

## **Briefing Note for Mary Streett**

### **BP (L48) Acquisition of BHP Assets: US C&EA Considerations**

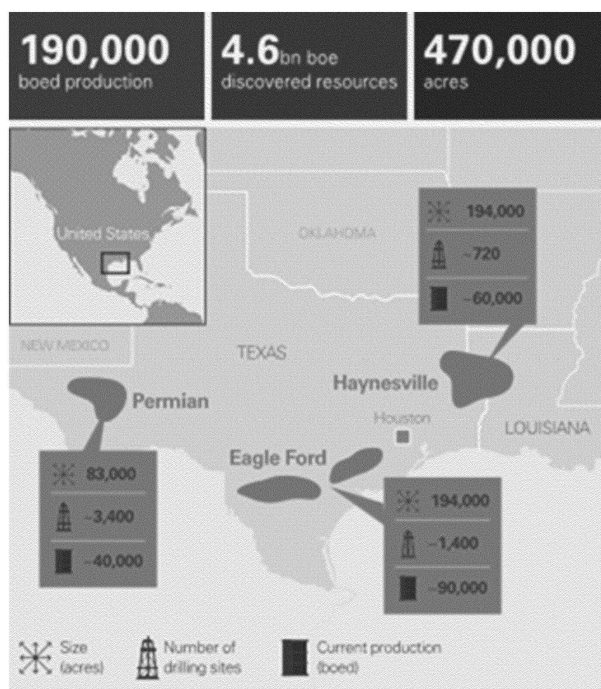
#### Objectives

BP has an agreement to acquire most of BHP's unconventional assets in the US for \$10.5 billion. This is a strategic move to upgrade our US Onshore portfolio and to reposition the business for future long-term growth. In the context of this acquisition, there is the need to assess communications and external affairs (C&EA) issues at local, state, or federal levels in the state of Texas where BP has a significant business presence across various segments. With increased risk profile in terms of reputation and financial liability there is a need to re-assess the current support model.

This document frames the main issues to consider from this perspective. Above all, it seeks to clarify the most effective C&EA accountability model for Texas as we work towards completion of this acquisition. One thing it does not cover is any portfolio impact of remaining L48 assets. Primary audience is Mary Street, head of US C&EA as a guide in upcoming conversations with the L48 team.

#### Deal Summary

Below is the infographic on the deal details. According to this, most of the acreage acquired lies in the State of Texas, with only a small fraction lying in the State of Louisiana. In addition, based on the publicly known quality of the Permian and Eagle Ford hydrocarbons (oil/oil rich vs gas), it is reasonable to assume that most of the growing drilling activity will take place in these two assets. This means that the overwhelming focus in this integration phase needs to be an assessment of non-technical issues relevant in the State of Texas. . It should also be noted that L48 had shifted its drilling focus to Haynesville prior to the acquisition, laying down rigs in Colorado and Wyoming.



#### Current C&EA Support Model in Texas

L48 and US C&EA work closely together in all external facing issues in State of Texas. Paula Bulcao from the State and Local Affairs team is the C&EA person tagged to Texas, serving on the legislative committees of TXOGA (Texas Oil & Gas Association) and TIPRO (Texas Independent Producers & Royalty Owners) associations. Combined, these two groups cover most of the active oil & gas industry members. Paula's counterpart in L48 is Gil Bujano, who has a strong regulatory background after 35 years with the Texas Railroad Commission (the primary regulatory body for the oil and gas industry in Texas). Gil serves on the regulatory committees of TXOGA and TIPRO and is supported by Paula on the legislative committees.

The relationship between Paula and Gil is very good, and they work closely together. The costs associated with the Austin office, TXOGA and TIPRO are split between BP America and L48.

#### C&EA Assessment

Since the precise details around the BHP assets are not yet fully known even to the L48 regulatory team (transaction expected to complete by end of October 2018), it is difficult at this stage to make an informed opinion on the specific issues associated with each newly acquired asset. We can assert that anti-fossil fuel activism historically has not been a major issue in Texas. However, recent trends show this type of activism is increasing and must be watched.

It should be noted that while Texas is the nation's top producer of natural gas and oil, and the industry has a generally positive perception amongst voters, several headwinds directly face the industry and the impact is being felt. From July 2016 to July 2017, Texas added almost 400,000 people. As the state becomes more diverse, more affluent and more urban, the state is becoming more purple in its voting habits. A good example of that is during the presidential election when Pres. Trump won Texas by 9 points. But that doesn't tell the entire story. In the same election, Harris County went Democratic, with the largest presidential margin of victory in more than a decade.

The following are two State of Texas matters being watched by both TXOGA and API.

