ALASKA LEGISLATURE COMMITTEE FILES 1987-1988 8672
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did assign any value?
who were plaintiffs - how much stock etc.
why settle - fear of losing any opp's to merge - what kind of signals f. defs?

IN THE COURT OF COMMON PLEAS
CUYAHOGA COUNTY, OHIO

JOHN and MARJORIE MOORE
32 Golden Gate Avenue
Belvedare, California 94920

and

LOUIS H. GOLDMAN
12 East 49th Street
New York, New York 10017

and

DAVID GROBOW
86 Davison Place
Englewood, New Jersey 07631

Plaintiffs,

v.

THE STANDARD OIL COMPANY
200 Standard Oil Bldg.
& Public Square
Cleveland, Ohio 44114

and

THE BRITISH PETROLEUM COMPANY
p.l.c.
Britannic House
Moor Lane
London, England EC2Y9BU

and

Case No. 126760

Judge: 090 THOMAS J. POKORNY

SHAREHOLDERS' CLASS ACTION COMPLAINT FOR PRELIMINARY AND INJUNCTIVE RELIEF

BP INTERNATIONAL LIMITED
Britannic House
Moor Lane
London, England EC2Y9BU

and

BP NORTH AMERICA, INC.
650 Fifth Avenue
New York, New York

and

ROBERT B. HORTON
200 Standard Oil Bldg.
& Public Square
Cleveland, Ohio 44114

and

E. JOHN P. BROWNE
200 Standard Oil Bldg.
& Public Square
Cleveland, Ohio 44114

and

J. COLIN WEBSTER
200 Standard Oil Bldg.
& Public Square
Cleveland, Ohio 44114

and

BASIL R. R. BUTLER
200 Standard Oil Bldg.
& Public Square
Cleveland, Ohio 44114

and

IAN G. S. HARTIGAN
200 Standard Oil Bldg.
& Public Square
Cleveland, Ohio 44114

and

KENNETH R. KEEP
200 Standard Oil Bldg.
& Public Square
Cleveland, Ohio 44114

and

FRANK E. MOSIER
200 Standard Oil Bldg.
& Public Square
Cleveland, Ohio 44114

and

RICHARD A. BRAY
200 Standard Oil Bldg.
& Public Square
Cleveland, Ohio 44114

Defendants.

Now come the plaintiffs, and for their Complaint against defendants, states the following upon information and belief, except as to paragraph 1 which is alleged upon knowledge:

1. Plaintiffs John and Marjorie Moore, Louis H. Goldman and David Grobow are each the owner of the common stock of defendant The Standard Oil Company ("Standard Oil") and have held said common stock since prior to the announcement of the proposed tender-offer/freeze-out transaction described herein.

2. Defendant Standard Oil is an Ohio corporation with its principal place of business in Cleveland, Ohio. Standard Oil is engaged in all phases of the petroleum business, primarily in the United States, including the exploration for and production of crude oil and natural gas and the transportation, refining and marketing of crude oil and petroleum products. In addition (as a result of Standard Oil's purchase, in 1981, of Kennecott Corp.), Standard Oil is a major producer and marketer of copper, gold, silver and coal, and a leading supplier of refractories, copper,

brass, mill products and process systems and equipment. Standard Oil also manufactures and markets certain chemical products and products produced from ilmenite (an ore used to produce products for the pigment industry).

3. Standard Oil's oil and gas reserves and production facilities are located primarily in Alaska, Texas, Oklahoma, Louisiana and the Gulf of Mexico; its principal coal reserves and mines are located in Illinois, Indiana, Kentucky, Pennsylvania and West Virginia; and its ilmenite mine and processing facilities are located in Quebec, Canada. Standard Oil also has interests in oil shale and tar sands properties located in Colorado and Utah.

4. Standard Oil's most important assets are its petroleum reserves and exploration properties, which are located chiefly in Alaska and the Gulf Coast region, and its petroleum refining and marketing facilities. Standard Oil produces approximately one fifth of this country's oil output. As of the end of Standard Oil's most recent fiscal year, December 31, 1986, Standard Oil had reserves in approximately the following amounts: petroleum liquids, 2.41 billion barrels; and natural gas, 7.30 trillion cubic feet. Standard Oil also had reserves of 7.06 billion tons of coal; 100 million troy ounces of silver; 10.4 million troy ounces of gold; and 7.3 million tons of copper. These reserves have generated strong cash flow. For example, on or about January 22, 1987 defendants announced that Standard Oil would continue its quarterly dividend of $.70 per share, and retire debt early, citing strong cash flow from operations.

5. Standard Oil has the equivalent of approximately 239 million shares of common stock outstanding. Standard Oil's common stock is traded on the New York and Midwest Stock Exchanges and, as of February 28, 1986, was held by approximately 55,760 shareholders of record. Approximately 130,160,000 shares of Standard Oil's common stock, or 55% of all such shares, are owned by defendant The British Petroleum Company p.l.c., through its wholly owned subsidiary, defendant BP International Limited.

6. Defendant the British Petroleum Company p.l.c. is a corporation organized under the laws of England. The British Petroleum Company and its subsidiaries (including its subsidiaries, defendants BP North America, Inc. and BP International Limited, collectively referred to hereinafter as "BP"), is the largest industrial concern in the United Kingdom, the second largest in Europe, and the fifth largest in the non-communist world. For the year ended December 31, 1985, (the most recent year for which BP has published audited financial results), BP had revenues of more than 59 billion dollars and profits of more than 2.3 billion dollars. In 1970, BP acquired 1,000 shares of Special Stock of Standard Oil, each such share equivalent to 125,840 shares of Standard Oil's common stock. BP also owns 4,320,000 shares of Standard Oil's common stock. As a result of BP's ownership of a majority of Standard Oil's voting shares (as well as BP's other relationships with Standard Oil), BP controls Standard Oil.

7. Defendant Robert B. Horton ("Horton") is Chairman of the Board and Chief Executive Officer of Standard Oil. In February, 1986, BP ousted Standard Oil's former Chairman and Chief Executive Officer, Alton W. Whitehouse, and installed Horton in those positions. Prior to February, 1986, Horton was a Managing Director of BP, in charge of BP's corporate finance and planning and its operations in the Western Hemisphere.

8. Defendant E. John P. Browne ("Browne") is Executive Vice President, Chief Financial Officer and a director of Standard Oil. In February, 1986, BP installed Browne in the position of Standard Oil's Executive Vice President and Chief Financial Officer; in April, 1986 BP placed him on Standard Oil's Board. Prior to February, 1986, Browne was Group Treasurer of BP and Chief Executive of BP Finance International.

9. Defendant J. Colin Webster ("Webster") is Executive Vice President and a director of Standard Oil. In 1985, BP placed him on Standard Oil's Board; in February, 1986, BP installed Webster as Executive Vice President of Standard Oil. Prior to February, 1986, Webster was President of BP North America. In July, 1986, Barron's reported with regard to defendants Horton, Browne and Webster: "All three have formally left BP, but few people doubt that Standard Oil is being seen as their proving ground. Turn Standard Oil around, and plum jobs await them back at Britannic House [BP's headquarters] should they wish to return."

10. Defendant Basil R.R. Butler ("Butler") is a Managing Director of BP and Chairman of BP Exploration Company Limited and

of BP Gas International Limited. BP placed Butler on the Board of Standard Oil in April, 1986.

11. Defendant Ian G.S. Hartigan ("Hartigan") is President of BP North America, a position he has held since April, 1986. Prior to then, he was Managing Director of BP Shipping. Also in April, 1986, BP installed Hartigan on the Board of Standard Oil.

12. Defendant Kenneth R. Keep ("Keep") is Technical Director of BP Exploration. BP installed him on the Board of Standard Oil in April 1986.

13. Defendant Frank E. Mosier ("Mosier") is President and Chief Operating Officer of Standard Oil. In February, 1986, BP ousted the former President and Chief Operating Officer of Standard Oil, John R. Miller, and installed Mosier in those positions. Mosier is a director of Standard Oil (since 1980). Mosier joined Standard Oil in 1953.

14. Defendant Richard A. Bray ("Bray") is Executive Vice President of Standard Oil and a director (since January, 1985). He joined Standard Oil in 1982. Prior to then, he was Managing Director of an oil exploration company in the United Kingdom.

15. The individual defendants constitute a majority of Standard Oil's directors. By reason of defendants' stock ownership and/or their positions with Standard Oil, defendants occupy a fiduciary relationship with the plaintiff and other public stockholders of Standard Oil and owe the plaintiff and the other members of the Class the highest obligations of good faith and fair dealing.

Class Action Allegations

16. Plaintiffs bring this action on their own behalf and as a class action, pursuant to Rule 23 of the Ohio Rules of Civil Procedure, on behalf of all common stockholders of Standard Oil (except the defendants herein and the members of the immediate families of the individual defendants), and their successors in interest, who are or will be threatened with the deprivation of their equity interest in Standard Oil by reason of the proposed elimination of the public stockholders of Standard Oil through the transactions hereinafter described.

17. This action is properly maintainable as a class action for the following reasons:

(a) The class of stockholders for whose benefit this action is brought is so numerous that joinder of all class members is impracticable. As of October 31, 1986, there were approximately 109 million common shares of Standard Oil outstanding (other than those owned by BP), owned by approximately 56,000 shareholders of record. Members of the class are scattered throughout the United States.

(b) There are questions of law and fact which are common to members of the class and which predominate over any questions affecting any individual members. The common questions include, inter alia, the following:

(i) whether the defendants have engaged in a plan and scheme to defraud the members of the class;

(ii) whether the defendants have engaged in a plan and scheme to unlawfully "freeze-out" the public stockholders of Standard Oil;

(iii) whether the proposed tender offer/freeze-out is so grossly unfair to the public stockholders of Standard Oil as to constitute a fraud upon them;

(iv) whether defendants have failed to disclose potential and expected positive future financial benefits to Standard Oil in order to depress the market price for Standard Oil to enable defendants to take Standard Oil private at a fraudulently low and unfair price;

(v) whether defendants have breached their fiduciary and the other common law duties owed by them to plaintiff and the members of the class; and

(vi) whether defendants are pursuing a course of business designated to eliminate the public shareholders of Standard Oil in violation of the laws of the State of Ohio.

(c) The claims of the plaintiffs are typical of the claims of the members of the class, and plaintiffs will fairly and adequately protect the interests of the class. Plaintiffs have retained attorneys who are thoroughly experienced in shareholder litigation.

(d) A class action is superior to other available methods for the fair and efficient adjudication of the claims which are asserted, and no unusual difficulties are likely to be encountered in the management of this class action. The likeli-

hood of the individual class members prosecuting separate claims is remote.

Cause of Action Against All Defendants

18. By virtue of the acts and conduct alleged herein, the defendants have carried out a preconceived plan and scheme to eliminate the public common stockholders of Standard Oil and wrongfully to permit defendants to appropriate the benefit of the ownership of Standard Oil, including its potential and continuing growth and profitability, while at the same time the public common stockholders of Standard Oil would be wrongfully deprived of their investment in Standard Oil and all of its present and continuing profitability and growth and would receive in return for their investment grossly inadequate consideration.

