For Immediate Release: June 29, 2020

State agencies approve transfer of BP’s upstream assets to Hilcorp

(Anchorage, AK) – The commissioners of Alaska’s Department of Natural Resources (DNR) and Department of Environmental Conservation (DEC) have approved the transfer of BP’s oil and gas leases to Hilcorp Energy Company as part of the $5.6 billion sale the two companies announced in August 2019.

Subject-matter experts in DNR’s Division of Oil & Gas, DEC, other departments on the Governor’s Oversight Committee on the BP-Hilcorp Transaction (GOC), and outside experts contracted to analyze Hilcorp’s financials, conducted a diligent, thorough analysis of the proposed transaction and secured necessary agreements to ensure it was in the state’s best interest.

“Today’s announcement represents a major milestone in the BP-Hilcorp review process,” said Governor Mike Dunleavy. “I thank the Department of Natural Resources and Department of Environmental Conservation for their diligent efforts to protect Alaskans’ interests throughout every step of this historic transaction.”

State law requires DNR to consider whether to approve the transfer of BP’s working interest in 176 oil and gas leases within the Prudhoe Bay, Point Thomson, and Milne Point oil and gas units on the North Slope. BP’s 256 surface use permits have also been amended to reflect modifications, including the new permit holder. Hilcorp will also assume the role of operator of the Prudhoe Bay unit. Making this determination required significant due diligence, evaluating Hilcorp’s financial standing and obtaining financial assurances for the substantial increase in lease, permit, easement, and right-of-way obligations this deal represents. An agreement to guarantee secondary liability for dismantlement, removal, and restoration (DR&R) of existing facilities and contaminated sites has also been secured from BP Corporation North America.

“After ten months of in-depth analysis, stress-testing of Hilcorp’s financial capacity to hold and operate these assets, and successfully securing secondary liability guaranties from BP, I am confident that the transfer of these leases and facilities both protects and advances Alaska’s interests.” said DNR’s Commissioner Corri Feige.
DEC’s role in this process included the transition of environmental permits and plan approvals, ensuring Hilcorp’s financial responsibility for these facilities, and establishing responsibility for existing contaminated sites.

DNR and DEC’s actions represent final state review and approval of the transfer of BP’s upstream assets — those involved in producing oil and gas before it enters the midstream for transport to the market for refining into products. The most significant element of BP’s midstream assets in Alaska is the Trans-Alaska Pipeline System, and review of this transfer is ongoing. DNR’s State Pipeline Coordinator is continuing to apply the “fit, willing, and able” (FWA) test in evaluating Hilcorp’s ability to accept and manage the midstream assets. The Regulatory Commission of Alaska is continuing its own FWA analysis and will render a separate decision, which will be issued by September 28, 2020.

The GOC has prepared a report to the Governor summarizing the jurisdiction and due diligence performed by the executive branch agencies in the adjudication of this sale. It is attached to this press release and will also be posted on the DNR FAQ page for the BP-Hilcorp transaction.

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DUE DILIGENCE MEMORANDUM

TO: Hon. Mike Dunleavy
Governor of Alaska

THRU: Corri A. Feige
Commissioner, Department of Natural Resources
Chair, Governor’s Oversight Committee

FROM: Governor’s Oversight Committee

SUBJECT: Report Regarding BP / Hilcorp Transaction – Upstream Assets

DATE: 29 June 2020

Governor Dunleavy:

The following provides a high-level summary of the jurisdiction and due diligence performed by the Department of Natural Resources (“DNR”), Department of Environmental Conservation (“DEC”) and the other executive branch agencies which are party to the Governor’s Oversight Committee (“GOC”), related to the acquisition by Hilcorp entities (collectively, “Hilcorp”) of upstream and midstream assets presently held by BP entities (collectively, “BP”) (the “Transaction”). For purposes of this document, the focus will be on the upstream transfer of assets under State of Alaska jurisdiction.

I. Summary of Transaction.

Hilcorp and BP announced the Transaction on August 27, 2019, the financial terms for which were amended in April, 2020. In sum, the Transaction transfers BP’s entire upstream and midstream business in Alaska to Hilcorp for $5.6 billion. These transfers include BP’s interests as follows:

- Approximately 26.36% interest in Prudhoe Bay Unit (“PBU”);
- Approximately 32% interest in Point Thomson Unit (“PTU”);
- 50% interest in Milne Point Unit;
- 50% interest in Liberty Unit (under federal jurisdiction);
- Interest in ASRC’s leases in the Arctic National Wildlife Refuge;
• 1/3 interest in Alaska LNG Project, LLC;
• 50% interest in Milne Point Pipeline, LLC;
• 32% interest in Point Thomson Export Pipeline;
• Approximately 48.4% interest in Trans Alaska Pipeline System ("TAPS");
• Approximately 47.6% interest in Valdez TAPS terminal tankage;
• Approximately 49.1069% of Alyeska Pipeline Service Company ("Alyeska") shares; and
• Approximately 25% of Prince William Sound Spill Response Corporation.

