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Resource Review

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Phillips looks to Arctic

ARCO deal contingent on FTC approval of BP combination

With the signing of an agreement to purchase ARCO's Alaska assets, Phillips Petroleum Company has pledged to grow oil production in Alaska by aggressively pursuing exploration and development opportunities in the 49th state. However, the Phillips deal is subject to completion of BP's acquisition of ARCO's holdings in the Lower 48 and abroad.

Speaking before a jammed-packed RDC breakfast forum in Anchorage last month, Phillips Chairman and Chief Executive Officer Jim Mulva said his company will join BP Amoco in supporting the Alaska Charter commitments worked out last year with the Knowles administration.

"The acquisition of ARCO's Alaskan assets represents a significant step in our strategy of growing our exploration and production business," said Mulva.

Phillips Petroleum Chairman Jim Mulva speaks about the acquisition at a packed RDC breakfast forum in March. At left is RDC President Jim Branch and to Mulva's right is RDC Executive Committee member Ryan Lance of ARCO.

"Our goal is to combine Phillips' and ARCO's plans to grow production by aggressively pursuing exploration and development opportunities in the same environmentally-responsible manner that has characterized our Alaskan operations for the last 50 years."

- Jim Mulva

"We look forward to working with BP Amoco, our other partners and the State of Alaska to responsibly and efficiently develop Alaska's natural resources."

Mulva noted that the North Slope is a rich petroleum region with significant exploration and development potential.

"Our goal is to combine Phillips' and ARCO's plans to grow production by aggressively pursuing exploration and development opportunities in the same environmentally-responsible manner that has characterized our

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Prudhoe Bay GTL project on horizon

A multi-billion dollar project to convert stranded North Slope natural gas to clear, high quality liquids for shipment down the existing trans-Alaska oil pipeline is technologically feasible, according to an ExxonMobil official.

"We're ready to move forward with a GTL (Gas to Liquids) project," said Robbie Schilhab, Alaska Gas Development Manager for ExxonMobil. "There is a very large gas resource on the North Slope and we're anxious to get it to market for the benefit of all stakeholders."

Speaking before the March 23 RDC breakfast forum in Anchorage, Schilhab noted ExxonMobil has invested more than $110 million studying North Slope gas commercialization options and has dedicated $400 million over the past 20 years on developing gas conversion technology.

Significant advances have been made in GTL technology and costs have been reduced by 50% in 10 years.

Resource Review is the official periodic publication of the Resource Development Council (RDC), Alaska's largest privately funded nonprofit economic development organization working to develop Alaska's natural resources in an orderly manner and to create a broad-based, diversified economy while protecting and enhancing the environment.

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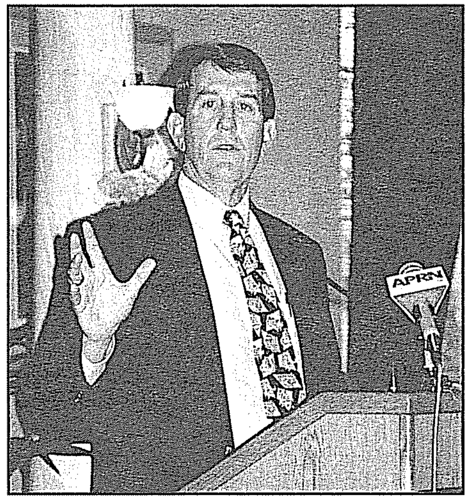

Robbie Schilhab, Alaska Gas Development Manager for ExxonMobil, describes a potential Prudhoe Bay GTL project to RDC.

Schilhab told RDC that the $3 billion to $4 billion project would convert stranded natural gas to clear, high quality liquids. The liquids would be shipped down the existing Alaska pipeline and transported to Lower 48 and foreign markets. Schilhab noted that markets for GTL products already exist and there is no need for long-term contracts.

The ExxonMobil gas manager emphasized that a GTL project at Prudhoe Bay would not preclude construction of other gas commercialization options. He explained that his company's project would consume approximately 10 trillion cubic feet of natural gas over a 30-year life span while an LNG project would need 20 trillion cubic feet of gas. The North Slope holds 31.2 trillion cubic feet of natural gas and according to a study by the National Petroleum Council there could be an additional 76.1 trillion cubic feet of potential undiscovered reserves.