19. The sole and primary objective of that plan and scheme is to permit defendants to acquire the equity ownership of Standard Oil for a fraudulently low and unfair price. The plan and scheme constitutes an improper and unlawful attempt by defendants to freeze-out the public stockholders of Standard Oil.

20. In furtherance of this plan and scheme, on or about February 24, 1986, BP announced that it had peremptorily ousted Standard Oil's former Chairman of the Board and Chief Executive Officer and former President and Chief Operating Officer, and had installed its own handpicked officers, the individual defendants, as the management of Standard Oil. At the same time, BP "packed" the Board of Directors of Standard Oil so that, for the

first time, a majority of the Standard Oil Board consisted of executives appointed by BP. By those acts, BP made clear that it intended to operate Standard Oil for its own benefit, and that anyone who challenged BP's domination and control of Standard Oil would be instantly dismissed.

21. Pursuant to the plan and scheme of the defendants, on or about March 26, 1986, defendant BP announced a proposal to acquire the approximately 45% of Standard Oil's common stock that was not already owned by it. Under said plan, the common stockholders of Standard Oil would receive only Seventy Dollars ($70.00) per share.

22. Defendants' plan and scheme is an attempt to force out the public common stockholders of Standard Oil at a price which is far less than the common stock is worth, for the sole purpose of enriching the defendants. The Seventy Dollars ($70.00) per share price proposed to be paid to the public stockholders is so grossly inadequate and unfair as to constitute a fraud upon the shareholders of Standard Oil. The intrinsic value of the stock of Standard Oil is materially in excess of Seventy Dollars ($70.00) per share, giving due consideration to its assets, its growth and profitability, the underlying strength of its business, its earnings and earnings power, present and projected. The proposed price of Seventy Dollars ($70.00) per share is a fraudulent and unfair effort by the defendants to take advantage of current market conditions with respect to Standard Oil and to deprive plaintiffs and the members of the public of the benefits

which defendants expect to obtain from the projected growth of Standard Oil's earnings.

23. The proposed tender offer/freeze-out price of Seventy Dollars ($70.00) per share is not the result of arm's-length negotiations and was not based upon any independent appraisal of the current value of Standard Oil's shares, assets, or business, but was fixed arbitrarily by the defendants themselves as part of their plan to obtain ownership of Standard Oil's assets and businesses at the lowest possible price and to obtain for themselves benefits disproportionate with those to be received by the public shareholders, which facts were not disclosed.

24. In proposing the freeze-out of Standard Oil's minority shareholders, defendants are seeking to appropriate for their own benefit, to the detriment of Standard Oil's public shareholders, Standard Oil's extraordinary potential for profitability and growth. For example:

(a) Defendants have timed the tender offer/freeze out to take advantage of the imminent surge in oil prices and recovery in the oil industry. Accordingly, securities analysts have estimated mean earnings per share for standard oil of $3.63 per share in 1987 and $4.79 in 1988, compared to a loss of $1.32 per share in 1986 and earnings of only $1.31 per share in 1985.

(b) Standard Oil has taken action in 1986 "to reposition the company so that it will perform well in an environment of low and volatile or due oil prices, based on the assumption that prices will average $15 per barrel Mreal terms

for the next few years." 1986 Standard Oil Annual Report. In fact, the price for crude oil on the spot market is already substantially in excess of $15 per barrel, closing on the New York Mercantile Exchange on March 25, 1987 at a price of $18.71 per barrel. Based on Standard Oil's current production levels, that increase in oil prices will increase Standard Oil's revenues and income by a material amount.

(c) Only last year, Standard Oil's former Chief Executive Officer (who defendants ousted) represented to Standard Oil's shareholders:

> Sohio Goal is Long-Term Value
>
> * * *
>
> Standard Oil's ability to create a competitive advantage is made easier by these factors:
>
> Financial stability is provided by cash flow generated by our large domestic hydrocarbon base.
>
> ***
>
> Investment Emphasis Shifts
>
> We have come a long way toward creating a strong, integrated energy company that is well positioned for the future.
>
> When Prudhoe Bay [Alaska reserves] was brought on stream, Standard Oil's business was small and narrow. Since then, we have made substantial investments in oil and gas exploration, coal reserves, metals mining, chemicals and most recently, petroleum refining and marketing.
>
> Our major positioning investments are behind us,...the major role of our investments now ill be ..on translating our non-income pro-

ducing assets -- such as idle coal reserves and undeveloped exploration acreage -- into income producing assets.

***

We have witnessed large oil companies being acquired by other large companies, at prices well in excess of the previously prevailing stock market valuation....

These actions imply that the acquiring companies, while paying a premium over the stock market valuations, believe they are acquiring reserves and other assets cheaper and with less risk than they could by exploration and direct investment.

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Reserves Increased

In 1984, we announced three production development projects in Alaska -- the endicott field, the Lisburne pool of the Prudhoe Bay field, and the Prudhoe Bay Miscible Gas Project.

In total, those three projects added 310 million barrels to our proved reserves. As a result [Standard Oil's] reserves at year-end 1984 exceeded those at year-end 1983 and 1982 as well (emphasis added and in the original).

(d) Then, shortly before his dismissal, he similarly represented to Standard Oil's shareholders:

In Alaska, our major oil and gas production projects are ahead of schedule and under budget. Also, the production plateau of the Prudhoe Bay field was extended into 1988 by continued development efforts.

We accelerated our evaluation of the substantial portfolio of exploration acreage acquired since 1981, particularly in Lower 48 States prospects.

In the Gulf of Mexico, we made significant discoveries on East Breaks Block 165 and Ewing Bank Block 826, and we have

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> commenced construction of a production platform for the East Breaks discovery.
>
> On the international front, where there is the opportunity to be exposed to sizable investment opportunities at higher rates of return, we acquired a three-million-acre concession offshore Qatar and entered into a Canadian exploration joint venture.
>
> In refining and marketing, the newly acquired Gulf Oil Corporation properties contributed importantly to that business's improved income (emphasis added).

(e) Worldwide economic and political conditions at the present time have resulted in the recognition of the value of oil and gas reserves in the United States, coupled with industry recognition that long term oil and gas prices will substantially increase. For example, BP's Chairman, Sir Peter Walters was quoted in July 1986 as stating that, "The lower the oil price goes now, the more likely it is to bounce back in the 1990's." Also, in July, 1986, Sir Peter Walters admitted that BP was "always looking at it [the publicly held portion of Standard Oil." He conceded then: "Although it may be cheaper to make the bid now, cheap is not cheap if it is not in the right shape. Better to pay higher prices for more valuable objects when you're sure of the value" (emphasis added).

(f) During 1986, Standard Oil recently announced that it was disposing, modernizing and writing off certain assets, including portions of Kennecott's mining and metals business it acquired in 1981. Since their acquisition by Standard Oil, those operations have consistently been unprofitable. Disposition and

modernization of these assets and associated tax benefits will not only provide defendants with substantial funds to pay for the freeze-out of Standard Oil's public shareholders, but also will very materially increase Standard Oil's cash flow and profitability. Standard Oil stated that it expected this program to provide more than $500 million of net cash inflows and provide additional income in future years. BP has conceded that, although "[t]he immediate result [of these changes] is very large write-offs in copper and coal mining, oil and gas exploration and stiff redundancy payments [, i]n the long run, of course, Standard Oil will be operating from a stronger base (emphasis added)."

(g) The proposed tender offer/freeze-out of Seventy Dollars ($70.00) for each share of Standard Oil stock translates into a total value of approximately $7.4 billion assigned by BP to all of Standard Oil's reserves, undeveloped acreage, refining and marketing operations and other businesses, less Standard Oil's debt. Based upon evaluations of oil and gas reserves by recognized appraisers and geologists and prices paid and offered in other recent acquisitions and mergers in the oil industry, the true value of Standard Oil's net assets is substantially in excess of the Seventy Dollars ($70.00) tender offer/freeze-out price.

(h) The price of Seventy Dollars ($70.00) per share represents a discount from the true net asset value of Standard Oil far exceeding the discount in comparable transactions, in-

cluding the acquisition price offered by Texaco, Inc. for the Getty Oil Company, and the damages recently awarded to Pennzoil, Inc., for the loss of Getty's oil reserves.

(i) Standard Oil recently purchased from Gulf Oil Corp. a refinery in Louisiana with a capacity of 200,000 barrels per day, for a price of approximately $583 million (including $268 million of inventories), at a time when refining and marketing margins were recovering dramatically, so that, for the year ended December 31, 1985, Standard Oil's refining and marketing earnings increased more than 100%, to $424 million. In July, 1986, Barron's reported that Standard Oil's "downstream operations are among the most profitable of any oil major, and [Sir Peter] Walters describes the recent $613 million purchase of Gulf Oil's refining and marketing operations in the Southeast as 'a super buy'."

(j) Standard Oil recently eliminated approximately 1,300 staff positions, which will enable Standard Oil to enjoy dramatic future cost savings.

(k) In preparation for this unlawful and grossly unfair tender offer/freeze out, management of Standard Oil, which are controlled by B.P., implemented a plan to effectuate early retirement of $1.3 billion of debt associated with nine separate debt issues through early redemption, tender offers and purchase in the open market. The early retirement of certain of the high-coupon debt will produce a substantial pre-tax interest savings to Standard Oil.

25. Although defendants are now sure that Standard Oil, its assets and its business, are extremely valuable, they are attempting to violate their own admonition to pay "higher prices" for that business and those assets.

26. Prior to announcing the proposed freeze-out, defendants did not (i) undertake an adequate evaluation of Standard Oil's worth as potential merger or acquisition candidate or take adequate steps to enhance Standard Oil's value or attractiveness as a merger or acquisition candidate; (ii) effectively attempt to dispose of Standard Oil's assets; (iii) act so that the interests of the public security holders were protected.

27. The marketplace has already determined that the Seventy Dollars ($70.00) per share is unfair. Within several hours of the announcement of the tender offer/freeze out on March 26, Standard oil stock was trading at Seventy-Two Dollars ($72.00) on the New York Stock Exchange. Additionally, BP stock has also risen $2.6125 within hours of the announcement, as the marketplace has recognized the synergistic value of the combination of the companies.

28. The tender offer/freeze-out serves no legitimate business purpose of Standard Oil, and is an attempt by the defendants to aggrandize their own interests and finances at the expense and to the detriment of the public stockholders of Standard Oil. The proposed freeze-out will deny class members their right to share proportionately in the true value of Standard Oil's valuable assets, profitable businesses, and future growth in profits,

earnings, and profitable businesses, while usurping the same for the benefit of the defendants at a fraudulently unfair and inadequate price. Because defendants control the business and corporate affairs of Standard Oil (and because they are in possession of corporate information concerning Standard Oil's assets, businesses, and future financial prospects), the knowledge and economic power between defendants and the common stockholders of Standard Oil is unequal which makes it grossly and inherently unfair for the defendants to obtain ownership of Standard Oil's assets from the public security holders at the unfair and inadequate price which defendants (and those acting in concert with them) have set.

29. Moreover, defendants have timed the announcement of the proposed tender offer/freeze-out transaction to take unfair advantage of foreign currency fluctuations and adjustments, which, at present, provide defendants with an unfair, short-term advantage.