II. Summary of Agency Jurisdiction and Due Diligence.

   a. Department of Natural Resources (Jurisdiction Summary).

DNR not only serves as chair of the Governor’s Oversight Committee, but also takes the laboring oar in the due diligence associated with the Transaction. DNR has jurisdiction to approve or disapprove the change of control and transfer of the upstream leases and the rights-of-way associated with the Trans Alaska Pipeline System in the midstream. This is handled by multiple sections within the DNR Division of Oil & Gas, under the Commissioner’s guidance, each having their own subject matter experts whose collective expertise was brought to bear in DNR’s due diligence.

The following is a general summary of the various authority DNR has in this Transaction. Omitted from this memorandum is the work undertaken by the State Pipeline Coordinator’s Section, which will conduct a fit, willing, and able analysis for the midstream components of the Transaction. A more detailed summary of the due diligence undertaken under this authority is summarized in Section III, below.

DNR has a statutory obligation to protect confidential information. Accordingly, specific financial, modeling, and insurance data is omitted from this report.1

i. Leasing.

Transaction assets in the upstream not under federal or Native Corporation jurisdiction exist under leases held by BP entity BPXA with the State of Alaska. These leases are administered through DNR. Before any transfer of 176 leases involved in the upstream can be binding on the state, the transfer must be approved by the DNR Commissioner.2

The transfer of the leases involved in the transaction constitutes a fundamental change in control. Accordingly, DNR undertook a thorough due diligence review to ensure a proper Financial Assurances Agreement ("FAA") is in place with the parties that adequately protects the State of Alaska from risks associated with the leases and dismantlement, removal and restoration ("DR&R") obligations. This analysis includes, but is not limited to, assessments of the assignee’s

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1 See: AS 38.05.035(a)(8).
2 See: 11 AAC 82.605.
current and reasonably foreseeable financial position as well as assurances from the assignor to backstop risks in the future should the transferee become unable to satisfy its legal and contractual obligations under the lease.

DNR contracted, through Department of Law, with outside experts at National Economic Research Associates (“NERA”) and international law firm Morrison & Foerster (“MoFo”) to assist with its analysis. In the finalized FAA, discussed at further length below, DNR will require periodic reassessments of the assignee’s financial position to determine if future amendments to the financial assurances are necessary.

DNR also verifies the accuracy of the legal description of the interest being transferred, evaluates the overall compliance record of the entity to whom the interest is being transferred, and evaluates the proposed transferee’s ability to undertake the activity in which they are desiring to take an interest.

ii. Permitting.

As part of the lease transfers, inevitably BP’s approximately 256 existing permits and permit applications must be amended to reflect modifications, including the new name of the permittee.3 There will also be modifications made reflecting the new permittee and other changes for plans of operations on non-unitized leases4 and within unit plans of operations.5 As discussed below, DNR DOG’s Permitting Section also supported the development of financial assurance agreements through the creation of a GIS-based catalog and inventory of all facilities at Prudhoe Bay Unit.

iii. Units.

In addition to ministerial paperwork requirements to document the change of operator, DNR is guided by its regulations in assessing whether to approve a change of unit operator.6 This analysis parallels the analysis involved in deciding whether to approve the lease transfers, including but not limited to assessing whether the unit operator is qualified to hold a lease under Alaska law, and whether it is qualified to “fulfill the duties and obligations prescribed in the unit agreement.”7 Because this transaction involves a fundamental change in control, the due diligence undertaken by DNR through the lens of the lease transfer decisions captures much of DNR’s analysis regarding whether to approve the change of operator for Prudhoe Bay Unit.

iv. Commercial.

DNR employs a team of commercial analysts who supported the NERA and MoFo in the necessary modeling and analysis to properly assess the fiscal health of Hilcorp, both now and in

3 See: 11 AAC 96.040(c).
4 11 AAC 83.158.
5 11 AAC 83.346.
6 11 AAC 83.331.
7 11 AAC 83.331(a).
the reasonably foreseeable future, and crafted an appropriate FAA and secondary liability agreement with BP that adequately protects the state. More detail on these efforts is provided below.

b. Department of Natural Resources (Due Diligence Summary).

i. Leasing.