Major construction activity would be required for the project. A significant number of very large modules would be constructed off-site and transported to Prudhoe Bay. The project would probably represent the most significant construction activity in Alaska since the original development at Prudhoe Bay.

The project would provide significant benefits to Alaska, including higher state revenues, jobs, extended use of the pipeline and potentially in-state use of GTL products.

Initially the project would generate about 1,300 direct jobs during peak construction with an additional 1,900 indirect support jobs. Some 250 direct permanent jobs would be created once the plant is operating.

The project would produce ultra-clear, low odor, biodegradable clean-burning products. GTL diesel is cleaner in engine tests with a 10 to 50 percent reduction in the emissions of hydrocarbon, carbon monoxide, nitrous oxide and particulate matter when compared to conventional diesel.

ExxonMobil is looking at working through permitting issues for the project over the next several years with construction beginning in 2005. A major sealift of modules would occur in 2008 with start-up targeted for 2009.

The timeline, of course, is dependent on progress on a number of fronts including the permitting process.

"The State of Alaska should keep all options open so that all potentially viable commercialization alternatives can be considered," Schilhab said. "Keeping these options open provides the best chance for Alaska gas to be developed."

Schilhab emphasized that fiscal certainty is critical to any North Slope commercialization option. With that being the case, Schilhab described the merits of HB 421, legislation which amends the standards of the Alaska Stranded Gas Development Act which is intended to speed commercial development of gas. The legislation would allow a qualified project sponsor, regardless of the technology used to develop the gas, to enter into discussions with the State for establishing a fiscal regime that would encourage a project to move forward.

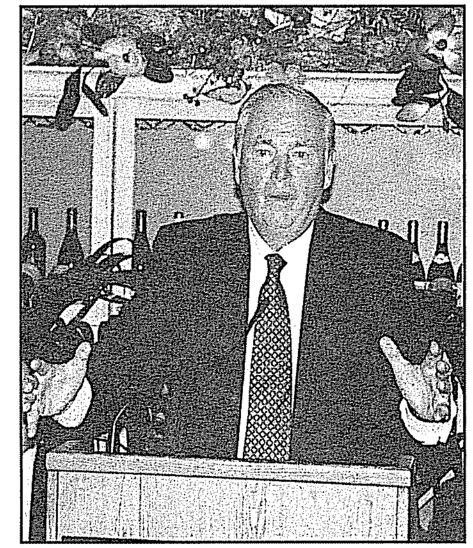
Other producers are working on ways to commercialize North Slope gas. BP plans to build a $70 million GTL pilot plant on the North Slope, and an LNG project with an associated pipeline to tidewater in Southcentral Alaska is being pushed by the North Slope Borough, Fairbanks and Valdez.

Murkowski introduces ANWR bill

Senator Frank Murkowski has introduced legislation in Congress to open the 1.5 million acre Coastal Plain of ANWR to oil development.

Speaking before RDC last month, Murkowski said he has more than 30 sponsors for the legislation, but predicted a very tough battle. He noted a poll by his staff has revealed that 50 senators support drilling in the refuge to reduce America's reliance on foreign oil while another 50 senators either oppose the bill or are undecided.

Murkowski condemned the Clinton administration's energy policy, noting its heavy reliance on foreign oil and opposition to drilling in ANWR, America's best prospect for major oil discoveries.


Senator Frank Murkowski outlines his new ANWR bill before RDC. He noted that high energy prices will impact Americans at the gas pump to the stock market.

Murkowski said the high cost of gasoline, heating oil and diesel has served as a wake-up call to many members of Congress who have traditionally not supported oil exploration in ANWR. He said there is growing consensus that the nation needs to increase domestic production and reduce its reliance on foreign oil.

Armed with charts and other data, Murkowski told RDC that the country now imports 56 percent of its oil. He predicted gasoline prices will exceed $2 a gallon this summer.

The last attempt to get an ANWR drilling bill through Congress sparked a national debate and showdown with the White House five years ago. Congress ultimately passed the bill, but President Clinton vetoed it.