- API and TXOGA have identified two related issues related to the Permian – the need for more pipeline infrastructure to move product that otherwise would be trapped there, and the threat of putting limitations on eminent domain authority, which has the ability to impede the development of new infrastructure and the delivery of product to customers, important outcomes to both L48 and NAGP. For clarity, landowners are driving these reforms. And in the 2017 legislative session, industry was successful in defeating 12 eminent domain bills. Industry's advocacy has focused on seeking fairness and equity in the eminent domain process without creating new incentives for lawsuits by landowners and trial attorneys.
- An important BPA issue is the need for dredging and improving infrastructure at Texas shipping ports to export product. API, through the State Relations Committee, has been evaluating this as part of the prioritization process to have API support TXOGA on these issues. It should be noted that port dredging is not a L48 issue.

Attached separately, is an addendum of important L48 issues currently being worked and that will be addressed in the 2019 legislative session. It includes broader context on eminent domain and infrastructure challenges in Texas ..

BP America and L48, through Paula, Gil, and others stay well connected and aligned on BP positions and advocacy efforts. Both show up as "One BP" in the political arena with state leadership. That said, there needs to be a robust conversation on the Texas engagement plan going forward, given the larger upstream presence throughout the state.

#### Suggested Topics for Mary

With that context above, we offer the following set of topics for Mary to potentially explore with L48 during her Denver visit. These topics cover governance, regulatory and policy, and external relationship areas, with the aim that these will be clarified over the next few months.

#### *Governance & Business Landscape*

- Should the current Texas' support model be rethought?
- Should there be single point accountability after this significant acquisition (L48 or US C&EA)?
- What does this deal mean for the BP profile/brand in Texas going forward? An obvious question from L48 will be – what does BPA think it means for BP in Texas?  
*[There are rumours that L48 will announce a name change to BPX Energy. It might be worth asking when/how such announcement will be made. How will BP America message the name change?]*
- What is expected BP tax revenue to the state post acquisition?
- What are the plans for the BHP workforce? Any risk that needs managing?  
*[We understand BP will pick up 1,700 BHP workers at five locations, including Shreveport, Louisiana. It is uncertain at this juncture what L48's plans are with regards to BHP retention]*
- Does BP have any other existing assets/personnel in these areas? In what areas?  
*[The Eagle Ford JV with Lewis Energy is run by a L48 team based in Houston. Lawler announced at his townhall that the Permian would likely be run from the Denver office. Whilst the Haynesville will continue to be run from Houston, as it currently is.]*

#### *Federal, State and Local Affairs*

- Does BP or Amoco have any legacy reputational issues in these new areas that we need to be aware of?
- Are there any known legacy remediation issues in these assets?  
*[Side note: BHP acquired Petrohawk in 2011. Petrohawk was founded in 2003 and grew rapidly through mergers and acquisitions until it was acquired by BHP.]*

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- From experience what are the relationships with local county-level stakeholders in the acquisition areas?  
*[BHP has been engaged at the local level, but to what degree is unknown. L48's priorities with regards to relationships have largely been on government officials who influence permitting or policy impacting field operations – mostly at the state level, not at the local level.]*
- What is the split between federal, tribal and state/private acreage?  
*[Texas is the second largest state with around 268,000 square miles, and less than 1.5 percent of that land is owned by the Federal Government, almost all in the form of National Parks, National Forest land or military bases, with barely any BLM administered land.]*

#### *Regulatory and Policy*

- Who is the competition in these areas? Any new companies we need to pay more attention to? Any new e-NGO's to be alert to? (TXOGA has identified at least 49 "activist" organizations now operating in Texas).

- Who are their most high-profile regulators?  
*[The Railroad Commission, the TCEQ, GLO, TxDOT, and Comptroller's Office. HB 40 was passed in 2011 and prohibits local municipalities from regulating oil and gas development.]*
- What is the environmental and safety profile of these sites? Does this deal expose us to new issues to manage?
- How many well sites come with this acquisition?
- What is the typical type of facilities of these assets? Are there any gas plants or other larger operations or is the asset base all well sites? Any pipelines?
- Are any of these assets in NAAQS air non-attainment areas or areas at risk of becoming non-attainment? Are any of these areas subject to significant international pollution transport?
- Any early insights into the equipment type for emissions sources? For example, do these sites have high bleed pneumatic controllers which we have already replaced at almost all of our current sites?  
*[It's worth noting that BHP is a member of API's Environmental Partnership, focused initially on reducing methane and volatile organic compound (VOC) emissions.]*
- What is the regulatory environment in Texas on flaring & venting, methane, water and waste? (See L48 Issues – addendum)
- Will additional regulatory expertise be needed on the L48 team?  
*[Based on interactions with L48 regulatory team, we think there is sufficient regulatory expertise in place on issues such as wellbore integrity, air quality, waste water and ESA management. The regulatory permitting activity will undoubtedly increase. This is time consuming activity that is largely process oriented and not policy-oriented.]*