Under its legal and contractual authority, DNR worked with the Department of Law to develop a Transaction-specific Change of Control Application (the “Application”) to capture the proposed stock sale of BP entity BPXA from The Standard Oil Company to Hilcorp Alaska, LLC. The Application’s language integrates standards from the existing working interest ownership transfer application with added provisions and guarantees of protection specific to this Transaction. The Application will become public record and includes a description of all lands affected, pre- and post-Transaction corporate structure, and the requested name change of BPXA to Hilcorp North Slope, LLC.

The 176 leases subject to the change of control include those contained within the Prudhoe Bay (115), Point Thomson (37), and Milne Point Units (24). The current working interest ownership of BPXA in the leases range from 5% to 100%, with the most common being 26.360567% for Prudhoe Bay, 36.991107% in Point Thomson and 50% in Milne Point. Obtaining control of these lease interest percentages will increase Hilcorp Alaska, LLC’s acreage position in the state by 134,600.06 acres. Post-Transaction, Hilcorp entities will control 461,719.50 acres statewide. This is the second largest acreage position after ConocoPhillips Alaska Inc. None of the newly acquired acreage would count as chargeable acreage under AS 38.05.140(c), which limits the amount of non-producing acreage a company may hold.

Among the 176 leases involved in the Transaction there are 13 unique lease form types. More broadly, these lease forms are generalized into DL-1 and New Form leases. New Form leases are those issued in or after 1979, following significant changes enacted to Alaska oil and gas leasing law. Eighty-four percent of the leases subject to this transfer are DL-1 leases. Although these lease forms represent different eras, a comparative review noted no material difference in the obligations of the lessee, its successors and assigns, to return the land in good order and condition to the satisfaction of the commissioner.

The applicants requested a June 30, 2020 effective date for the change of controlling interest in BPXA, which allowed DNR sufficient time to complete its due diligence. Once approved, BPXA, as controlled by Hilcorp Alaska, LLC, would then assign its 50% working interest in the Milne Point leases to Hilcorp, Alaska, LLC. Hilcorp Alaska, LLC is presently the operator and working interest owner of the other 50% interest in Milne Point, receiving this interest in a November 2014 assignment from BPXA. The working interest assignment would be subject to 11 AAC 82.605(d) and effective July 1, 2020.
ii. Financial Assurances Agreement.

As discussed above, a key component of approval of the lease transfer applications is ensuring adequate financial protection to the state for the lease, permit, easement, and right-of-way obligations incurred by Hilcorp. To properly capture the increased scope of obligations undertaken by Hilcorp in this Transaction, DNR’s commercial analysts revisited, with assistance from NERA and MoFo, the FAAs held by Hilcorp for its pre-Transaction business in the state, both for upstream and midstream assets. Hilcorp, pre-Transaction, was on the sixth iteration of its FAA for the upstream assets. A condition of approving the lease transfers is Hilcorp executing an updated, seventh iteration of its FAA. The pertinent parts of the Seventh FAA are summarized, as follows.

Hilcorp entities Hilcorp Energy I, LP, Hilcorp Alaska, LLC, and Hilcorp North Slope, LLC will be the obligors under the Seventh FAA. This FAA preserves the flexible, durable structure that has been used in prior iterations and will require Hilcorp to provide the State with significant financial assurances. As discussed below, key features of this structure include: a formula-based financial assurance amount that will be refreshed every third year, submission of third-party estimates of the cost to fulfill the DR&R liabilities, quarterly and yearly submission of financial data, opportunity to review insurance coverages, and pre-defined financial metrics to periodically reassess Hilcorp’s financial strength.

The FAA will capture effectively all upstream assets held by Hilcorp in the State of Alaska. These assets include all Hilcorp upstream assets acquired in previous Alaska acquisitions, assets developed by Hilcorp on State oil and gas leases acquired in a lease sale, and the assets acquired from BP in the current Transaction. As noted above, the amount of financial assurances due to the State is determined formulaically as a fraction of the most recent estimated cost to fulfill Hilcorp’s DR&R obligations.

The values in this financial assurances formula are regularly reassessed and are subject to change depending on Hilcorp’s financial strength and the cost to DR&R the assets. For example, if Hilcorp acquires additional assets (subject to the same DNR approvals), it is required that the acquired assets be rolled into the FAA, a new DR&R estimate be submitted within thirty days, and the amount of financial assurances be updated. Notwithstanding, the FAA requires that Hilcorp submit an independent, third-party report to DNR every third year that estimates the current cost of its DR&R obligations. When this updated report is received, the financial assurances amount is recalculated in light of the new information.