"Had the President not vetoed ANWR approval, we could well be seeing oil from the area now," Murkowski said. "If we don't develop more domestic oil, our energy and national security is threatened."

Chugach Alaska granted access to traditional lands

After extensive work with the federal government, and despite opposition by national environmental organizations, Chugach Alaska Corporation (CAC) has been granted an easement to an important 73,000-acre tract of land east of Cordova.

Chugach leaders said they were pleased to finally secure access rights, particularly since such access had originally been promised in a 1982 agreement between the U.S. government and CAC.

"The federal government has finally upheld its commitment to the Chugach People," said Sheri Buretta, chair of CAC, which represents approximately 2,000 Alaska Native shareholders of Alutiiq, Eskimo and Eyak Athabaskan decent. The company has expended considerable resources to acquire the easement that was promised as part of its settlement of aboriginal title under the Alaska Native Claims Settlement Act (ANCSA).

"The easement upholds the spirit and intent of ANCSA and the 1982 Settlement Agreement while protecting the public's resources and rights of access," said Dave Gibbons, Chugach National Forest Supervisor.

"The Corporation can now make its own decisions about what is best for its shareholders now that we have access to our land," Buretta said. "It is only by allowing us to make our own decisions about how to best use our lands that the past examples of dislocation of Native Americans from ancestral lands will become a memory."

Environmental organizations have opposed Chugach's work to obtain the easement. Buretta likens such efforts to the past dislocation of American Indians across North America. "Running Natives off their lands is nothing new. In the past the justification was to colonize the continent, now the rationale is to preserve it."

Environmentalists oppose the road because of its potential to open new areas to resource development.

"We're going to do things responsibly," Buretta said. "We have to maintain our reputation and our business."

Buretta said Chugach is very respectful of the land, yet it has received numerous threats, pressure and ultimatums from environmentalists.

Looking ahead, Buretta says the company will continue to monitor currently depressed global markets for forest products in evaluating the best time to commence construction of the road allowed by the easement.

The company also looks forward to moving ahead on other outstanding issues with the Forest Service and other federal agencies, including timely conveyance of its remaining entitlement and cultural sites; controlling trespass; removing unauthorized trails on company lands; exploring cooperative opportunities for providing contractual services to the agencies; and securing access to other CAC lands.

"We are all pleased by the steps the Forest Service has made on this matter and look forward to a new era of mutual respect and cooperation," Buretta said.

Guest Opinion

by Cam Toohey
Arctic Power

America needs more domestic oil production

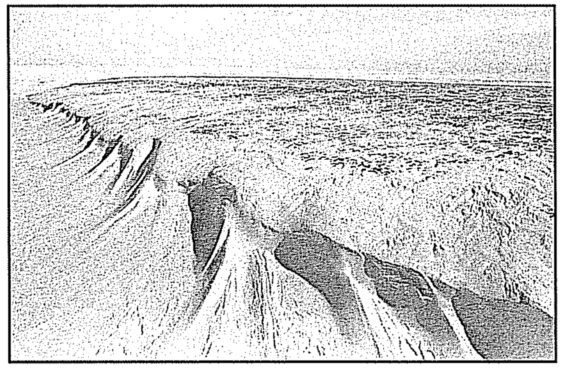
Currently, there are problems sweeping America for consumers of heating oil, gasoline and diesel. Prices have risen sharply because of increased demand and restricted supply (OPEC). Diesel fuel costs in some areas have climbed to an average of $2.10 per gallon from about $1 a year ago.

This has homeowners, truckers, and others calling for government help. Frantic calls have been made for immediate release of oil from the Strategic Petroleum Reserve (SPR), increased emergency funding for the Low-Income Home Energy Assistance Program and a plea that Saudi Arabia deliver more oil to America. All are possible near-term solutions but this is a long-term crisis.

The fundamental problem is the country's inability to reduce oil imports. Despite three recessions since 1973 triggered by rising imported oil prices, oil imports have increased, driven by consumer demand and reduced domestic production. Oil imports now exceed 54% and continue to grow. Today, we import 10.5 million barrels a day, including 1.4 million barrels a day from Saudi Arabia.