30. In addition, Standard Oil's business is especially valuable to BP because, (a) Standard Oil's large domestic reserves provide BP with the assurance of a steady flow of petroleum products necessary to supply BP's huge refining capacity; and (b) pursuant to BP's accounting policies, BP can reduce Standard Oil's deferred taxation charge to a restricted liability basis and increases the value of Standard Oil's inventory to an amount calculated using a first-in, first-out method.

31. As a result of the foregoing, defendants herein have willfully participated in the perpetuation of a fraud upon the members of the class and have engaged in, knowingly and substantially assisted in, and aided and abetted each other in a breach of their fiduciary duty to the class.

32. The plaintiffs and the other class members are imminently threatened by the acts and transactions complained of herein, which if effectuated, would cause irreparable injury to them.

33. The plaintiffs and members of the class have no adequate remedy at law.

WHEREFORE, the plaintiffs demand judgment, as follows:

A. Enjoining, preliminarily and permanently, the consummation of the proposed transaction and freeze-out of the class members and their equity interest in Standard Oil;

B. In the event that the proposed acquisition of Standard Oil is consummated, rescinding it and setting it aside;

C. Requiring that the defendants account to the plaintiffs and other class members for all damages, including rescissory damages, and injuries sustained by the class as a result of the acts and transactions complained of herein;

D. Awarding to plaintiffs the costs and disbursements of this action, including a reasonable allowance for the fees and expenses of their attorneys, experts and accountants; and

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E. Granting such other and further relief as may be just and proper in the premises.

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Attorneys for Plaintiffs

IN THE COURT OF COMMON PLEAS
CUYAHOGA COUNTY, OHIO

IN RE THE STANDARD OIL COMPANY/ BRITISH PETROLEUM LITIGATION	))	CONSOLIDATED CASE NO. 126760

STIPULATION OF SETTLEMENT

WHEREAS:

A. The British Petroleum Company p.l.c. ("BP"), through its wholly-owned subsidiary BP International Limited ("BPI"), owns 1,000 shares of Special Stock, without par value, of the Standard Oil Company ("Standard"), equivalent to 125,840,000 shares of Common Stock, without par value, of Standard ("Shares"), and 4,320,000 Shares, constituting an aggregate of 130,160,000 Shares and Share-equivalents (or approximately 55.4% of the outstanding Shares and Share-equivalents). As of March 27, 1987, there were 109,193,816 Shares of Standard issued and outstanding of which 104,873,816 Shares were owned by common Shareholders other than BP.

B. On March 9, 1987, Sir Peter Walters, Chairman of BP, and several other representatives of BP, met with a special committee of the Board of Directors of Standard (the "Special Committee"), which had been established in 1986 and was charged with monitoring the relationship between BP and Standard, as well as certain other representatives of

Standard, and stated that BP was giving serious consideration to the possibility of making a tender offer for the outstanding Shares that it did not own.

C. The Special Committee informed BP that it had decided to retain The First Boston Corporation ("First Boston") as its independent financial advisor and to retain independent counsel for advice with respect to any offer which BP might make.

D. On March 26, 1987, BP North America Inc. ("BPNA"), an indirect wholly-owned subsidiary of BP, announced that on April 1, 1987 it would commence a tender offer for any and all of the outstanding Shares of Standard for $70 per Share, net to the seller in cash (the "Offer"). Goldman, Sachs & Co. acted as financial advisor to BP and as dealer-manager in connection with the Offer.

E. On April 1, 1987 BPNA issued an offer to purchase (the "Offer to Purchase"), which was mailed to all holders of Shares and which disclosed that if BPNA acquired 60 million or more Shares pursuant to the Offer or otherwise, BPNA would effect a merger of a wholly-owned subsidiary of BPNA into Standard, pursuant to which the remaining holders of Shares, other than BP, its subsidiaries, and holders of Shares who perfected their dissenters' rights under Section 1701.85 of the Ohio General Corporation Law, would become entitled to receive $70 in cash per Share (the "Merger").

F. On March 26, 1987, a class action was filed in this Court entitled John and Marjorie Moore, et al. v. The Standard Oil Company, et al., Case No. 126760. Plaintiffs in that action, claiming to represent all stockholders of Standard (other than defendants), whose Shares were sought to be purchased pursuant to the Offer or cashed out in the Merger, alleged, in substance: (i) that BP, BPNA, BPI and certain individual defendants (together, the "BP Defendants") engaged in a plan and scheme to eliminate the interests of the minority shareholders in Standard at an inadequate price; (ii) that the Offer and Merger were part of a scheme on the part of the BP Defendants to appropriate disclosed and undisclosed potential future benefits to Standard for themselves; and (iii) whether defendants breached their fiduciary duties owed by them to the Standard Oil minority Shareholders. Plaintiffs sought, among other things, preliminary and permanent injunctions against consummation of the Offer and the Merger.

G. Additional actions raising claims and seeking relief substantially similar to the Moore action were filed with this Court between March 26, 1987 and April 10, 1987: Freeman v. The Standard Oil Company, et al., Case No. 126785; Kassel v. The Standard Oil Company, et al., Case No. 126824; Stepak v. The Standard Oil Company, et al., Case No. 126872; Friedman v. The Standard Oil Company, Case No. 126896;

Trief v. The Standard Oil Company, et al., Case No. 127045; Decker v. The Standard Oil Company, et al., Case No. 127242; Cummings v. The British Petroleum Company, et al., Case No. 127139; and Jewish Foundation for Education of Women v. The Standard Oil Company, et al., Case No. 127540.

H. On April 8, 1987, plaintiffs in the Moore action filed a First Amended and Supplemental Complaint (the "Amended Complaint"). The Amended Complaint contained, in addition to the allegations in the original complaint, the further allegations that: (i) the BP Defendants breached fiduciary duties owed to Standard's minority shareholders by failing to request Goldman Sachs to render an opinion as to the fairness of the $70 Offer price, and by failing to ensure that Goldman Sachs possessed material information necessary to render an accurate valuation; (ii) despite the Special Committee's two requests for additional time to consider the Offer and their request to proceed initially by merger rather than tender offer, BP refused such requests and determined to proceed by tender offer to minimize the time of the Special Committee to consider such Offer; (iii) despite the offer by the Special Committee to provide BP with whatever information might be useful to make a complete and informed valuation, BP declined such offer and instead disseminated the Offer to Purchase without the benefit of such material information; and (iv) by taking the

position that $70 per share is fair to the Standard Oil minority Shareholders and disseminating Goldman Sachs' range of values which was substantially less than $70 per share, BP was attempting to cap the market for Standard Oil.

I. Also on April 8, 1987, plaintiffs in the Moore action filed a complaint in the United States District Court for the Northern District of Ohio, Moore v. The Standard Oil Company, et al., Civil Action No. 87-848 (the "Federal Action"), setting forth claims similar to those asserted by the actions in this Court and seeking substantially similar relief under Federal law.

J. On April 10, 1987, this Court ordered that the nine actions filed in this Court be consolidated for all purposes and directed that the Amended Complaint in Case No. 126760 be designated the Consolidated Complaint, under the caption "In Re the Standard Oil Company/British Petroleum Litigation" (as consolidated, the "Action"). The consolidation order also appointed three law firms representing plaintiffs (Messrs. Abbey & Ellis; Lowey Dannenberg & Knapp, P.C.; and Wolf Popper Ross Wolf & Jones) as lead counsel for plaintiffs, who "shall set policy for the plaintiffs in prosecution of this litigation . . . ," and liason counsel for plaintiffs (Arter & Hadden). A subsequent order dated April 21, 1987 further appointed Messrs. Coudert Brothers and Silverman & Harnes as additional co-lead counsel for plaintiffs.

K. On April 8, 1987, plaintiffs filed a motion, and on April 19, 1987 an Amended Motion, for a preliminary injunction with this Court. In their Amended Motion plaintiffs sought an order enjoining the consummation of the BPNA tender offer for such additional time after April 28, 1987, (1) until Standard's minority shareholders were provided with additional information clarifying and correcting the allegedly misleading opinions and incomplete and erroneous data contained in the Offer to Purchase, (2) until BPNA disseminated such corrective information in a supplement or amendment to the Offer to Purchase; and (3) until an allegedly fair price under the tender offer was determined and offered to the public stockholders of Standard.

L. The BP Defendants have, throughout these proceedings, maintained and continue to maintain that there is no merit to any of the claims alleged in any of the Consolidated Actions, and that all actions taken by the BP Defendants or any of them have been and are fair to the public stockholders of Standard.

M. Having coordinated the efforts of Ohio, Pennsylvania and New York counsel, lead counsel for the plaintiffs in the Action, with the substantial assistance of all plaintiffs' counsel, have conducted prior to and in

preparation for the preliminary injunction hearing originally scheduled for April 23, and subsequently adjourned to April 29, an intensive investigation into the background and history of Standard Oil, BP and the relationship between them and have, in connection with the expedited discovery had herein, conducted substantial research into the facts and research of the law, including the review of thousands of documents relating to the acts and transactions complained of, documents relating to Standard's past and expected financial performance in all its various business segments, financial analyses of such segments and Standard as a whole using a wide variety of methodologies, crude oil and natural gas price forecasts and scenarios, and the various materials which formed the bases for the valuations of Standard by BP and its financial advisors Goldman Sachs and by First Boston. In addition, counsel for plaintiffs conducted the depositions of five individuals, including the Chairmen, respectively, of BP and of Standard, a partner of Goldman Sachs and an officer of First Boston, and the Senior Vice President in charge of production of Standard Oil Production Company. Counsel for plaintiffs also retained and worked with their financial advisors, Bear, Stearns & Co. Inc., and with their independent petroleum engineers, Huddleston & Co. Inc. and Geoffrey M. Hertel.

N. Lead counsel for plaintiffs herein engaged in intensive arms'-length negotiations with counsel for BP in

order to achieve for the public shareholders of Standard the substantial benefits provided for in this Stipulation. Plaintiffs and their counsel have concluded, after taking into account the many sharply contested legal and factual issues involved, the risks attendant upon further prosecution of this litigation and the substantial benefits to be received by the public shareholders of Standard pursuant to the proposed settlement, that settlement of this litigation upon the terms provided herein is fair, reasonable and adequate and in the best interest of the Class, as defined below.

O. The intensive expedited discovery conducted by counsel for plaintiffs in this Action and the negotiations conducted on behalf of the Class by plaintiff's lead counsel were critical factors in achieving the substantial benefits to be provided pursuant to the proposed settlement. The BP Defendants categorically deny, however, all allegations of wrongdoing in the Amended Complaint and continue to assert that the claims are without merit and that none of the BP Defendants is liable for any of the acts alleged therein. Defendants consider it desirable that the claims asserted against them be settled in order to permit a prompt resolution of all disputes, thereby facilitating the early completion by BPNA of the Offer and the Merger, and so as to terminate the uncertainties associated with this litigation.

The Special Committee has unanimously concluded that, in light of the increase by BP in the tender offer price, the agreement by BP to issue the warrants subject to court approval of the settlement, and the approval of the Board of quarterly cash dividend, the transaction as a whole is acceptable and recommended that the full Board concur in this conclusion and take the proposed dividend action. The full Board unanimously approved this recommendation.