The FAA also requires the financial assurances formula be modified if there is a material change in Hilcorp’s financial health. Per the FAA, Hilcorp is required to submit to DNR audited financial statements of Hilcorp Energy I, Hilcorp Alaska, and Hilcorp North Slope by May 30 of

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8 Hilcorp’s midstream entity, Harvest Alaska, LLC, has a separate FAA in place for its midstream assets. As part of DNR’s midstream due diligence, the midstream FAA will be revised into a more comprehensive document that captures the additional midstream assets Hilcorp will own post-Transaction.
every year. On the submission of these latest financial documents, DNR conducts two financial
tests: a Z-score test and a Net Worth Ratio Test.

The Net Worth Ratio Test examines the ratio of Hilcorp Alaska’s net worth to its asset retirement
obligation. If the ratio falls below the amount outlined in the FAA, then Hilcorp Alaska must
either receive sufficient equity from Hilcorp Energy I for the ratio to meet the minimum
threshold or provide the state with additional financial assurances.

The Z-score test is a measure of financial health that relies on Altman’s Z-score and the amount
of equity held by Hilcorp. The Altman’s Z-score is an empirically derived, commonly used, and
scientifically supported measure of the probability of default in the next 24 months. The FAA
requires that should Hilcorp’s Z-score test indicate a substantial deterioration in financial health,
the percentage of the estimated obligation that must be provided to the State as financial
assurances is automatically increased.

Beyond financial data, the FAA also requires Hilcorp to regularly provide the State with
additional information concerning its operations. In particular, the FAA requires that Hilcorp
submit reports on its reserves and operational activities. The FAA further requires that Hilcorp
maintain insurance coverage at the level commonly held by oil and gas producers and provide
notice to the state if it intends to modify its insurance protections. DNR reviewed Hilcorp’s
insurance coverages and finds them adequate to protect the state.

iii. BP Secondary Liability & PBU Infrastructure Imprint.

Hilcorp is a mid-sized, independent oil and gas company. Shortly after the Transaction was
publicly announced, BP agreed to remain secondarily liable for DR&R on all North Slope assets
in place at the time of the transaction and provide a guaranty (the “Guaranty”) to that effect. To
that end, the following concerns were addressed:

(1) Which BP entity is sufficiently capitalized to remain secondarily liable for the next
several decades?
(2) Should the State of Alaska obtain the guaranty from BP PLC (the ultimate parent
company) and, if so, under what circumstances?
(3) Has the state, as well as the parties to the Transaction, defined the upstream “footprint” as
it exists today (i.e. well count, pads, and other infrastructure) and is Hilcorp willing to
update the State periodically on additions and subtractions to this footprint?

As to points (1) and (2), DNR reviewed BP’s finances and held several meetings with their
leadership. Ultimately, the DNR team concluded that BP entity BP Company North America
(“BPCNA”) is sufficiently capitalized to provide the initial guaranty for secondary DR&R
liability. The Guaranty also provides protection for the state should BPCNA’s capitalization
change in the future. Under the terms of Guaranty, BP PLC, BPCNA’s corporate parent, or
another qualified entity with the State’s approval automatically becomes the guarantor in the
event BPCNA’s credit rating diminishes or BPCNA’s assets decrease below levels specified in
the Guaranty. It is also important to note that the DR&R obligations associated with PBU are
shared by ownership percentage with its other working interest owners, ExxonMobil and ConocoPhillips Alaska, Inc.

As to point (3), DNR completed extensive geographic information systems (“GIS”) mapping and asset inventory cataloging of BP’s north slope assets, including highly detailed information on the infrastructure associated PBU, some of which is over forty years old. BP and Hilcorp agreed to the “footprint” as it exists at the time the Transaction closes. BP shared its GIS base layer for comparison and accuracy checking. Hilcorp already has a GIS mapping team in place to account for additions to the infrastructure footprint after the Transaction closes. BP and Hilcorp will sign an inventory acknowledgement upon transfer of the assets in the upstream.

c.  Department of Environmental Conservation (Jurisdiction and Due Diligence).

Generally, the Department of Environmental Conservation (“DEC”) is charged with conserving Alaska’s natural resources and environment to enhance the health safety and welfare of Alaskans and their overall economic and social well-being.9 Hilcorp’s acquisition of BP’s Alaska assets implicates several programs and responsibilities under DEC’s jurisdiction. Each of DEC’s programmatic divisions – Air, Water, Environmental Health (“EH”), and Spill Prevention and Response (“SPAR”) – issues permits or authorizations for the ongoing operation of facilities covered by the Transaction. In addition, SPAR and EH oversee the cleanup and closure of contaminated sites and solid waste facilities.

i.  Divisions of Air and Water.

