246,950,976
Total to be received through 04/15/2025					\$ 788,471,459

Summary of amounts to be received through 04/15/2025	
Initial Payments	\$ 14,478,205
Strategic Contribution Payments	\$ 147,674,050
Annual Payments	\$ 626,319,204
	<u>\$ 788,471,459</u>

Options for spending Settlement Money

- The MSA Payments can be utilized to accomplish many different objectives. Some of the popular strategies being employed by other states are:
 - Spend as you go. This strategy, as its name states, would include MSA Payments reflected in annual budgets as the funds have been or are scheduled to be received;
 - Trust built over time. This approach would work like the Permanent Fund, with the MSA Payments deposited to the Trust and a portion of income from the Trust used in future years for targeted expenditures;
 - Securitization. This approach involves borrowing money with the MSA Payments as collateral and source for repayment of bonds. The proceeds from the issuance of the bonds could be spent or put into a trust fund/endowment.

Tobacco Transactions

completed and anticipated

• TSASC (NYC)	\$ 709,280	November, 1999
• Various NY Counties	1,391,247	1999 to 2001
• TCPFA (CA)	45,000	December, 1999
• North Dakota	32,095	March, 2000
• Alabama	50,000	September, 2000
• NTSC (AK)	116,050	October, 2000
• Puerto Rico	397,005	October, 2000
• Washington D.C.	521,105	March, 2001
• TSRMA (SC)	934,530	March, 2001
• Guam/US VI	47,000	2nd Quarter, 2001
• Various CA Counties	830,000	**Delayed
• Iowa	600,000	Late, 2001
• Arkansas	60,000	Late, 2001
• Nevada	200,000	Late, 2001

NTSC

\$116,050,000

Tobacco Settlement Asset-Backed Bonds, Series 2000

	<u>Serial Bonds</u>	<u>2022 Term Bond</u>	<u>2031 Term Bond</u>
Legal Final Maturity	2013	2022	2031
Projected Final Turbo Redemption	2013	2011	2015
Projected Average Life (Years)	N/A	7.00	13.30
Yield	5.55%-6.00%	6.22%	6.60%

	<u>Series 2000 Actual</u>	<u>Series 2001 Proposed</u>
Gross Bond Proceeds	\$ 116,050,000	\$ 160,305,000
Debt Service Reserve Fund	(11,324,015)	(13,332,920)
Capitalized Interest Account	(7,602,640)	0
Cost of Issuance	(2,845,579)	(2,808,200)
Original Issue Discount	(877,766)	(16,763,880)
Deposit for Operating Expenses	(400,000)	(400,000)
Net Bond Proceeds	<u>\$ 93,000,000</u>	<u>\$ 127,000,000</u>
Percentage of MSA Sold	40%	40%
First Payment from MSA	FY 2002	FY 2002
Final Payment from MSA (projected)	FY 2015	FY 2023

3/27/01

How Securitization Works

- **Securitization, in the case of the tobacco settlement, is the process of issuing bonds that are backed by the MSA Payments.**
- **The State sells all or a portion of their expected tobacco payment funding stream to a special-purpose entity (in this case, the Northern Tobacco Securitization Corporation, NTSC), whose sole purpose is to issue bonds backed by those payments. NTSC, not the State or AHFC, would be the sole entity legally responsible for paying the debt service on the bonds.**

How Securitization Works

- **The State and AHFC are legally separate from NTSC and, therefore, would not put their own credit ratings at risk through the tobacco bond issuance. This mechanism affords the State and AHFC protection from problems resulting from reduced, stalled, or halted payment streams from the MSA.**
- **Securitization provides a sizeable, up-front payment, rather than smaller payments spread over a number of years.**
 - **For immediate, pressing needs or special projects, securitization provides access to cash now. This approach is no different than borrowing money based on your future earnings to purchase a house, and paying it back over the next 30 years.**