NOW, THEREFORE, IT IS STIPULATED AND AGREED, subject to the approval of this Court pursuant to Rule 23(E) of the Rules of this Court, that this Action and all claims which the plaintiffs or the members of the Class, as defined in paragraph 1 below, or any of them ever had, now has or hereafter can, shall or may have by reason of or arising out of or relating to any of the facts, transactions, actions or conduct, actual or purported, alleged or which could have been alleged in the Action or in any of the complaints in the actions consolidated herein or in any other forum, including without limitation, the Offer, the Offer to Purchase, including any supplements thereto, or the acquisition by BPNA of Shares pursuant to the Offer or in the Merger, all as described herein (the "Settled Claims"), including dissenters' rights under Section 1701.85 of the Ohio General Corporation Law, shall be released and dismissed with prejudice with respect to each and every defendant named in the Action and each of their respective officers, directors, employees, agents, advisors, attorneys,

representatives, predecessors, affiliates, parents, subsidiaries and the general or limited partners, successors, heirs, administrators, executors and assigns of any of the foregoing, upon the following terms and conditions:

1. The parties agree that, for purposes of this Stipulation only, this Action be certified as a class action under Ohio R. Civ. P. 23(B)(3) on behalf of a class (the "Class") consisting of all common stockholders of Standard or their successors in interest from and including March 26, 1987 to and including the date of the Merger except for corporate defendants BP, BPI and BPNA and any of their wholly-owned subsidiaries. Excluded from the Class is any person who requests exclusion from the Class in writing received by the Court or any person who perfects his dissenter's rights with respect to the Merger in accordance with Section 1701.85 of the Ohio General Corporation Law.

2. In consideration of the compromise, dismissal and release of all the Settled Claims against all the defendants:

(a) BPNA shall increase the price per Share it will pay pursuant to the Offer and in the Merger by $1.50 so that all Shareholders who tender or are cashed out in the Merger will receive $71.50 per Share, net to the seller in cash.

CORRECTION

THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY

02–576(2/77)

representatives, predecessors, affiliates, parents, subsidiaries and the general or limited partners, successors, heirs, administrators, executors and assigns of any of the foregoing, upon the following terms and conditions:

1. The parties agree that, for purposes of this Stipulation only, this Action be certified as a class action under Ohio R. Civ. P. 23(B)(3) on behalf of a class (the "Class") consisting of all common stockholders of Standard or their successors in interest from and including March 26, 1987 to and including the date of the Merger except for corporate defendants BP, BPI and BPNA and any of their wholly-owned subsidiaries. Excluded from the Class is any person who requests exclusion from the Class in writing received by the Court or any person who perfects his dissenter's rights with respect to the Merger in accordance with Section 1701.85 of the Ohio General Corporation Law.

2. In consideration of the compromise, dismissal and release of all the Settled Claims against all the defendants:

(a) BPNA shall increase the price per Share it will pay pursuant to the Offer and in the Merger by $1.50 so that all Shareholders who tender or are cashed out in the Merger will receive $71.50 per Share, net to the seller in cash.

(b) BPNA shall amend its Offer to provide that the purchase price paid by BPNA will not be reduced by the value of Standard's quarterly dividend payable to record holders of Shares on May 8, 1987, and that recipients of such dividend who tender their Shares will be entitled to retain it.

(c) Promptly after the Effective Date, as hereinafter defined, BP shall issue to all members of the Class who tender their Shares pursuant to the Offer or are cashed out in the Merger (but not to Shareholders who request exclusion from the Class or perfect dissenters' rights as provided above): for every five Shares a warrant exercisable from the date of issuance through December 31, 1992, entitling the holder to purchase one BP American Depositary Receipt ("ADR") at an exercise price of $80 per ADR. For each month or part of a month that the Effective Date is delayed beyond June 30, 1987, the expiration of the warrant shall be extended by one month. Fractional warrants will be settled in cash.

3. As soon as practicable, the parties shall jointly move the Court for the approval of this Stipulation

and for entry of the Order and Final Judgment referred to in Paragraph 4 hereof. As part of that motion, the parties shall apply jointly for an Order in the form set forth as Exhibit A to this Stipulation.

4. If the Stipulation (including any modification thereto made with the consent of the parties as provided for herein) shall be approved by the Court following a hearing, the parties shall jointly request the Court to enter an Order and Final Judgment in the form annexed hereto as Exhibit B:

(a) approving the Stipulation;

(b) dismissing the complaints in the Action on the merits and as to all defendants with prejudice as against plaintiffs and all members of the Class, and discharging all defendants from any and all liability arising out of the Settled Claims, such dismissal to be without costs except as hereinafter provided;

(c) permanently barring and enjoining the institution by any of the plaintiffs and any member of the Class, either directly, representatively, derivatively, or in any other capacity, of any other actions asserting claims which are Settled Claims as heretofore defined; and

(d) awarding attorneys' fees and expenses, or reserving jurisdiction with respect thereto.

5. The Effective Date for purposes of this Stipulation shall, if an appeal shall not have been taken from the Order and Final Judgment, be the date 31 days after entry of such Order and Final Judgment or, if an appeal therefrom shall have been taken, five days after all appeals shall have been resolved so that the Settlement contemplated by this Stipulation shall have been finally approved; provided, however, that if an appeal therefrom shall have been taken, BP and BPNA shall have the right to accelerate the Effective Date; and provided that, if an appeal therefrom shall have been taken, the parties hereto agree to use their best efforts to obtain expedited disposition of such appeal.

6. After the Effective Date, no claim on behalf of the Class shall survive against defendants, and BPNA shall be free and clear of all claims to cause a merger of Standard with BP or an affilate of BP at a merger price of $71.50 per share. Nothing in this Stipulation shall be construed as implying, or otherwise be deemed to imply, any commitment by BP to cause a merger prior to the Effective Date.

7. Lead counsel for the plaintiffs in the Action shall, within 10 days after the Effective Date, in connection

with the consummation of the transactions described in Paragraph 2, on behalf of all members of the Class, execute and deliver to each of the defendants a release substantially in the form annexed hereto as Exhibit C.

8. Lead counsel, on behalf of all counsel for plaintiffs, may apply to this Court for an award of attorneys' fees, including reimbursement of expenses, in an aggregate amount not to exceed $22 million, to be paid by BP, BPI or BPNA upon final approval of the Settlement. BP, BPI and BPNA have agreed not oppose such a fee request up to the amount of $22 million (including all expenses). In the event the attorneys' fees awarded by the Court are not paid within 41 days of the date of the award of such sum, interest thereon shall accrue at a rate of 10% per annum. Subject to the conditions set forth in this paragraph, all such attorneys' fees and expenses awarded by the Court to plaintiffs' attorneys shall be paid by wire transfer to a separate special joint account of Wolf Popper Ross Wolf & Jones and Lowey Dannenberg & Knapp, within ten days after the Effective Date, or as may otherwise be ordered by the Court. BP, BPI or BPNA will pay the costs of notice and settlement administration; plaintiffs shall have no responsibility for any such costs regardless whether the settlement is consummated. Except as provided in this Stipulation,

defendants shall bear no other expenses, costs, damages or fees of any of the plaintiffs or any of their attorneys, experts, advisors, agents or representatives, or of any other members of the Class.

9. The undersigned parties shall use their best efforts to secure Court approval of the Settlement.

10. Counsel for plaintiffs in the Federal Action undertake to take such action as is necessary to discontinue voluntarily the Federal Action and, if necessary, to seek the approval of the Federal Court to dismiss the action and to provide notice to the purported class on whose behalf the action was brought should the Federal Court require such notice as a condition to the dismissal. Should such notice be required, such notice shall be given by BP at its cost and expense. The dismissal of the Federal Action shall be a condition to this Stipulation becoming effective pursuant to paragraph 5.

11. If this Settlement is not approved by the Court or is approved by the Court but such approval is reversed or substantially modified on appeal, the Settlement proposed herein and any actions to be taken in connection therewith (including the Order, and the Order and Final Judgment, to be entered pursuant to Paragraphs 3, and 4 herein, respectively) shall be vacated and terminated and shall become null and void for all purposes, except as contained in this paragraph and so much of Paragraph 8 as

relates to BPNA's obligation to pay the costs of notice and settlement administration, and all negotiations, transactions and proceedings connected with it (a) shall be without prejudice to the rights of any party, including the right of any party who has not heretofore entered an appearance to contest the jurisdiction of the court over his person, (b) shall not be deemed or construed as evidence or an admission by any party of any fact, matter or thing, and (c) shall not be admissible in evidence or used for any purpose in any subsequent proceedings in the Action or any other action or proceeding.

12. BP's obligation to issue the warrants specified in Paragraph 2(c) is subject to the effectiveness of a registration statement for such securities under the Securities Act of 1933 and to approval of BP's shareholders at an Extraordinary General Meeting ("EGM"). BP undertakes to file such a registration statement and seek to have it made effective promptly and to convene an EGM as promptly as possible and to use its best efforts to obtain shareholder approval at that meeting. Should BP be unable to obtain effectiveness of a registration statement or shareholder approval, and therefore be unable to perform its obligation to issue warrants, this Stipulation and the Settlement proposed herein shall become null and void as provided in the event of judicial disapproval by Paragraph 11.

13. This Stipulation may be amended or any of its provisions waived only by a writing executed by or on behalf of all signatories hereto.

14. This Stipulation may be executed in two or more counterparts.

15. The administration of the Stipulation and determination of all disputed questions of law and fact relating to the Stipulation shall be under the authority of this Court and the laws of the State of Ohio.

Dated: April 27, 1987

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Mark F. McCarthy
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Liaison Counsel for Plaintiffs

and

WOLF POPPER ROSS WOLF & JONES

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and

LOWEY, DANNENBERG & KNAPP, P.C.

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Burton L. Knapp
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New York, New York 10017

and

ABBEY & ELLIS

By____________________________
Arthur Abbey
Jill Abrams
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and

COUDERT BROTHERS

By ______________________
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SILVERMAN & HARNES

By ______________________
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and

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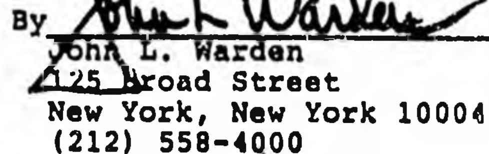
and

SULLIVAN & CROMWELL

By 
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BP North America Inc.,
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and Sir Peter Walters

SQUIRE, SANDERS & DEMPSEY

By______________________________
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Browne, Frank E. Mosier,
Richard A. Bray, and J. Colin
Webster

EXHIBIT A

IN THE COURT OF COMMON PLEAS
CUYAHOGA COUNTY, OHIO

IN RE THE STANDARD OIL COMPANY/ BRITISH PETROLEUM LITIGATION	))	CONSOLIDATED CASE NO. 126760

ORDER

The above-captioned consolidated action (the "Action") having been commenced by shareholders of The Standard Oil Company ("Standard" or the "Company"), individually and on behalf of a class of the Company's shareholders against the Company, The British Petroleum Company p.l.c. ("BP"), BP International Limited ("BPI"), BP North America Inc. ("BPNA"), and certain individuals (the "Individual Defendants"), and the parties having entered into a Stipulation of Settlement (the "Stipulation") dated April 27, 1987, for the settlement of the Action upon the terms and conditions set forth in the Stipulation,

Now, upon the consent of the parties, after consideration of the Stipulation and the exhibits annexed thereto, and after due deliberation,

IT IS HEREBY ORDERED that:

1. For purposes of settlement only, this Action is hereby certified as a class action under Ohio R. Civ. P. 23(b)(3) on behalf of a class (the "Class") consisting of all common stockholders of Standard or their successors in interest from and including March 26, 1987 to and including the date of the Merger (as defined in the Stipulation) except for corporate defendants BP, BPI and BPNA and any of their wholly-owned subsidiaries. Excluded from the Class is any person who requests exclusion from the Class in a writing received by this Court or any person who perfects his dissenters' rights with respect to the Merger in accordance with Section 1701.85 of the Ohio General Corporation Law.