DEC’s air and water divisions administer the permitting requirements in AS 46.14 and 46.03.100 relating to air emissions and water discharges, respectively. In addition, under section 401 of the Clean Water Act,10 DEC issues certificates of reasonable assurance associated with dredge and fill permits issued by the U.S. Army Corps of Engineers.

As a part of the Transaction, these permits and authorizations will require minor, administrative updates to either transfer the permits or change the operator name. Division staff and Hilcorp have consulted on the need for each of these updates. DEC does not expect these updates to result in any disruption to facility operations.

ii.  Division of Spill Prevention and Response.

SPAR oversees industry compliance with statutory requirements for contingency plans related to oil spill prevention and response, proof of financial responsibility to respond to and compensate for losses caused by oil spills, as well as cleanup of sites contaminated with oil or other hazardous substances. Each of these oversight functions is discussed in turn, as follows.

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9 See: AS 46.03.010; AS 44.46.020.
1. **Contingency Plans.**

Unless exempted, oil terminal facilities, pipelines, exploration and production facilities, tank vessels, and oil barges (collectively, the “Facilities”) must have a DEC-approved oil discharge prevention and contingency plan (“Contingency Plan”).\(^\text{11}\) Contingency Plans detail how the Facilities operator will prevent and respond to a spill at covered facilities.

After consultation with SPAR staff, on January 21, 2020, Hilcorp applied to amend its existing plan to cover the Facilities it intends to acquire. SPAR completed an initial review and issued a sufficiency for review finding on January 30. The amended plan was then published for a 45-day public comment period. After evaluating the public comments, SPAR requested additional information from Hilcorp and published that information for an additional 10-day comment period, which closed on June 19, 2020. SPAR staff has reviewed the public comments and resolved any outstanding issues or concerns, enabling them to issue a decision by June 30.

2. **Proof of Financial Responsibility.**

Unless exempted, a Facilities operator in Alaska must also provide SPAR with proof of financial responsibility (“FR”), which ensures an operator has adequate resources for spill response and to cover compensable, statutory pollution liability losses.\(^\text{12}\) Alaska law establishes the amount of FR required for various types of Facilities and also requires those amounts be adjusted with the Consumer Price Index (“CPI”).\(^\text{13}\) Currently, after CPI adjustments, the highest FR requirement is approximately $93.5 million.\(^\text{14}\) FR obligations do not increase when new facilities are added; instead, FR for all facilities covered must be equal to the highest amount required for any one of the covered facilities.\(^\text{15}\)

Because of the Transaction, SPAR staff proactively informed Hilcorp of the requirement to ensure its FR covers the acquired facilities. Because Hilcorp’s existing FR is already at the maximum $93.5 million for its current facilities, the total amount of FR Hilcorp must provide does not change due to the Transaction. Hilcorp submitted paperwork to expand the coverage of its FR on June 16, 2020, which SPAR staff is reviewing. No public notice or comment is required for this change and, while Hilcorp and SPAR are working through the final details of the submission, SPAR will complete this work by June 30.

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\(^{11}\) See: AS 46.04.030.

\(^{12}\) See: AS 46.04.040.

\(^{13}\) See: AS 46.04.040; 46.04.045.

\(^{14}\) See: 18 AAC 75.235; 18 AAC 75.236.

\(^{15}\) 18 AAC 75.235(b).
3. Contaminated Sites.

Alaska law prohibits the unauthorized release of hazardous substances such as oil and place responsibility for cleaning up contaminated sites on the owners and operators of the facilities.16 Liability is strict, joint, and several and is not extinguished if the owner or operator changes.17

BP is a responsible party for 50 known contaminated sites in Alaska. Among the facilities subject to the planned transfer, 30 are closed with institutional controls (“ICs”). For these sites, Hilcorp is taking on responsibility for ongoing monitoring and reporting. In addition, depending on the specific ICs and risks involved, additional cleanup work could potentially be required in the future if a subsequent operator or landowner wishes to change the use of the property or conduct ground disturbing activities (e.g., constructing new facilities on the property). For the remaining 20 sites that remain open, Hilcorp will assume responsibility to address the contamination.

DEC expects there will be adequate assurances in place to protect the state and has worked to ensure the contaminated sites are covered under an enforceable secondary guaranty with BP. Among other potential options, the state may ultimately be able to call on Hilcorp’s FR to cover costs associated with contaminated sites.18

iii. Division of Environmental Health.