Benefits of Securitization

- **Securitization transfers the risks associated with the MSA Payments to the buyers of the bonds, including:**
 - **Reductions in cigarette sales;**
 - **Bankruptcy of any or all of the PMs;**
 - **Invalidation of the MSA.**
 - **A possible increase in the federal cigarette tax;**
 - **Individual lawsuits against the industry and states; and**
 - **The impact of the additional volume reductions attributable to national smoking prevention and public education campaigns and significant additional restrictions related to the tobacco industry's marketing, advertising, and lobbying.**

Uses of Bond Proceeds

- **On what and how the money is spent determines the tax status of the bonds. Tax-exempt bonds generally have lower interest costs than taxable bonds, reducing the cost of the financing to the State.**
- **If Bond Proceeds are spent on qualifying capital projects or other qualifying expenditures, interest paid on them will be exempt from federal income taxes.**
- **If Bond Proceeds are spent on operating items, or the earnings of a trust/endowment fund created with Bond Proceeds are invested in taxable securities yielding above the cost of the bonds, the interest paid to holders of the bonds will be taxable.**

General Obligation vs. Tobacco Revenue Bonds

Even though General Obligation Bonds have lower interest costs than Revenue Bonds, there are compelling reasons to use Revenue Bonds:

- **There is a limited amount of G.O. bond capacity available to the State.**
- **By not selling the revenue stream to bondholders, the state is, in effect, holding an investment in the Tobacco Industry, exposing the State to unnecessary industry concentration, credit concerns and illiquidity.**
- **Revenue bonds are generally issued with debt service payable only from the revenue source identified. This makes them attractive to issuers where revenue streams are uncertain.**

In the opinion of Wohlforth, Vassar, Johnson & Brecht, A Professional Corporation, Bond Counsel, and Kutak Rock LLP, Special Tax Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the Series 2000 Bonds (defined below) (i) is excluded from gross income for Federal income tax purposes and (ii) is not treated as a specific preference item to be included in calculating the alternative minimum tax imposed under the Internal Revenue Code of 1986, as amended, on individuals and corporations; but such interest is included in calculating the "adjusted current earnings" of certain corporations for purposes of computing the alternative minimum tax on such corporations. In the opinion of Bond Counsel, under existing laws, interest on the Series 2000 Bonds is free from taxation by the State of Alaska except for transfer, inheritance and estate taxes. See "TAX MATTERS."

\$116,050,000

**Northern Tobacco Securitization Corporation
Tobacco Settlement Asset-Backed Bonds, Series 2000**

Northern Tobacco Securitization Corporation ("NTSC") is a nonprofit corporation organized as a subsidiary of the Alaska Housing Finance Corporation ("AHFC"). As a subsidiary of AHFC, NTSC is a government instrumentality of, but separate and apart from, the State of Alaska (the "State").

The Tobacco Settlement Asset-Backed Bonds, Series 2000 (the "Series 2000 Bonds") are to be issued pursuant to an Indenture and a Series 2000 Supplemental Indenture, each dated as of October 1, 2000 (collectively, the "Indenture"), and each between NTSC and U.S. Bank Trust National Association, Seattle, Washington, as indenture trustee (the "Trustee"). The Indenture does not permit NTSC to issue any additional series of bonds secured by a pledge of the Pledged Receipts, other than those which may be issued for refunding purposes. See "THE SERIES 2000 BONDS—Additional Refunding Bonds."

The Series 2000 Bonds are being issued to finance NTSC's purchase of the "Pledged Receipts" consisting of 40% of all amounts required to be paid to the State beginning January 10, 2002 under the Master Settlement Agreement (the "MSA") entered into by participating cigarette manufacturers (the "PMs"), 46 states and six other U.S. jurisdictions in November 1998 in settlement of certain smoking-related litigation. Pledged Receipts derive from certain initial payments, annual payments and strategic contribution fund payments (such payments as more fully defined herein, the "TSRs") to be made by the PMs under the MSA. Under applicable Alaska statutes, the claim of NTSC to that portion of the TSRs being sold to NTSC is on a parity with the claim of the State to ownership of the remaining 60% of all amounts required to be paid to the State beginning January 10, 2002 under the MSA.