The current Federal government solution to this crisis is to encourage other foreign countries to produce more oil so the United States can import more oil. The strategy supports oil development projects in the Caspian Sea and Russian Arctic regions. These policies lead to an export of American jobs and increased imports of foreign oil.

A far better approach to reduce our vulnerability to OPEC oil pricing should begin by addressing the problems of domestic oil and gas exploration and production. Our government should reconsider rules that prevent us from exploring for oil in the most promising locations in this country. These restrictions stop the development of domestic supplies that would exert downward pressure on crude prices, reduce reliance on foreign crude, cut the trade deficit and create new jobs in the U.S. That could also impact what consumers pay for heating oil and gasoline.



If oil development is allowed in ANWR and mean reserve estimates are found in both the refuge and NPR-A, and if 50% of the heavy oil in place is recovered from existing fields, the Alaska pipeline could be running at rates of 2.2 million barrels per day for two decades. The pipeline would still be running above 1 million barrels per day through mid century. At left is ANWR's Coastal Plain.

A good place to start is in Alaska. North Slope production has been supplying this nation with 20% of its domestic oil for the last 20 years. And there is more where that came from.

Industry and government experts recognize the Coastal Plain of the Arctic National Wildlife Refuge (ANWR) as the single most promising unexplored region in the U.S. for a major oil and gas discovery. In 1998, the U.S. Geologic Survey estimated that the Coastal Plain of ANWR, an area set aside by Congress for evaluation of its oil and gas potential, could have up to 16 billion barrels of recoverable oil. That is equivalent to 30 years of Saudi oil imports!

Unlike oil produced in other countries, oil in Alaska is produced under the strictest environmental standards in the world; great care is taken to minimize the impacts to tundra and wildlife. Utilizing modern technology and new drilling methods, the pads, roads and pipelines associated with domestic oil production would directly affect less than one half of one percent of ANWR's Coastal Plain.

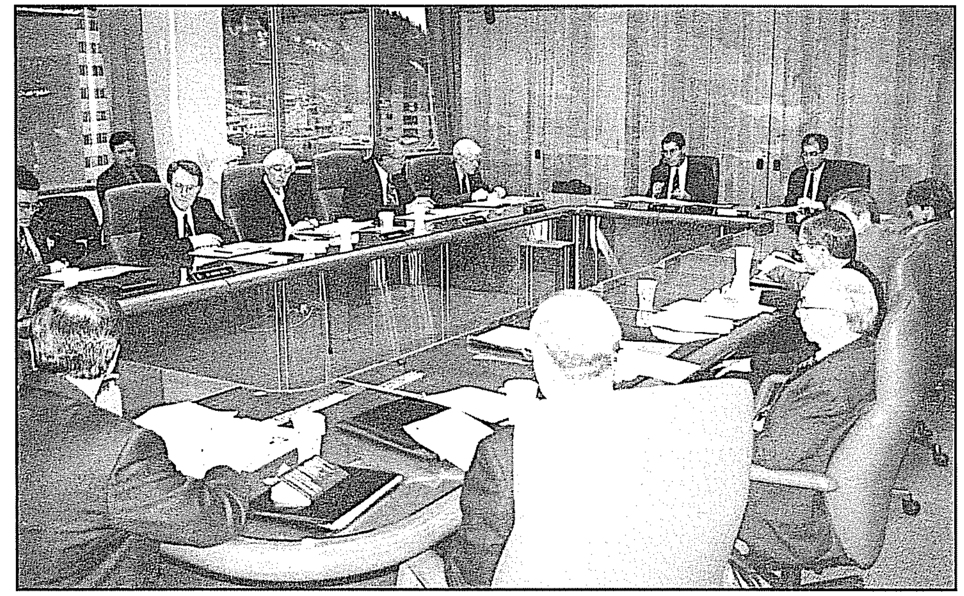
Other benefits would also be derived by ANWR development. As a result of development, between 250,000 and 736,000 jobs are estimated to be created. These are good high paying jobs spread throughout the nation in the production, manufacturing and service sectors. Also, federal revenues would be enhanced by tens of billions of dollars from bonus bids, lease rentals, royalties and taxes. This is in contrast with current expenditures of even greater amounts for oil import.