EH permits solid waste facilities and oversees financial assurance for closure and post-closure care and monitoring. DEC staff is working with Hilcorp to transfer the permits and ensure Hilcorp satisfies the financial assurance requirements. There is no public notice or comment process associated with these changes and staff anticipates finalizing this work with Hilcorp by June 30.

1. Drilling Waste Sites.

Under Alaska law, Facility operators must obtain prior authorization from DEC before disposing of waste in the state.19 Solid waste disposal facilities must provide proof of financial responsibility to manage and close the facility in an appropriate manner, including for post-closure care and monitoring.20

The drilling waste sites at issue in the Transaction include permitted and active drilling waste treatment facilities, and long-term storage sites, as well as inactive and closed facilities. Operators of these facilities must provide financial assurance. Specifically, Hilcorp will acquire control of three active and permitted facilities, one inactive drilling waste facility, and will assume financial assurance responsibilities for those four facilities. Hilcorp will also acquire two

16 AS 46.03.822, et. seq.
17 AS 46.03.822(a), (e).
18 AS 46.04.040(i).
19 AS 46.03.100, et. seq.
20 AS 46.03.100(f), 46.03.830; 18 AAC 60.265.
facilities that were previously permitted and closed but remain in post-closure monitoring and could require corrective action in the future.

2. Inactive Reserve Pits.

Inactive Reserve Pits (“IRPs”) are legacy drilling waste disposal sites that were in use during the earlier years of oil and gas development, largely prior to DEC permitting requirements, and must be closed.21

As part of the Transaction, Hilcorp will acquire control of 110 IRPs. Of those, 17 are working pads in the Western Operating Area of PBU, which include reserve pits that remain to be excavated and closed. At the end of the pad life, DEC and Hilcorp will enter into an agreement for the closure of these facilities, including financial assurances. The remaining 93 sites are closed production and exploration sites for which Hilcorp will have responsibility for any long-term liability and corrective action. BP, through BP Remediation Management, will retain long-term liability for closed exploration IRPs.


In addition to implementing state requirements, EH staff participates in EPA’s administration of a RCRA Order that covers a number of solid waste and contaminated sites currently operated by BP. With the acquisition, Hilcorp will take on responsibility for compliance with this order as well.

d. Department of Commerce: Alaska Oil & Gas Conservation Commission.

Housed within the Department of Commerce, Community and Economic Development, the Alaska Oil and Gas Conservation Commission (“AOGCC”) is an independent, quasi-judicial agency of the State of Alaska, established under the Alaska Oil and Gas Conservation Act.22 Its regulatory authority is outlined in Title 20, Chapter 25 of the Administrative Code. In general, AOGCC oversees oil and gas drilling, development and production, reservoir depletion, and metering operations on all lands subject to the state's police powers. The Commission acts to prevent waste, protect correlative rights, improve ultimate recovery, and protect underground freshwater. It administers the Underground Injection Control (“UIC”) program for enhanced oil recovery and underground disposal of oil field waste in Alaska. It serves as an adjudicatory forum for resolving certain oil and gas disputes between owners, including the state. The Commission carries forth statutory mandates consistent with the protection of health, safety and the environment. It strives for cooperation with industry, while maintaining well-defined and essential regulatory requirements.

It is not uncommon for oilfields to change hands. When this occurs, AOGCC’s regulatory jurisdiction, cited above, takes effect. When an oilfield changes operators, AOGCC requires a

21 18 AAC 60.990(67); 18 AAC 60.440.
22 AS 31.05.005, et. seq.
Designation of Operator form to be submitted. Likewise, if there is a change in who owns an oilfield, AOGCC requires the new owner to file a Notice of Ownership form. With the change in operatorship, a bond must be provided by the new operator to ensure that each well is properly drilled, operated, maintained, repaired, and/or abandoned. The bond amount required is based on the number of active wells.

While the regulations involving a change in property are straight-forward, AOGCC also relies on historical practice to guide its decision-making. There are some instances when a Designation of Operator is not required. If the same corporate entity exists but with a new name and different corporate officers, a Designation of Operator is not required. Rather, AOGCC requires written documentation from the state of incorporation, Alaska’s corporation and business licensing section, and related supporting information.