2. A hearing shall be held on __________, 1987 at ______________, _.m. (the "Hearing") to determine the fairness, reasonableness and adequacy of the terms and conditions of the settlement (the "Settlement") proposed in the Stipulation and whether the Settlement should be approved by the Court and judgment entered thereon. At the Hearing or such adjourned date as the Court deems appropriate, lead counsel, on behalf of all attorneys for plaintiffs, may apply for an award of attorneys' fees and reimbursement of expenses as set forth in Paragraph 8 of the Stipulation.

3. The Court reserves the right to adjourn the Hearing, including consideration of the application for attorneys' fees and costs, without further notice other than announcement at the Hearing or any adjournment thereof.

4. The Court reserves the right to approve the Stipulation and the Settlement with or without modification and with or without further notice to the Class.

5. A notice of the Hearing in a form to be approved by the Court (the "Notice") shall be mailed by any one of the corporate defendants by United States mail, postage prepaid, no later than _____________, 1987 to all persons shown on the stock records maintained by or on behalf of the Company to be eligible to participate as a member of the Class and shall make available additional copies of the Notice to any record holder requesting the same for the purpose of distribution to beneficial owners. In addition, a summary of the Notice to be approved by the Court shall be published twice in the National Edition of the Wall Street Journal at least fifteen days before the Hearing.

6. The form and method of notice specified herein is the best notice practicable and shall constitute due and sufficient notice of the Hearing to all persons entitled to receive such notice. The Company shall, on or before the date of the Hearing, file proof of mailing of the Notice.

7. Any member of the Class who objects to the Stipulation, the Settlement, the judgment to be entered

thereon, and/or the application for attorneys' fees and reimbursement of expenses, or who otherwise wishes to be heard, may appear in person or by his attorney at the Hearing and present any evidence or argument that may be proper and relevant; provided, however, that no person other than the named plaintiffs and defendants in this Action shall be heard, and no papers, briefs, pleadings or other documents submitted by any such person shall be received and considered by the Court (unless the Court in its discretion shall thereafter otherwise direct) unless no later than ten days prior to the Hearing (i) notice of the intention to appear, (ii) a statement of such person's objections to any matter before the Court, and (iii) the grounds for such objections or the reasons for such person's desiring to appear and to be heard, as well as all documents and writings which such person desires the Court to consider, shall be filed by such person with the Clerk of the Court and, on or before such filing, shall be served upon the following counsel of record:

Stanley M. Fisher, Esq.
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1100 Huntington Boulevard
Cleveland, Ohio 44115

Richard Cusick, Esq.
Calfee, Halter & Griswold
1800 Society Building
Cleveland, Ohio 44114-2688

James A. Smith, Esq.
Squire, Sanders & Dempsey
1800 Huntington Building
Cleveland, Ohio 44115

Patrick F. McCartan, Esq.
Jones, Day, Reavis & Pogue
1700 Huntington Building
Cleveland, Ohio 44105

8. Unless the Court otherwise directs, no person shall be entitled to object to the approval of any of the Settlement, the judgment to be entered thereon, or the award of attorneys' fees and reimbursement of expenses to plaintiffs' counsel, or otherwise be heard, except by serving and filing his written objection, notice of intention to appear, and supporting papers and documents as described in Paragraph 7. Any person who fails to object in the manner prescribed in paragraph 7 shall be deemed to have waived his objection and shall be forever barred from raising such objection in this or any other action or proceeding.

9. Pending final determination of whether the Settlement should be approved, plaintiffs, members of the Class, or any of them, shall not commence or prosecute any action asserting claims against any defendant herein which have been or could have been asserted, or arise from or relate to, any of the matters or transactions referred to in any of the complaints consolidated into this Action, or the Stipulation.

10. If the Settlement (including any modification thereof with the consent of the parties made as provided for

in the Stipulation) should be approved by the Court following the Hearing, an Order and Final Judgment shall be entered as described in Paragraph 4 of the Stipulation.

11. If the Settlement is not approved by the Court or shall not become final for any reason whatsoever, this Action shall proceed, completely without prejudice to any party as to any matter of law or fact, including the rights of any party who has not heretofore entered an appearance to contest the jurisdiction of the Court over his or its person, as if the Stipulation had not been made and had not been submitted to the Court, except that all costs and expenses incurred in connection with provision of notice and the Settlement herein shall be borne by BPNA.

____

Dated:____________________

EXHIBIT B

IN THE COURT OF COMMON PLEAS
CUYAHOGA COUNTY, OHIO

IN RE THE STANDARD OIL COMPANY/ BRITISH PETROLEUM LITIGATION	))	CONSOLIDATED CASE NO. 126760

ORDER AND FINAL JUDGMENT

A hearing having been held before this Court on ________________, 1987, pursuant to this Court's Order of ________________, 1987 (the "Hearing Order"), upon the Stipulation of Settlement dated April 27, 1987 (the "Stipulation") in the above-entitled consolidated action (the "Action"); and it appearing that due notice of the hearing was given in accordance with the Hearing Order to all persons eligible to participate as members of the class certified pursuant to the Hearing Order (the "Class"); and the respective parties having appeared by their respective attorneys; and said attorneys having been heard; and an opportunity to be heard having been given to all other persons desiring to be heard or to object to the proposed settlement; and the proposed settlement having been considered by the Court:

IT IS ORDERED, ADJUDGED AND DECREED AS FOLLOWS:

1. The Court hereby approves and adjudges the terms and conditions of the Stipulation and the Settlement for which provision is made therein to be fair, reasonable and adequate.

2. This Action is hereby dismissed with prejudice, and all claims which the plaintiffs or the members of the Class, as defined in the Hearing Order, or any of them ever had, now has or hereafter can, shall or may have by reason of or arising out of or relating to any of the facts, transactions, actions or conduct, actual or purported, alleged or which could have been alleged in the Action or in any other forum, including without limitation, the Offer, the Offer to Purchase, including any supplements thereto, or the acquisition by BPNA of Shares pursuant to the Offer or in the Merger, all as described in the Stipulation (the "Settled Claims"), including dissenters' rights under Section 1701.85 of the Ohio General Corporation Law, shall be released and dismissed with prejudice with respect to each and every defendant named in the Action and each of their respective officers, directors, employees, agents, advisors, attorneys, representatives, predecessors, affiliates, parents, subsidiaries, and the general or limited partners, successors, heirs, administrators, executors and assigns of any of the foregoing.

3. Plaintiffs and all members of the Class are hereby permanently barred and enjoined from instituting or prosecuting, whether directly, representatively, derivatively or in any other capacity, any action asserting claims which are, relate to or arise out of Settled Claims.

4. Plaintiffs' attorneys are hereby awarded the sum of $ ___________ for legal fees and reimbursement of expenses incurred in the prosecution of the Action, which award the Court finds to be fair and reasonable. Such sum shall be paid by BPNA in accordance with the Stipulation. No other costs shall be taxed in connection with this Action, except as otherwise provided by paragraph 8 of the Stipulation.

5. Without affecting the finality of this Order and Final Judgment in any way, the Court hereby reserves jurisdiction over all matters relating to the administration and effectuation of the Stipulation.

____

Dated: __________, 1987

EXHIBIT C

RELEASE

TO ALL TO WHOM THESE PRESENTS MAY COME OR MAY CONCERN,

WHEREAS, the undersigned are co-lead counsel for and on behalf of the members of the Class (the "Releasors") referred to in the Stipulation of Settlement in the consolidated class action entitled ________________, Consolidated Civil Action No. _____, dated __________, 1987, and filed with the Court of Common Pleas for Cuyahoga County, Ohio on __________, 1987 (the "Stipulation"); and

WHEREAS, the Court, following a hearing held on ______________, approved the settlement provided for by the Stipulation and the Effective Date has occurred:

NOW, THEREFORE,

1. As provided in the Stipulation, Releasors, for good and valuable consideration, the receipt of which is hereby acknowledged, have remised, released and forever discharged and by these presents for their predecessors, successors and assigns and any of their past or present officers, directors, employees, agents (and any of their heirs, executors or administrators, successors and assigns) do hereby remise, release and forever discharge each and all of the defendants in any of and all the actions referred to above, such defendants' officers, directors, employees, agents, advisors, attorneys, representatives, affiliates, or subsidiaries, and the general or limited partners, heirs, successors and assigns of any of the foregoing (the "Releasees"), of and from all manner of actions, causes of action, suits, debts, dues, sums of money, accounts, reckonings, bonds, bills, specialties, covenants, contracts, controversies, agreements, promises, variances, trespasses, damages, judgments, extents, executions, rights, claims and demands whatsoever, in law, in admiralty or in equity (hereinafter collectively referred to as "Claims"), which against the Releasees, or any of them, Releasors or Releasors' predecessors, subsidiaries, successors and assigns and any of their past or present officers, directors, employees or agents and any of their heirs, executors or administrators, successors and assigns ever had or now has or hereafter can, shall or may have by reason of or arising out of any of the facts, transactions, actions or conduct, actual or purported, from the beginning of the world to the date of this Release, alleged in the pleadings in the foregoing Consolidated Civil Action or any of them, or which might have been alleged in the Court or in any other court, administrative body or tribunal or arbitration panel of any state, federal or other jurisdiction, domestic or foreign, with respect of or relating to the Offer, or any supplements thereto, the Merger or possible Merger or otherwise in connection with the acquisition of the Shares.

2. Nothing in this Release shall be deemed to be construed as an admission of any liability of any Releasee, which liability is expressly denied.

3. Nothing in this Release shall relieve the Releasees from any and all of their obligations under the Stipulation and the order and judgment of the Court in connection therewith.

4. This Release shall inure to the benefit of and shall be binding upon the heirs, executors, administrators, successors and assigns of the parties hereto and it shall be governed and construed in accordance with the laws of the State of Ohio.

IN WITNESS WHEREOF, the undersigned have for and on behalf of the members of the Class executed these presents this ___ day of __________, 1987.

ABBEY & ELLIS

By______________________________

LOWEY, DANNENBERG & KNAPP, P.C.

By______________________________

WOLF POPPER ROSS WOLF & JONES

By______________________________

COUDERT BROTHERS

By______________________________

SILVERMAN AND HARNES

By______________________________

12-10-87

Ned,

Counter to what Jan Faick's says, her office <u>did not</u> submit an incentives package to the Division of Oil & Gas. To my knowledge, this report represents an up to date review of the legislation that <u>was enacted</u> by the States & Canada within the last few years.