In 1995, Congress supported legislation allowing environmentally sound exploration on the Coastal Plain of ANWR. But the President vetoed the bill. The cold hard fact is that during the tenure of this Administration, U.S. demand for oil has increased 14%, and our domestic production has decreased 17%. And worse yet, this Administration might create a monument out of the Coastal Plain of ANWR, further restricting access to this very rich petroleum region.

The hardships that these high prices are causing American consumers are real and will continue to cause problems until our country changes its current energy policy. We need to open access to promising areas, like ANWR, and increase domestic oil and gas supplies. Only then will we lessen the grip that countries like Saudi Arabia and Iraq have on our nation and consumers.

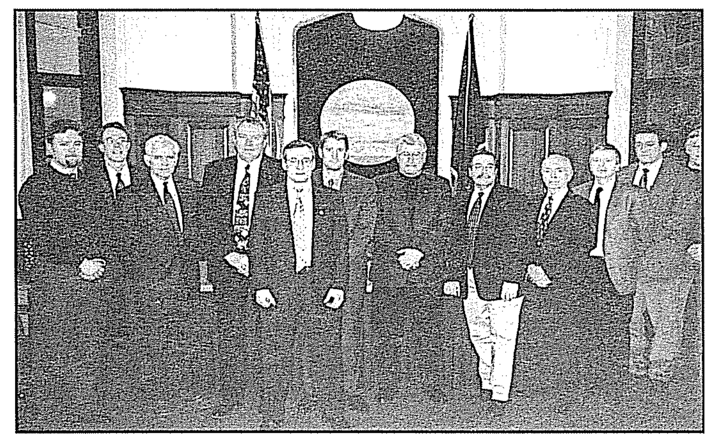
RDC Board visits Juneau

Annual fly-in works issues

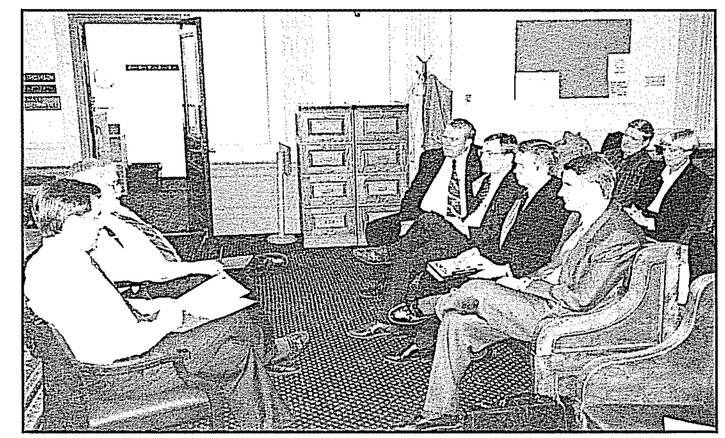


RDC Board members meet with Governor Tony Knowles on RDC's legislative and administrative priorities in February during the RDC Board of Directors annual fly-in to Juneau.

RDC board members Stan Foo and Marilyn Crockett, and Executive Director Ken Freeman meet with DNR Commissioner John Shively.



Board members meet with House Speaker Brian Porter.



Senate Finance Committee Co-chairs Sean Parnell and John Torgerson discuss long-term budget issues with RDC.

Alaska exports up 30 percent in 1999

Alaska exported $2.56 billion worth of goods in 1999, an increase of 31 percent over 1998. Increases in exports to Alaska's two largest markets, Japan and Korea, were even better.

Exports to Japan were $1.3 billion in 1999, up 53 percent from 1998. And exports to Korea reached an all-time high, $487 million, up 54 percent from 1998. Japan and Korea account for more than 70 percent of Alaska's exports.

"These strong export numbers are great news for Alaska," said Governor Tony Knowles. "International trade is important to our economic well-being, it means high-paying, year-round jobs for Alaskans, and more money coming into the state."

Knowles congratulated Alaska's exporting companies for their accomplishments over the past year and pitched the state's international trade program and offices overseas.

1999 exports were up in almost every major sector. Seafood exports were up 42 percent, minerals 13 percent and wood products were up 29 percent.