Payment of the Series 2000 Bonds is dependent on receipt of TSRs. The amount of TSRs actually collected is dependent on many factors including cigarette consumption and the financial capability of the PMs. See "RISK FACTORS" for a discussion of certain factors that should be considered in connection with an investment in the Series 2000 Bonds.

The Series 2000 Bonds will be secured by and payable solely from (i) the Pledged Receipts and investment earnings on accounts pledged with respect to the Series 2000 Bonds under the Indenture (as more fully defined herein, the "Collections"), (ii) amounts held in a certain reserve account established for the Series 2000 Bonds under the Indenture (the "Series 2000 Reserve Account") and (iii) amounts held in the other funds and accounts established for the Series 2000 Bonds under the Indenture.

Interest on the Series 2000 Bonds will be payable on each June 1 and December 1, commencing June 1, 2001.

The Series 2000 Bonds shall consist of Serial Bonds and Term Bonds. The Series 2000 Bonds maturing on June 1, 2008 through June 1, 2013, inclusive, shall be "Serial Bonds" and shall each be referred to herein as a "Serial Maturity" and, collectively, as the "Serial Maturities". All other Series 2000 Bonds shall be "Term Bonds" and shall be subject to mandatory redemption according to the schedule of amortization payments (the "Sinking Fund Payments"). Interest payments, and Serial Maturities and Sinking Fund Payments (together, "Principal Installments"), will be paid from Collections and, if necessary, the Series 2000 Reserve Account. In addition, 100% of all Surplus Collections (as defined herein), if any, shall be applied to the special mandatory par redemption ("Turbo Redemptions") of the Term Bonds. Surplus Collections, if any, will be applied to the Turbo Redemption of the Term Bonds in ascending order of maturity and such Turbo Redemptions will be credited against Sinking Fund Payments for any particular Term Bond in ascending order of Sinking Fund Payment Dates.

Due to NTSC's covenant to apply all Surplus Collections to Turbo Redemptions, it is expected that receipt of principal on the Term Bonds will be substantially earlier than the schedule of Sinking Fund Payments.

Certain of the Series 2000 Bonds are subject to redemption and prepayment, as described herein.

See Inside Front Cover for Dated Date, Maturity Schedule, Interest Rates and Prices or Yields

The Series 2000 Bonds shall not be a debt of AHFC or the State nor shall AHFC or the State be liable thereon. NTSC shall not have the power to pledge the credit, the revenues or the taxing power of the State or the credit or revenues of AHFC, and neither the credit, nor the revenues nor the taxing power of the State or the credit or revenues of AHFC shall be, or shall be deemed to be, pledged to the payment of any of the Series 2000 Bonds. NTSC has no taxing power.

**Bear, Stearns & Co. Inc.
Lehman Brothers**

**Morgan Stanley Dean Witter
Salomon Smith Barney**

The Series 2000 Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of legality by Wohlforth, Vassar, Johnson & Brecht, A Professional Corporation, Anchorage, Alaska, Bond Counsel, and to the confirmation of certain tax matters by Wohlforth, Vassar, Johnson & Brecht, A Professional Corporation, and Kutak Rock LLP, Special Tax Counsel, and to certain other conditions. Certain legal matters will be passed on for the State by the Attorney General of the State and for the Underwriters by their counsel, Hawkins, Delafield & Wood, New York, New York. It is expected that delivery of the Bonds will be made to DTC in New York, New York, on or about October 26, 2000.

October 13, 2000


THE WALL STREET JOURNAL.
 ONLINE

 FORMAT FOR
 PRINTING
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XEROX

March 18, 2005

PAGE ONE

Oil Companies Reap Cash Windfall From Price Surge

Investors Say Big Stockpiles
Can Help Pump Up Returns;
Exxon's \$23.1 Billion Hoard

By **JEFFREY BALL** and **RUSSELL GOLD**
 Staff Reporters of THE WALL STREET JOURNAL
 March 18, 2005; Page A1

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The surge in oil prices over the past year is generating an immense cascade of cash that is flooding the coffers of oil companies, raising pressure on their bosses to pursue acquisitions, further boost spending on production or give more of the gains to shareholders.