Mike Kotowski

To Ned F

LOUISIANA ECONOMIC ACCELERATION PROGRAM

(LEAP)

PROPOSAL

a rig = 172 jobs direct/yr (3)

— largely oriented tow. gas produc + consumption – gas seen as much > difficult problem than oil (p 6, 7)

— does not affect existing produc or existing non-producing fields – only new explor'g wells (p. 9)

— "minimizing cost to the state" a stated goal (p. 10)

— foregoing royalty only on gas; sev'c taxes on oil + gas; (p 10)

— local hire requirements (p 13)

— legislative oversight committee for implementation of LEAP (p 14)

— 3 yr. suspension only

— 80% of off'd "wildcat" wells are drilled by independents (p 15)

— will producers cap producing wells + drill new ones to avoid sev'c/roy'y? need to address in regs (16)

— → 3 yr. limit (22)

— Louisiana employment multiplier is much different from Alaska's – (3, 23)

BY

SENATOR SAMUEL B. NUNEZ, JR.
PRESIDENT
LOUISIANA SENATE

PROPOSAL PAPER PREPARED BY

LORI CAMERON
COUNSEL TO THE PRESIDENT

NOVEMBER 25, 1985

Senate
State of Louisiana

P. O. Box 94183
Boton Rouge, Louisiana 70804
(504) 342-2040

February 18, 1988

Rep. Sam Cotten, Chairman
House Natural Resources Committee
Room 124, P.O. Box V
Juneau, AK 99811

Dear Rep. Cotten:

Pat Raffaniello asked me to send you any available information on the Louisiana Economic Acceleration Program or LEAP, as it is commonly known. Enclosed you will find:

- A LEAP Proposal Paper which preceded the legislation,
- The LEAP legislation, passed during the 1986 Regular Session,
- Legislation from the 1986 Extraordinary Session which exempted oil and gas development in certain wildlife refuges from the severance and royalty provisions of LEAP,
- Legislation from the 1987 Regular Session amending LEAP to include women-owned businesses and setting a certain date for spudding LEAP wells (we found applicants reworking old wells to take advantage of the tax benefits),
- Regulations issued by the Commissioner of Conservation implementing LEAP, and
- A report from the Department of Natural Resources the direct revenue impacts of LEAP.

I'm not sure that the DNR report was specific enough to give a true picture of the impact of LEAP. I'm trying to get a report done now that would compare wildcat drilling on a month by month basis to more clearly illustrate LEAP's impact.

Please do not hesitate to contact me if I can be of further assistance on this matter.

Sincerely yours,

Lori

Lori Cameron

LOUISIANA ECONOMIC ACCELERATION PROGRAM

(LEAP)

PROPOSAL

BY

SENATOR SAMUEL B. NUNEZ, JR.
PRESIDENT
LOUISIANA SENATE

PROPOSAL PAPER PREPARED BY

LORI CAMERON
COUNSEL TO THE PRESIDENT

NOVEMBER 25, 1985

ACKNOWLEDGEMENTS

This background paper was prepared with the valuable assistance of Renwick DeVille, Louisiana Geological Survey; Robert Keaton, Senate Budget Analyst; Donald J. Vandal, Senate Budget Analyst; and John Rombach, Senate Economist.

PREFACE

The Louisiana Economic Acceleration Program (LEAP) proposal is an organized approach to easing Louisiana's unemployment and fiscal problems while beginning work on the diversification of the state's economy.

It is presented as such, in the belief that public discussion and recommendations can only strengthen the proposal. Constructive criticism and suggestions are, by means of this proposal paper, actively solicited from the citizens of Louisiana, as well as those who presently, or may in the future, do business in our state.

LOUISIANA ECONOMIC ACCELERATION PROGRAM

(LEAP)

PROPOSAL SYNOPSIS

SITUATION: Louisiana is second only to West Virginia in unemployment and is facing a state deficit despite budget cuts and increased taxes. These crisis conditions are indicative of a weak state economy.

PURPOSE: LEAP is designed to accelerate Louisiana's economic recovery, easing unemployment and fiscal problems, while providing planning and funding mechanisms for long-term economic diversification.

PROGRAM ELEMENTS: LEAP is a three year program. During the program period, exploratory oil and gas wells drilled in new fields, and all subsequent developmental wells in the same field, will qualify as LEAP wells.

Oil and gas severance taxes and the state's natural gas royalties on LEAP wells will be forgone for the program period.

Louisiana's natural gas consumers will receive an incentive from the state of X cents per Mcf for consumption of gas from LEAP wells consumed in excess of 1985 consumption levels.

The Economic Diversification Fund will be established to pay for the natural gas consumer incentive during the program period and to provide revenues for long-term economic diversification programs at LEAP's conclusion.

State oil royalties from LEAP wells will be dedicated to the Fund immediately. At the end of the program period all LEAP well severance taxes and royalties would accrue to the Fund.

Existing production and related revenues are unaffected by LEAP.

IMPACTS: Preliminary calculations indicate that for every 200 new wells that are attributable to LEAP during a program year, 10,000 jobs will be created, net state revenues will increase by $15.2 million, and there will be $360 million in increased personal income in Louisiana.

LOUISIANA ECONOMIC ACCELERATION PROGRAM

(LEAP)

PROPOSAL PAPER

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MEETING THE CHALLENGE OF LOUISIANA'S ECONOMIC CRISIS

The close of 1985 finds Louisiana in economic crisis. The state's staggering unemployment rate, which is second only to West Virginia's, and the chronic deficit posture of state government, are indicators of its condition.

The crisis is an immediate problem. The crisis must be considered however, in the context of Louisiana's limited, and weakened, economic base. Future crises may only be averted by directing the state's attention to creating a stronger, diversified economy.

The Louisiana Economic Acceleration Program (LEAP) proposes to create immediate employment opportunities, accelerate the state's economic recovery, and begin work on long-term economic diversification.

There are a multitude of statistics quantifying the extent and cost of unemployment to the state's economy. It is impossible however to quantify the effect on Louisiana's citizens and their families. The cost to the state's spirit is as unacceptable as the cost to the economy.

Unemployment is a double burden on the state's economy. People without jobs drain the state's coffers directly in the form of unemployment, health, and medical benefits. During 1985 unemployment benefits will cost the state's economy about 450 million dollars. That figure does not include amounts spent on social services for the unemployed.

However, the greater burden to the economy relates to the fact that the unemployed cannot pay taxes or spend money to support expanding economic activity. No jobs, no tax revenues, no economic growth.

There are more than 215,000 unemployed people in Louisiana today. That is more than the population of Shreveport. It is about three times the population of Lake Charles.

Unemployment in Louisiana over the first eight months of 1985 averaged 11.6 percent. This is in contrast to the national average of 7.4 percent for that same period. Three-fourths of Louisiana's parishes (48 parishes) had unemployment rates in excess of 10 percent. One in five of the parishes (13 parishes) had unemployment rates over 15 percent.

Especially troubling is the state's inability to break out of the highest unemployment ranks. Over an 18 month period from the beginning of 1983, the national unemployment rate fell steadily from 10.4 percent to about 7 percent where it has remained through mid-1985.

Louisiana has shown no sign of sharing in this national recovery. The state's unemployment rate remains stubbornly at more than 50 percent above the national average.

The second indicator of economic crisis is the perilous fiscal situation of state and local governments. Since 1983, the state has cut 277.6 million dollars in expenditures. In 1984 over 900 million dollars of new taxes were levied.

In spite of the cuts and the increased tax rates, the state faces a deficit of up to 177 million dollars this fiscal year. Parochial and local governments face similar dilemmas.

Tax increases are not the answer. Raising tax levels has a chilling effect on the economy. The purpose of the State must be to increase economic acitivity in Louisiana, to get money moving again, rather than taking it out of circulation in the form of increased taxes.

Louisiana must put her people to work, and encourage investors to put their money to work in Louisiana. An economic recovery, sparked by new jobs and investments will increase revenues for the state and restore Louisiana's sense of purpose.

LEAP is a three year program to create new jobs and revenue while accelerating Louisiana's economic recovery. LEAP establishes an Economic Diversification Fund within the State Treasury, the proceeds of which will fund economic diversification programs.

LEAP utilizes Louisiana's strongest natural resource, oil and gas, as a tool. Historically, Louisiana's state government has viewed oil and gas development as a source of direct tax revenues.

LEAP views oil and gas development as an engine to accelerate the state's economic recovery by providing cash and jobs to the state. Direct tax revenues are forgone in favor of jobs, economic activity and indirect tax revenues.

Oil and gas drilling creates jobs and cash flow throughout the economy. Initial analyses indicate that a single rig, running throughout the year, means jobs for 516 people in Louisiana.

The rig represents 172 jobs in the oil and gas exploration and production sector. Further, for every job in the oil and gas exploration and production sector there are two others created elsewhere in the economy.

Relative to cash flow, it has been estimated that an average well drilled in Louisiana costs more than a million dollars, (i.e. $1,023,079). Other studies demonstrate that for every million dollars expended in the oil and gas exploration and production sector, three quarters of a million dollars in sales occur elsewhere in the economy.

One of the most attractive aspects of LEAP is the fact that Louisiana has a knowledgeable work force ready to walk back onto the drilling sites and start operations.

There will be no lag-time training computer specialists or high tech machinery operators. Louisiana's people know how to work the oil rigs, run the seismic tests, prepare the mud, and operate the related service industries.

Anyone familiar with Louisiana's economy recognizes that overdependence on an ailing oil and gas industry is a major contributing factor to the state's current economic problems. How then can LEAP expect to improve the state's position using that same industry?

The answer lies in coaxing the entire U.S. oil and gas industry to give its best performance over the next three years in Louisiana. Although drilling activity nationally may be limited, Louisiana will distinguish itself from other producing areas and attempt to pull as much activity as possible into the state for the three year period.

The state will give producers a reason to drill in Louisiana rather than Texas, Oklahoma, or Alberta. The state will provide oil and gas investors with an alternative to "sitting next year out", and instead, encourage the investor to risk drilling capital in Louisiana.

In order to understand the elements of the LEAP proposal, it is important to understand the status of the oil and gas industry. It is not a healthy industry. In the closing days of October 1985, drilling activity was down 27 percent nationally, from the year before. Dismally, Louisiana's drilling was down 31 percent for the same period. Industry forecasts indicate further declines in drilling activities for 1986.

Similar drilling declines over the last five years have affected Louisiana tremendously. Since 1981 the state has lost over 19,000 jobs in oil and gas exploration and production. The multiplier would suggest that another 38,000 jobs were lost throughout the economy, for a total of 57,000 jobs.

Severance taxes in Louisiana have also decreased every year since 1981. Severance tax revenues this year are expected to be down more than 25 percent or 250 million dollars from five years earlier. The downward revenue trend is expected to continue.

The reasons for the drilling declines are varied. Basic to an understanding of the problem is a recognition that the oil market is distinct from the gas market and they face differing market situations.

The market for oil is a world market, tied together by tankers transporting crude from producing nations to consuming ones. Despite internal problems, OPEC maintained its power to influence the world price for crude oil throughout 1985. A premium commodity, Louisiana sweet crude has sold at about $28 per barrel all year.