"We knew 1998 was a bad year economically, in large part due to the Asian flu, but our strategy has always been long-term, to stay the course with our Asian customers, including keeping Alaska trade representatives in our major markets," said Greg Wolf, Director of the Division of Trade & Development.

Wolf said that strategy paid off as markets and prices rebounded dramatically in 1999 in the vital Asian markets.

"I am especially happy with the Korea numbers," added Wolf. "Korea is Alaska's second largest market. This record-breaking rebound is even better news than we expected."

Phillips poised to follow in ARCO's foot steps

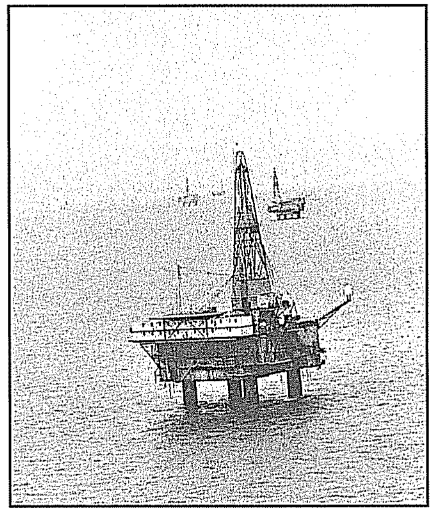
(Continued from page 1)

Alaskan operations for the last 50 years," Mulva added. "We are pleased that ARCO's Alaska employees and other support personnel will be joining Phillips. They have an impressive record of growing production while operating efficiently. We are looking forward to the opportunity to combine and leverage our joint skills worldwide."

If the deal proceeds as proposed, Phillips would pay $6.5 billion in cash upon closing and up to an additional $500 million based on a formula tied to the price of crude oil. The transaction, which is expected to close early in the second quarter and will be retroactive to January 1, 2000, is expected to be approved by the Federal Trade Commission. The Phillips deal may resolve concerns the FTC has about BP's $28 billion acquisition of Atlantic Richfield Company. With ARCO's Asian gas holdings, West Coast refineries and gas stations, the acquisition is still valuable to BP.

BP Amoco chief executive Sir John Browne and ARCO chairman Mike Bowlin said: "After months of uncertainty for staff and customers of BP Amoco and ARCO, and the states and communities where we operate, we are pleased to be in discussions with the FTC. Those discussions are constructive and the sale agreement greatly advances the prospects for their successful completion.

Browne described the price for ARCO's Alaska assets as "highly competitive" and said that the combination with ARCO remained an excellent deal for BP Amoco.



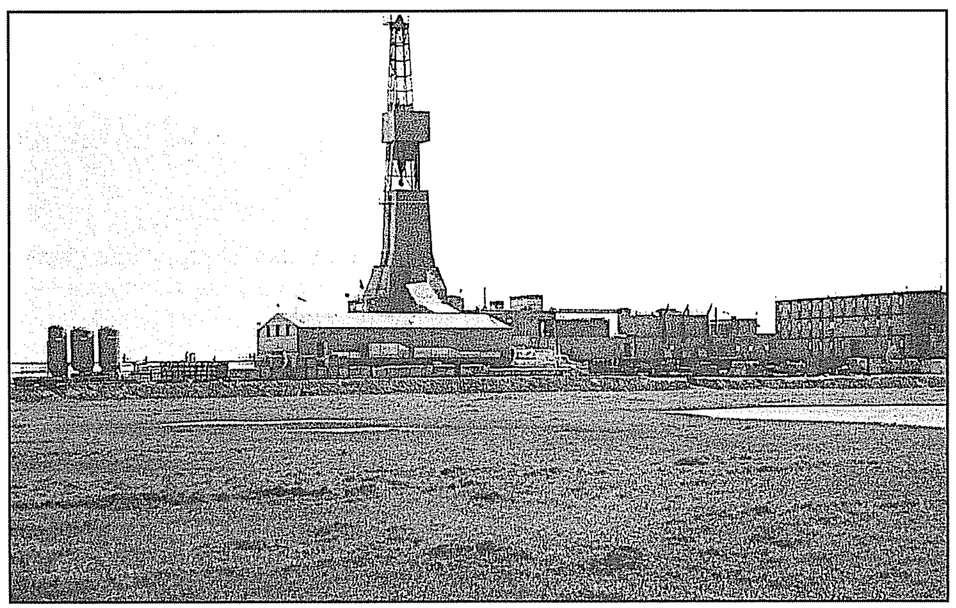
Phillips currently owns a 70 percent interest in the Kenai LNG plant, a 100 percent interest in the North Cook Inlet field, a less than 2 percent interest in the Prudhoe Bay Unit, a 10 percent interest in the Point Thomson field and a small share in TAPS.