So far, big Western oil companies have been reluctant to commit the bulk of that cash toward any of those ends, over concern that the rise in oil prices will prove temporary. They argue that big acquisitions could lose value if oil prices drop, and say it's not worth pouring even their extra resources into further development if returns don't justify the expense -- despite rising competition from oil-hungry nations like China and India.

Moreover, though the cash windfall is large -- **Exxon Mobil Corp.**, the world's biggest oil company, ended 2004 with \$23.1 billion in cash on hand, more than double its hoard from a year earlier -- plans at most oil companies assume prices will drop from today's highs.

But some shareholders say they should get a big share of that windfall -- perhaps with a special dividend like the one **Microsoft Corp.** paid investors last year, worth \$32.6 billion. With the tax rate on dividends at 15%, and the possibility that could rise in the future, **Frederick Leuffer**, an oil analyst at **Bear Stearns**, says a special payment this year is preferable to incremental boosts over several years.

Cash Machines

Total cash reserves, in billions

\$25

 20 2002
 15 2003
 10 2004

Investors also say they're concerned because cash sitting on a company's books typically earns far less than when it's invested in an oil or natural-gas project. Despite company assertions that they have plenty of oil left to pump, some investors argue the industry lacks investment options in parts of the world that have the most fossil fuel -- particularly the Middle East.

To be sure, most oil companies have been boosting regular

dividends and buying back shares; Exxon, for instance, raised spending on dividends and buybacks to \$14.9 billion in 2004 from \$11.5 billion a year earlier. Additionally, at least two large companies, **ChevronTexaco Corp.** and **Eni SpA**, are said to be considering a deal for **Unocal Corp.**, which could be valued at \$17 billion.

In response to questions from investors, industry executives preach patience. At a meeting with analysts last week in New York, Exxon Chairman and Chief Executive Lee Raymond said the company is carefully watching spending and doesn't plan a major acquisition soon. Exxon officials say a one-time special dividend wouldn't do much to boost the long-term value of the stock.

"Oil is a commodity," Mr. Raymond said. "It's hard to identify a single commodity that has maintained a very high price over a very long period of time."

Exxon's not alone in seeing its hoard of cash -- that is, the amount of money left over after paying all expenses, from capital projects to taxes -- grow as oil prices climb higher. At **Royal Dutch/Shell Group**, cash on hand rose to \$8.5 billion in 2004, from \$2 billion a year earlier. ChevronTexaco's cash jumped to \$9.3 billion from \$4.3 billion.

Together, the world's five biggest oil companies -- which include **BP PLC** and **Total SA** besides Exxon, Royal and ChevronTexaco -- generated \$67.4 billion in free cash flow in 2004, according to Norwalk, Conn., energy-research firm John S. Herold. That figure refers to the amount of money left after capital spending, but before paying dividends and buying back shares. The 2004 figure, boosted by some asset sales, was up nearly 32% from the \$51.1 billion generated in 2003.

Herold estimates the five companies will throw off just \$55.5 billion in free cash flow in 2005 -- but that estimate is premised on an average oil price of \$40 a barrel for the year. Right now, oil is priced much higher, driven steadily upward by surging demand, in the U.S. and in growing economies like China's, even as the industry pumps about as hard as it can.

Yesterday, crude oil for April delivery finished the day at \$56.40, down six cents, after hitting a new intraday record in trading on the New York Mercantile Exchange of \$57.60. That figure remains behind historical highs when adjusted for inflation.

Herold predicts Exxon will be the industry's biggest generator of free cash this year, racking up another \$16.4 billion. Even allowing for a moderate increase this year in capital spending, share buybacks and the regular dividend, Exxon's cash pile is likely to rise to at least \$35 billion by the end of the year, estimates Fadel Gheit, an oil analyst at Oppenheimer & Co. That would amount to a roughly 50% increase in Exxon's cash in 2005 alone.