The demand for crude has likewise remained stable. Louisiana producers report that they can sell crude oil, if they are willing to take the world-dictated price. The lower price has caused a decrease in drilling activity throughout the nation, as investors opt for alternative investments or wait out the lower price.

Unlike the relatively stable, though depressed, crude oil market, the market for natural gas is in shambles. Despite prices at a fraction of what they were three year ago, an excess of supply exists.

The market for natural gas is limited to North American producers and primarily American consumers. The market's geographical boundaries are defined by pipelines, since pipelines are the only economical means of transporting natural gas.

Over the last few years, the price of natural gas has plummeted. Some Louisianians recall Tuscaloosa Trend gas contracts signed in the early 1980's for $8 per Mcf and more. In contrast, the November 1985 spot market price for Louisiana natural gas was $2.03 per Mcf.

Higher natural gas prices in the early 1980's led to more production at the very time consumers began to implement serious conservation efforts. Increased production led to increased supply while conservation led to decreased demand.

These factors combined to spawn an oversupply of natural gas, originally referred to as a "bubble" of excess deliverability. The excess supply of natural gas causes producers to fear that even if they find gas at competitive prices (i.e. in the $2 per Mcf range) there will be no buyers for the new gas.

Producers see the consuming end of the market as saturated with gas. Unless market demand can be expanded, there is no reason to drill for gas not expected to sell. This is particularly true given today's extremely competitive price structure where profit margins have been shaved thin.

The differing market situations facing crude oil and natural gas require a different combinations of incentives to promote increased drilling activity in Louisiana. Oil producers need to see an improved bottom line to entice them to move drilling activites to Louisiana, or indeed to commit investment dollars to drilling anywhere.

Natural gas producers need encouragement at both ends of their market before they will commit to drill. On the producing end they need to feel that there is an opportunity to be competitive in the cutthroat national price battle.

On the consuming end, they need to see expansion of demand for natural gas, either from new consumers or increased takes by present consumers. Expanded demand will assure producers that there will be buyers for gas from new wells.

In addition to the market pressures described, there are a number of factors outside of the market framework, each of which has the potential to profoundly affect drilling activity in the United States. They are declines in the world price of oil; changes in federal laws, (e.g. an abandonment of tax credits for oil and gas operations under the Tax Simplification Plan); and federal regulatory changes, (e.g. the Federal Energy Regulatory Commission's (FERC) proposed block billing regulations).

These factors are largely outside of Louisiana's control although pressure may be exerted on the congressional and regulatory fronts. However, these factors should affect all producing states uniformly. Therefore, if Louisiana distinguishes itself through a state incentive program, it will maintain an advantage.

It should be noted that Outer Continental Shelf (OCS) activity is unrelated to onshore Louisiana. At present, OCS development is driven largely by federal lease considerations. In 1983 the federal government held its first, record-breaking, area-wide lease sale. Blocks of OCS acreage were leased by the federal government for millions of dollars.

Recently there has been minimal activity on these leased blocks because of depressed market conditions. However, under the terms of the lease, if exploratory activities are not underway by the conclusion of the lease period, all rights under the lease will be lost.

Since the normal term of these leases is five years, increased OCS activity may be expected in 1987 and 1988 due to lease pressure. This activity is independent and outside of state influence.

The following section presents the elements of the LEAP proposal. The third section discusses estimated impacts attributable to the proposal and the fourth section deals with state policy, the industry, and LEAP.

ELEMENTS OF THE LOUISIANA ECONOMIC ACCELERATION PROGRAM PROPOSAL

The LEAP proposal ties short-term economic acceleration to long-term economic diversification in a comprehensive package. The LEAP proposal is for a three year period, which is assumed to begin upon the enactment of the enabling legislation. During the program period, exploratory oil and gas wells drilled in new fields, and all subsequent developmental wells in the same field, will qualify as LEAP wells. There are three major elements of the LEAP proposal.

The first deals with the suspension of oil and gas severance taxes, as well as the state's natural gas royalty, on production from LEAP wells. Producers applying for such benefits would be required to certify that Lousiana labor would be utilized to the maximum extent possible. The severance tax provisions would be administered by the Department of Revenue and Taxation. The royalty provision would be administered by the Mineral Board.

The second element deals with state incentives for the consumption of natural gas produced from LEAP wells. The state would provide an incentive of X cents per MCF for such gas consumed in excess of the consumer's 1985 baseline consumption. This incentive will assure a market for natural gas produced from LEAP wells.

The amount of the consumer natural gas incentive remains to be determined. It will be established prior to drafting of enabling legislation, based on discussions with market participants.

The incentive would be paid to qualified consumers at the end of the program year. Applicants for the incentive would certify as to their 1985 baselevel of natural gas consumption, as well as their increased consumption during the program year. Further, documentation would be required as to the origin of the LEAP gas.

The natural gas incentive aspect of LEAP will be structured so that Louisiana industrials and utilities are qualified applicants. LEAP will further provide that all incentives received by a utility serving end-users (i.e. residential and commercial customers) be passed through to those end-users. The natural gas incentive element of the program will be administered by the Department of Revenue and Taxation.

The third element deals with an Economic Diversification Fund, which would be established within the state treasury. During the program period, the Fund would receive all state oil royalties from LEAP wells. At the conclusion of the program period, all future severance taxes and royalties from LEAP wells would accrue to the Fund.

The Fund would be the source of revenue for natural gas incentive payments during the program period; remaining revenue in the Fund could be appropriated to economic development programs. At the conclusion of the program period, the Fund would be utilized to support long term economic diversification program plans developed over the three year period.

All appropriations from the Economic Diversification Fund will be designated as such in the state budget. Long term economic diversification program plans will be developed during the three year program period and defined in legislation. Once codified in the statutes, long term economic diversification programs will be eligible for appropriations from the Fund.

Existing production, as well as severance and royalties accruing from existing production (approximately 1.2 billion dollars) would be unaffected by LEAP.

ANALYSIS OF IMPACTS OF THE LEAP PROPOSAL

The LEAP proposal is designed to maximize speedy employment and investment response. Although more thorough studies are underway, initial calculations approximate the impact of the program.

Pending verification with econometric models, the state may expect that an increase of 200 exploratory wells as a result of LEAP, over one program year, may provide 10,000 new jobs, $15.2 million in increased revenues to the state and $360 million in increased personal income in Louisiana in the program year.

Suspension of the severance tax on LEAP wells for the three year program period is an ideal incentive to encourage speedy response. Suspension of severance tax offers producers immediate price relief on oil and gas from new Louisiana wells, improving the producer's cash flow situation from earliest production.

Since virtually all producing states have severance taxes, suspension of the tax on new production is a clear means of distinguishing Louisiana as the state of choice for drilling activities. Severance taxes are built into the producer's economic analyses of nationwide drilling prospects. Suspension of the tax in Louisiana will have a decided impact on the bottom line, drawing drilling capital from around the country.

The severance tax provisions of the proposal are also in line with the Program's goal of minimizing cost to the state. Realistically, the current oil and gas markets go a long way toward minimizing the cost of severance forgone. If producers don't drill there will be no new severance tax revenues to forego.

Severance tax and royalty revenues from production existing prior to LEAP's start would continue to be collected by the state. The only tax revenues foregone would be those from LEAP wells.

Revenue losses from wells that might have been drilled without LEAP's encouragement will be offset by increased revenues attributable to economic activity generated by LEAP. Drilling investments will have expansive affects on the economy. The re-employed will be paying income taxes, sales taxes as well as other taxes. Further, they will no longer be draining state coffers but rather, contibuting to them.

Natural gas royalties on state-owned production from LEAP wells will also be foregone by the state. This additional incentive is offered to natural gas producers in recognition of the more depressed natural gas market.

There is a cost of LEAP not mentioned in the impact analysis. That is the long-term cost of encouraging present use of Louisiana's finite natural resources. This cost is incurred by the LEAP in consideration of the state's present economic crisis. Certainly Louisiana does not have to wait until it is dead last, rather than 49th in unemployment before utilizing its strongest assets.

In order to assure maximum employment, each application for severance tax and royalty forgiveness will include a labor certification. The producer will certify that Louisiana labor has been used to the maximum extent possible in exploration and production of the oil or gas.

The second major element of the program is an incentive payment to encourage additional consumption of natural gas by Louisiana consumers. Revenue for the incentive payments will come from state crude oil royalties accrued from new production activities spurred by LEAP.

In other words, if LEAP works, it will pay for the natural gas incentive itself. If LEAP does not work, there will be no additional gas to be consumed, no incentives to be paid, and so, no cost to the state.

The incentives are necessary because of economic disorder in the natural gas market, nationally as well as in Louisiana. Even at nationally competitive prices, Louisiana producers cannot find markets for new natural gas.

In order to assure that producers of natural gas drill in Louisiana, creating the jobs and attendent economic benefits to the state, the state will endeavor to provide additional markets for natural gas. Market expansion will be encouraged by offering incentives to Louisiana consumers to buy additional amounts of natural gas from new wells in the state. Utilities will be required to pass through benefits to residential and commercial customers.

In addition to assuring a market for new Louisiana gas, the incentive program will assure that Louisiana's natural gas-consuming industrials remain competitive in fierce national and international markets. Those Louisiana jobs will be protected as well.

In order to qualify for incentives at the end of the year, the natural gas consumer (industrial or utility) will apply to the Department of Revenue and Taxation. The application will certify the consumer's 1985 baseline consumption, the amount of natural gas used in excess of the baseline during the program year, and provide documentation as to the purchase of gas from LEAP wells in an amount equal, at least, to the excess consumption.

The third major component of the program is proposed in recognition to the state's critical need to develop a diversified economy as part of a long-term economic development plan. LEAP addresses the crisis as well as the underlying weakness, by providing a planning and funding mechanism with which state may implement long-term economic diversification plans.

At the conclusion of the three year program period, severance taxes and natural gas royalties will be levied on future production from wells drilled under the auspices of the program.

These severances and royalties from increased production attributable to program incentives will accrue to the Economic Diversification Fund and be dedicated implementing long range economic diversification plans.

The three year LEAP period may be utilitzed for developing economic diversification programs. The plans should be developed as legislatively-approved programs, their purpose and approach set down in the statutes.

At LEAP's conclusion the Economic Diversification Fund will receive the revenue benefits of increased production. At that time, appropriations may be made, and identified as such, to the economic diversification programs.

If, during the program period, the Fund has revenues remaining after the payment of natural gas consumer incentives those monies may be appropriated to existing economic development programs. For example, the Small Business Development Act of 1984 would be an excellent candidate for an appropriation from the Economic Diversification Fund.

LEAP is limited to three years for a number of reasons. Foremost among the reasons is that the state of Louisiana cannot afford to continue its economic dependency on oil and gas.

The second reason for the Program's three-year term is that it will take at least that long for Louisiana to take its place among its economically active sister states. A recovery from 49th in unemployment will take longer than a few months.

The third reason or set of reasons concerns the oil and gas industry. A three year period is long enough to fully attract the attention of producers nationwide. Also, many experts feel that a revival of the oil and gas industry may be expected in three year to five years. If this is the case, Louisiana will be poised and ready to take full advantage of the industry's comeback.