According to AOGCC, it is not requiring a Designation of Operator for the upstream assets because the same corporate entity exists, albeit with a new name, Hilcorp North Slope LLC. Hilcorp North Slope LLC has already provided the appropriate bond to AOGCC. When the Transaction closes, AOGCC expects to receive proper supporting documentation. The sole exception is Milne Point, where AOGCC will require a Notice of Ownership be filed. Currently Milne Point is owned by both Hilcorp Alaska and BP entity BP Exploration (Alaska), Inc. (“BPXA”) When the Transaction closes, BPXA’s working interest will be sold to Hilcorp Alaska, not Hilcorp North Slope. Therefore, a new corporate entity will own the 50% of Milne Point (100% Hilcorp Alaska).

e. Department of Commerce: Regulatory Commission of Alaska.

A corporate agency under the Department of Commerce, Community, and Economic Development, the Regulatory Commission of Alaska (“RCA”) regulates common carrier pipelines throughout Alaska, including their rates, classifications, rules, regulations, practices, services and facilities under the Pipeline Act. The RCA is a quasi-judicial body with the authority to conduct investigations and hearings, to issue subpoenas, and to compel the attendance of witnesses.

A key element of the RCA’s regulatory authority is the Certificate of Public Convenience and Necessity (“CPCN”). No transportation, acquisition, or operation of any common carrier pipeline facility may take place without the RCA issuing a CPCN. Thus, RCA approval is required for the transfer of a CPCN to a new owner. The transfer process begins with an application from the companies seeking a transfer. The RCA analyzes a transfer application using the same criteria as an original application; that an applicant is “fit, willing, and able” to provide the services in

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23 20 AAC 25.020.
24 20 AAC 25.022.
25 20 AAC 25.025.
26 See: AS 42.06.055, et. seq.
27 See: AS 42.05.141, et. seq.; 3 AAC 48.151, et. seq.
28 AS 42.05.221.
conformity with legal requirements, and that the service is required,\(^{29}\) and that such a transfer is in the best interest of the public.\(^{30}\)

On September 27, 2019, BP Pipelines (Alaska) Inc. ("BPPA") and Hilcorp’s midstream subsidiary, Harvest Alaska, LLC ("Harvest Alaska"), jointly filed with the RCA three separate applications for approval of the transfer of the CPCN for the following pipeline interests:

1. BPPA’s entire interest (and all operating authority) in the Trans-Alaska Pipeline System (TAPS). The ownership interest consists of 48.4% in TAPS and 47.58% of the Valdez Marine Terminal tankage. CPCN No. 311.\(^{31}\)
2. BPPA’s 100% stock ownership interest in BP Transportation (Alaska) Inc. that owns 50% membership interest in Milne Point Pipeline, LLC; CPCN Nos. 329 and 638.\(^{32}\)
3. BPPA’s 100% stock owner interest in BP Transportation (Alaska) Inc. that owns 32% membership interest in PTE Pipeline, LLC (Point Thomson); CPCN No. 746.\(^{33}\)

The RCA’s decision regarding the CPCN transfer application is still in process and is anticipated in September 2020. DNR and Department of Law are monitoring these proceedings, in part, because DNR’s "fit, willing, and able" determinations pursuant to the Alaska Right of Way Act are, in part, similar to the analysis conducted by the RCA, and will need to be undertaken in order for DNR to transfer the underlying rights of way to Harvest Alaska, the entity that holds Hilcorp’s midstream assets.

f. Department of Revenue.

The Department of Revenue ("DOR") is required by statute\(^{34}\) to maintain the confidentiality of taxpayer information. Accordingly, while DOR has participated in the GOC’s quarterly meetings, it is unable to comment on or divulge any tax-related information of the participants in this transaction. That said, there are no DOR related transfers or reviews associated with the Transaction.

g. Department of Fish and Game.

The Alaska Department of Fish & Game ("ADF&G") Habitat Section carries out the statutory responsibility of properly protecting freshwater habitat for anadromous fish and providing free passage for all fish in freshwater.\(^{35}\) Under this statutory authority, any activity or project that is conducted below the ordinary high water mark of an anadromous stream, or has the potential to impede fish passage, requires a Fish Habitat Permit. Installation of culverts, bridges, or docks, water withdrawals, and stream crossings with vehicles or equipment are just a few examples of

\(^{29}\) AS 42.05.241.
\(^{30}\) AS 42.06.305.
\(^{31}\) RCA Docket No. P-19-017.
\(^{32}\) RCA Docket No. P-19-016.
\(^{33}\) RCA Docket No. P-19-015.
\(^{34}\) See: AS 40.25.100; 43.05.230.
\(^{35}\) See: AS 16.05.841, et. seq.
the type of projects reviewed and permitted by the Habitat Section. Habitat biologists conduct research and field surveys, review plans, and work with permit applicants to ensure proposed projects do not adversely impact anadromous fish habitat and provide for the free passage of fish. Habitat also monitors project compliance.