Mr. Gheit calculates that every \$1 increase in the average price per barrel of oil adds about \$550 million to Exxon's after-tax annual profit. If its expenses don't change, that additional profit all piles up as cash -- a problem, Mr. Gheit says, that shows up in a company's "return on capital employed." That common industry measure is meant to capture how effectively the company's capital produces profit.

Though high oil prices boost the short-term profits of oil companies, they make it tougher for companies to produce enough new oil and natural gas to replenish what is pumped out of the ground. Under agreements that are becoming increasingly common in the oil industry, governments that own much of the remaining big fossil-fuel stashes give Western oil companies

proportionately less fossil fuel as the price of those commodities rises.

Industry executives have reason to watch spending. When oil prices surged in the 1970s, companies sought new investments, as when the former Mobil Corp. bought Montgomery Ward and Occidental Petroleum Corp. acquired Iowa Beef Processors. Neither purchase succeeded, and each company ended up shedding its acquisition.

Even so, if executives are wrong, and prices keep rising and stay high, the companies may well be forced to rethink their current approach. If they don't, they could lose potential assets to smaller competitors, including state-controlled oil companies in the developing world, that are hungrier for growth.

The cash windfall goes well beyond the industry giants. **Burlington Resources Inc.**, a Houston-based independent, reported last month that it had \$2.18 billion in cash and cash equivalents at the end of 2004, nearly triple the amount it had a year earlier. Steven Shapiro, Burlington's chief financial officer, told analysts in January that his company was "interested" in acquisitions but wouldn't aggressively ramp up capital spending because that tends to hurt returns. He acknowledged that the company was nearing a point at which, if it didn't find an acquisition in 2005, adding more cash would become "inefficient," and promised to address the issue.

Exxon's Mr. Raymond, though downplaying the likelihood his company would make a major purchase soon, hasn't ruled one out down the road. Indeed, in signaling that Exxon probably will raise its rate of share buybacks, he recalled at last week's meeting that Exxon has used buybacks in previous periods of high oil prices to amass equity that the company later used to pounce when prices fell.

One such buyback started in the early 1980s, he recalled. Exxon ended up repurchasing one billion shares at a cost of \$16 billion. In 1999, it used them to buy Mobil for about \$80 billion.

"A pretty good investment for the shareholders," Mr. Raymond said.

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BP Trinidad, Tobago to Sell 3 Oil Fields, to Invest in Gas

Mon, Mar 14, 2005 04:30 GMT

PORT-OF-SPAIN, Trinidad - BP Trinidad and Tobago wants to sell three oil fields off Trinidad's southeast coast as the company moves to expand its production of natural gas, officials said Sunday.

The three oil fields - Teak, Samaan and Poui - produce about 21,000 barrels of oil a day, or 5% of BP Trinidad and Tobago production of oil and gas, said Robert Riley, the company's chairman and chief executive.

With a sale, bpTT (BP Amoco PLC's (BP) Trinidad branch) would be able to focus on expanding its gas business while allowing a new player to grow the oil business, Riley said. The asset comprises bpTT's three longest-producing fields (30 years), 14 platforms and exploration and production licenses, he said.

The company said it will retain deep exploration rights around the three fields. Riley didn't say whether any buyers had contacted the company.

BP Trinidad is the largest shareholder in Atlantic LNG, Trinidad's liquid natural gas company.

In recent years, Trinidad has become the leading supplier of liquid natural gas to the U.S., supplying 75% of imports last year. Liquid natural gas comprised only 3% of the total natural gas used in the U.S. in 2003, but that share is expected to grow to 15% by 2025.

The former British colony, which has proven natural gas reserves of at least 30 trillion cubic feet, reported economic growth of 12.8% last year - much of it due to liquid natural gas.

The nation of 1.2 million people relies on oil and gas for more than 25% of gross domestic product. Trinidad and Tobago is one of the wealthiest countries in the Caribbean.

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