Under the agreement, Phillips would book reserves of 1.9 billion barrels of oil equivalent (BOE) in 2000 from the deal, immediately increasing the company's reserves base from 2.2 billion BOE to 4.1 billion BOE. ARCO Alaska's 325,000 barrels per day of oil production would boost Phillips' production by 150 percent, making Alaska a key element in the còmpany's portfolio.

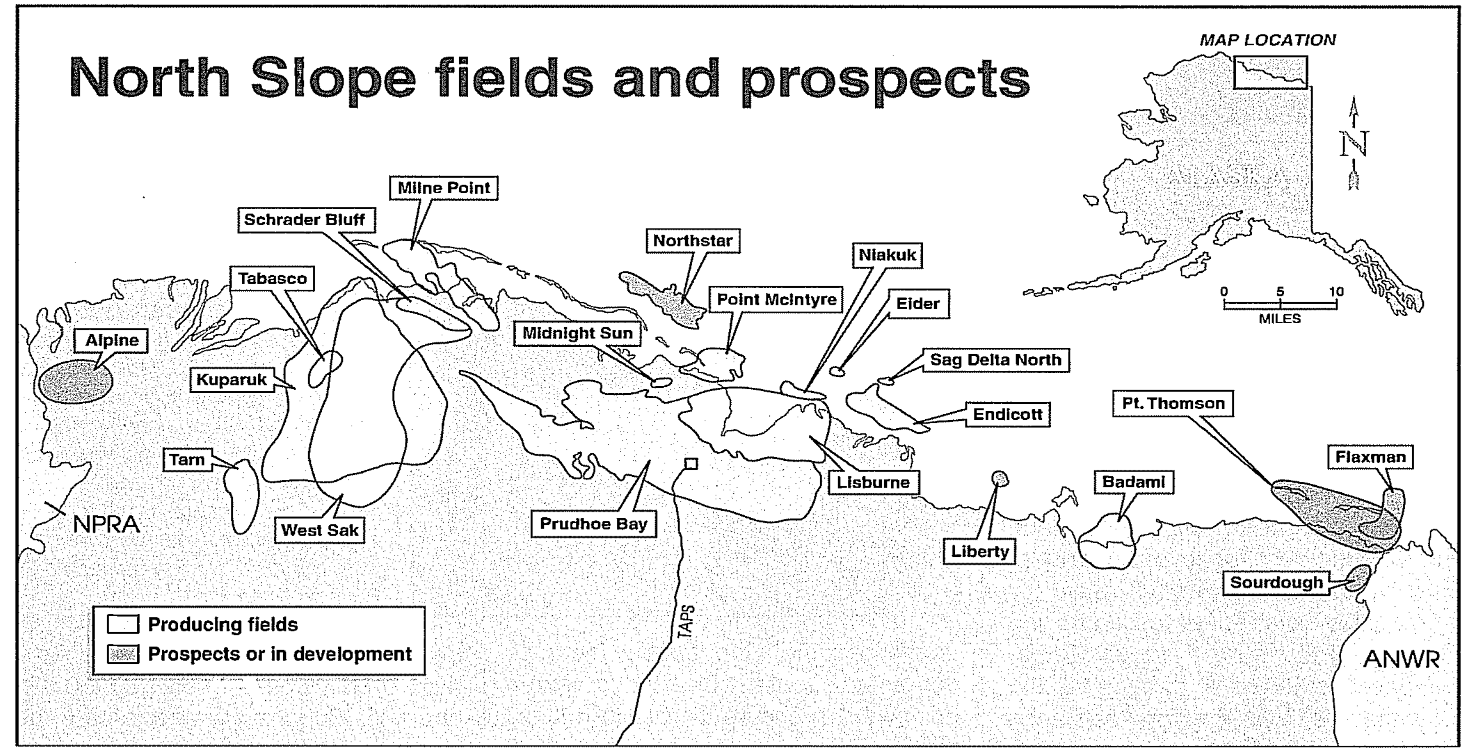
With the proposal, Phillips would acquire all of ARCO's Alaska assets. In Prudhoe Bay, Phillips would obtain a 42.6 percent interest in the gas cap and a 21.9 percent interest in the oil rim, as well as a range of interests in related fields. The company would acquire a 55 percent interest in the greater Kuparuk area and a 78 percent interest in the Alpine field. The sale package also includes 1.1 million net exploration acres, a 21.3 percent interest in TAPS, and the assets of ARCO Marine, including six tankers.