LEAP has a number of program requirements to assure that employment and revenue benefits are safeguarded. First, producers applying for severance tax and natural gas royalty relief will have to prove that the well in question was drilled and completed during the program period. This may be done with the Office of Conservation permits which are required prior to drilling.

The producer will also certify that Louisiana labor was utilized during exploration and production activities to the maximum extent possible. This certification will be similar to one required by the state's bonding authority with regards to state funded projects.

Second, industrial and utility consumers of natural gas will have three tests to meet in applying for consumption incentives. They will have to certify 1985 baseline consumption of natural gas, certify the amount they use in excess of the 1985 baseline, and show with purchase certificates that the excess amount for which the incentive is sought was purchased from LEAP wells.

Producers will certify LEAP well sales to pipelines, who will certify the same to consumers. Since well production figures and transportation data are currently kept by the Office of Conservation, the Program's impacts will be easily verified.

Residential and commercial consumers will not be troubled by the verification procedure. Utilities, both private and public, which supply residential and commercial consumers will meet the program certification requirements and be required by statute to automatically pass through benefits to the end-user.

As a final safeguard, a legislative committee appointed by the Speaker of the House and the President of the Senate would be give legislative oversight authority for the program. The committee would be authorized to order program audits where indicated.

LEAP, STATE POLICY AND THE INDUSTRY

LEAP will help reshape Louisiana's business image nationally. It sends a clear message: Louisiana wants you and your dollars doing business in Louisiana.

Equally important, it will send a message to the citizens of this state that Louisiana has the willpower and the ingenuity to deal with problems facing the state. This is a state of people wanting and ready to work and a government prepared to give them that opportunity.

Given the critical nature of Louisiana's employment and fiscal situation, LEAP is designed to encourage quick response from the oil and gas industry. Because severance taxes and natural gas royalties will be suspended only for the three year program period, wells drilled early in the program period will reap the most benefit.

Industry conditions also assure quick response. About 80% of "wildcat" or exploratory wells are drilled by "independents", small oil and gas producers. Major oil and gas companies like Exxon, Texaco and others are responsible for the remaining 20 percent.

Today, like many other relatively small businesses, a number of independents facing severe cash flow problems. Drilling under LEAP's terms will offer some immediate relief to their cash flow situtation.

Banks, and other leading institutions to whom Louisiana independents are indebted, may also be interested in LEAP. If banks foreclose, they get little besides equipment. If they give the producer "another chance" there may be an improvement in his overall financial condition.

Loans to finance new wells with guaranteed lower costs (e.g. severance tax forgiveness) are relatively attractive risks. LEAP should be welcomed by lenders, as well as by independents.

The majors find themselves in a different situation. Majors generally have investment capital but may, because of corporate diversification, may have better alternative investments. LEAP may provide the majors with the incentive necessary to invest in drilling in Louisiana.

Finally, because drilling is off, drilling equipment and services are readily available at very reasonable costs. Given incentives beyond those available in the market place, it's a good time to drill for oil and gas.

Further, with regard to the oil and gas industry nationally, LEAP will leave Louisiana well-positioned. The state's oil and gas producers will be activated and able to quickly and easily increase production to meet demand as the market recovers nationally.

It is expected that both shallow and deep wells will be drilled under the auspices of LEAP. In terms of employment benefits to the state, it doe. not appear that either shallow or deep wells are markedly more advantageous. A number of shallow wells, each employing a drilling crew, can be drilled over the same time period it takes to drill a single deep well. In addition to a longer employment term for the crew, a deep well will require more equipment and services (and related employment) like specialized mud, pipe, and drill bits.

From the producer's standpoint, the program should be attractive for either type of well. Shallow wells cost less to drill and so an incentive (a 7 cent per Mcf cost reduction) may have a dramatic affect on the "bottom line." On the other hand, deep wells generally produce more, multiplying the impact of an incentive.

LEAP should have little impact on existing oil and gas production in the state. This largely because drilling activity is financed by lenders who are repaid with proceeds from the well's production. In order to pay for a well, it must be kept in production.

In the case of an older well that has already paid out, it is likely to be producing oil or gas the producer can afford to sell cheaply. The producer will want to maintain that production in order to lower his average sale price. Further, impacts on existing natural gas production should be minimized by the market expansion generated in Louisiana for new gas by the state's consumer incentive. Similarly, there should be little impact on the national oversupply situation.

There may be concern that producers might cap existing wells and drill new wells into presently producing pools in order to avoid severance taxes. This concern may be addressed on regulatory and economic grounds.

First, the State's Office of Conservation keeps track of all wells drilled in Louisiana. Attempts to drill in presently productive pools will be quickly recognized.

Second, it is unlikely that a producer would expend the capital, on average of a million dollars, to drill a new well in a producing field just to get a severance break. There are no geophysical guarantees that production will be resumed with the second well.

No other state has undertaken an initiative similar to LEAP. Other states do not have Louisiana's combination of economic problems and geological conditions that favor the response expected in Louisiana.

However, the Canadian government, along with its oil and gas producing provinces, have embarked on a related program. Changes in Canadian energy policies brought about a 21 percent increase in oil sales to the U.S. and a 27 percent increase in gas sales over a six month period.

Canada's situation differs from Louisiana's; Canadian provinces own the mineral resources within their boundaries. Not surprisingly, Alberta which produces 85 percent of Canada's oil and gas, is anxious to take advantage of the employment and revenue advantages of increased production.

In the spring of 1985, the Canadian federal government reached an agreement with the oil and gas producing provinces of Alberta, Saskatchewan and British Columbia termed the Western Accord. The Western Accord called for increasing energy investments and creating additional jobs through decontrol of crude oil prices, a policy of deregulation of natural gas, and a phase-out of the petroleum and gas revenue taxes. The province of Alberta has also lowered its royalty substantially to increase employment and investment.

Given the Canadian's recent policy stance, Louisiana competes even for dollars that might otherwise go to Alberta or Saskatchewan. In order to achieve its employment and fiscal purpose, the state must distinguish itself as the premier location for drilling investment in the Northern Hemisphere. Louisiana is indeed fortunate that the most critical factor, the excellent natural resource base has preceded the state by millions of years.

The state needs only to create an economic atmosphere. LEAP sets the tone. Louisiana wants the jobs and the dollars and is willing to sharing the risk to get them.

QUESTIONS AND ANSWERS ON THE LOUISIANA ECONOMIC ACCELERATION PROGRAM PROPOSAL

1. Why does Louisiana need LEAP? Louisiana is second only to West Virginia in unemployment and is facing a state deficit despite budget cuts and increased taxes. These crisis conditions are indicative of a weak state economy.

2. What is LEAP's purpose? LEAP is designed to accelerate Louisiana's economic recovery, easing unemployment and fiscal problems, while providing planning and funding mechanisms for long-term economic diversification.

3. Why utilize Louisiana's oil and gas resources, especially in light of the weakened condition of the oil and gas industry? In order to work, LEAP needs an industry that can quickly provide jobs and investments in exchange for state incentives. LEAP targets oil and gas drilling because Louisiana's resource base is proven and there is a knowledgeable, trained workforce ready to walk back onto drilling sites and start operations. There will be no lag-time training computer specialists or high tech machinery operators. Louisiana's people know how to work the oil rigs, run the seismic tests, prepare the mud, and operate the related service industries. There is also an abundance of idle drilling rigs, equipment, and service companies.

4. What are the elements of LEAP? LEAP is a three year program. During the program period exploratory oil and gas wells drilled in new fields, and all subsequent wells in the same field, will quality as LEAP wells.

First, severance taxes and the state's natural gas royalties on LEAP wells will be forgone for the program period.

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QUESTIONS AND ANSWERS ON THE LOUISIANA ECONOMIC ACCELERATION PROGRAM (LEAP) PROPOSAL

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Second, Louisiana's natural gas consumers will receive an incentive from the state of X cents per Mcf for consumption of gas from LEAP wells consumed in excess of 1985 consumption levels.

Third, the Economic Diversification Fund will be established to pay for the natural gas consumer incentive during the program period and to provide revenues for long-term economic diversification programs at LEAP's conclusion. State oil royalties from LEAP wells will be dedicated to the Fund immediately. At the end of the program period all severance taxes and royalties from LEAP wells would accrue to the Fund. Existing production and related revenues are unaffected by LEAP.

5. Why suspend the severance tax? Suspension of severance tax is the one area that the State controls which can have an immediate positive impact on the marketability of Louisiana oil and gas. The suspension of severance allows the "bottom line" on many wells to shift from marginal to positive, thus spurring drilling activity. It also improves the producer's cash flow situation from earliest production, when such relief is needed most.

6. Why suspend natural gas royalties and offer additional incentives on the natural gas marketing end? The incentives are necessary because of the current economic disorder in the natural gas market, nationally as well as in Louisiana. Suspension of the severance tax and gas royalties from state lands on natural gas will encourage producers to drill. However, further incentives will assure that there are buyers for LEAP gas.

7. How is Louisiana assured of long-term benefits from LEAP? The Economic Diversification Fund will provide revenues dedicated to the implementation of long-term economic diversification plans. Such plans will be developed over LEAP's three year period and defined in the statutes in order to be eligible for appropriations from the Economic Diversification Fund. The Fund is the State's way of announcing that all revenues generated from LEAP wells are forever dedicated to the diversification and expansion of Lousiana's economy.

8. What safeguards will be built into this program to ensure that employment and revenue benefits are realized? First, producers applying for severance and royalty relief will have to prove that the well in question was drilled and completed during the program period and is in a new field. This may be done with the Office of Conservation permits which are required prior to drilling. Secondly, the producer will certify that Louisiana labor was utilized during exploration and production activities to the maximum extent possible. This certification will be similar to one required by the state's bonding authority with regards to state funded projects. Applicants for consumer natural gas incentives will certify 1985 baseline consumption, excess consumption for the program year, and document that excess consumption amounts come from LEAP wells. Finally, a legislative committee will be appointed to give legislative oversight of the program, with authoriztion to order program audits where indicated.

9. Will there be a quick response to the program? Industry conditions assure a quick response. Because severance taxes and natural gas royalties will be suspended for only a three year period, wells drilled early will benefit the most. Additionally, many independent producers (the group responsible for the vast majority of exploratory drilling) are facing severe cash flow problems. Immediate drilling and production will provide some relief to this situation. Also, drilling equipment, and service costs are currently very low, thus creating additonal incentives to drill now.

10. Why limit the program to three years? First and foremost the state cannot afford to continue its economic dependence on oil and gas. Second, it will take at least that long for Louisiana to become competitive with its economically-active sister states. Third, three years is sufficient time to attract the attention of producers nationwide. Also, many forecasters predict the revitalization of the oil and gas industry in the next three to five years. In this case, Louisiana will be poised and ready to take full advantage of the industry's comeback.

11. What will LEAP cost the state? The cost of LEAP will be the long-term cost of encouraging present use of Louisiana's finite natural resources. This cost is incurred by the LEAP in consideration of the state's present economic crisis. Certainly Louisiana does not have to wait until it is dead last, rather than 49th in unemployment before utilizing its strongest assets.