Additionally, Habitat Section staff work with other ADF&G divisions, as well as state, federal, and local agencies, to provide expertise for maintaining and protecting important fish and wildlife habitat throughout the state. ADF&G updates the “Catalog of Waters Important for the Spawning, Rearing, or Migration of Anadromous Fishes.” The critically important Catalog forms the legal basis for implementation of ADF&G’s Anadromous Fish Habitat permitting program and is a resource that provides applicants information about the anadromous water bodies in the vicinity of their proposed projects.

ADF&G’s due diligence with BP and Hilcorp indicates there will be no request for permit transfers by Hilcorp. Since the upstream portion of the Transaction is a stock sale, the BP entity holding the permits, BPXA, merely undergoes a name change after the Transaction closes. At that time, the Habitat Section would reissue the existing permits under the new name.

There are approximately 62 permits that may be transferred, the final number will be finalized post-Transaction close. Hilcorp may have existing permits of their own for some activities that would eliminate the need to transfer BP’s permits for the same activity. Hilcorp may also choose not to transfer certain BP permits they deem no longer necessary for their proposed operations.

h. **Department of Labor and Workforce Development.**

Following the Transaction announcement, Employment and Training Services staff of Department of Labor and Workforce Development worked closely with BP’s human resources team to ensure a smooth transition for BP’s 1600 employees. Consistent with Alaska law, BP issued timely Worker Adjustment and Retraining Notification (“WARN”) letters to affected workers. Informational meetings were held, including but not limited to a workshop on January 23, 2020. The full complement of employment and training services were made available to affected BP employees.

In total, 1,567 BP employees are affected by the Transaction. Of those affected, 806 received offers from Hilcorp and 749 accepted. Volunteering for severance were 342 employees, while 294 employees received an involuntary severance. Some 153 employees will move outside of Alaska for continued employment with BP.

Importantly, in order to ensure a seamless and safe transition of PBU operations, BP and Hilcorp will overlap experienced personnel at PBU facilities for 90 days.

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237 of these employees are Alaska residents.
III. Transaction Approval.

In sum, DNR concludes that approval of the Transaction components under its jurisdiction is in the State’s best interest under Alaska Law. DNR did not reach this conclusion lightly; such a result was reached only after ten months of due diligence and negotiation completed by the subject matter experts within DNR’s staff aided by the expertise of NERA, its legal team at Department of Law aided by outside counsel at MoFo, and in consultation with the other executive branch agencies, whose respective jurisdictions and conclusions were summarized herein.

Like the many other oil and gas lease transfers DNR has previously evaluated over the past decades, there is some risk and potential liability to the state which must be analyzed and balanced. These risks, however, are both calculated and significantly mitigated given the details of the Transaction and the protections negotiated into the approvals by DNR, discussed in detail above. To recap, the protections provided to the state by the parties to the Transaction are:

1. The structure of the Transaction, its payment terms, and Hilcorp’s overall business model provide Hilcorp adequate flexibility to finance the Transaction, meet its financial obligations to the state, and invest the necessary capital into the upstream assets it will acquire from BP;
2. Hilcorp has sufficient insurance to manage a catastrophic upset on the North Slope, both for incidents under DNR and DEC’s respective jurisdictions;
3. BP provided the state an enforceable guaranty for secondary liability on the DR&R obligations under the leases and Alaska law; and
4. Hilcorp is taking just over a quarter working interest owner in PBU, with legacy producers ConocoPhillips Alaska, Inc., and ExxonMobil Alaska remaining partners in production.

Hilcorp is a mature-stage oil and gas asset expert. Hilcorp’s demonstrated record over years of operation both in the Cook Inlet, North Slope, and other jurisdictions outside of Alaska has demonstrated an ability to increase production and ultimate recovery while reducing operating expenses. Further, a review of Hilcorp’s safety record reveals that with an increase in contact hours as its business has grown, reportable incidents have been in steady decline. Cumulatively, this provides Alaskans a continued source of jobs and economic activity in the resource development sector matched with continued, if not increased, revenues from both the aging and newer assets on the North Slope.

IV. Next Steps.

The necessary approvals for the upstream transfers will be executed under the respective jurisdictions of the agencies listed above. The final component of the Transaction due diligence, which is already underway, involves the “fit, willing, and able” tests associated with the Right-of-Way Leasing Act and any permits associated therewith. Though it cannot speak to RCA’s timeline for the approvals under its jurisdiction, DNR anticipates completing its midstream due
diligence and decision before the conclusion of the 2020 summer. RCA has stated publicly they anticipate completing their process sometime in September 2020.