Mulva said Phillips will combine its technical expertise with that of ARCO to develop the Alpine field; continue development of the Kuparuk field and its satellites; and develop the Prudhoe Bay satellites, in addition to implementing enhanced oil recovery at related fields. These projects provide about 700 million barrels of upside reserve potential. The company also intends to work closely with its partners in developing projects for the more than 25 trillion cubic feet of gas in the Prudhoe Bay gas cap. In the National Petroleum Reserve Area (NPRA), Phillips could hold almost a half million net acres, increasing the company's exposure to additional reserve potential.

Headquartered in Bartlesville, Oklahoma, Phillips is the 6th largest oil company in the U.S. with 1999 revenues of $13.9 billion. Worldwide, the company produces 231,000 barrels of crude oil per day with most coming from Norway. The company has 15,900 employees and has 6,000 gas stations in 27 states. It currently has 4 percent of the U.S. gas market.



Under an agreement reached last month with BP Amoco, Phillips would purchase all ARCO assets in Alaska. The deal is contingent on FTC approval of the broader BP ARCO combination. Pictured above is the Alpine oil field where ARCO holds a 78% ownership.



Ownership if proposed buyout is approved

Prudhoe Bay

BP Amoco	51%
Phillips	22%
ExxonMobil-Chevron	22%
Others	5%

Kuparuk

Phillips	55%
BP Amoco	38%
Unocal	5%
ExxonMobil-Chevron	1%

Endicott

BP Amoco	68%
Exxon	21%
Unocal	11%
Phillips-Others	1%

Alpine

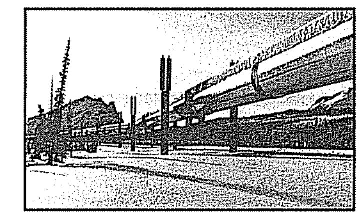
Phillips	78%
Anadarko	22%

Point McIntyre

ExxonMobil	38%
BP Amoco	32%
Phillips	30%

Lisburne

Exxon	40%
Phillips	40%
BP Amoco	20%



Trans-Alaska Pipeline

BP Amoco	50%
Phillips	23%
ExxonMobil	23%
Amerada Hess	2%
Unocal	1%

Murkowski says environment will benefit from Arctic oil

Senator Frank Murkowski chided environmental groups for refusing to recognize that the global and U.S. environment both will benefit from careful development of a small fraction of the Arctic National Wildlife Refuge (ANWR).

"Environmentalists refuse to accept fact," Murkowski said. "They refuse to accept that their opposition to domestic production merely forces oil companies to produce oil in environmentally-sensitive areas such as the Columbian rainforest -- absent the environmental protections we have here in the U.S. Moreover, much of the oil produced in these areas will eventually find its way to the U.S. in ever-increasing foreign-flagged oil tankers."

Murkowski warned that if America doesn't produce more of the oil it consumes, it could see more than 10,000 oil tankers each year docking at American ports. He noted that these tankers are not required to meet more stringent American safety standards.

Murkowski said that while he has supported major funding increases in the budget for alternative energy research, energy conservation and efficiency measures, these initiatives cannot meaningfully address high gas prices at the pump or the national security implications of the nation's increasing dependence on foreign oil in the decades ahead.

"Let's face the facts, our economy still requires oil and the demand for oil will not subside anytime soon," Murkowski said.