

STATE OF ALASKA

REGULATORY COMMISSION OF ALASKA

Before Commissioners:

Robert M. Pickett, Chair  
Stephen McAlpine  
Antony G. Scott  
Daniel A. Sullivan  
Janis W. Wilson

In the Matter of the Joint Application for	)	
Approval of Transfer of Certificate of Public	)	Docket No. P-19-015
Convenience and Necessity No. 311 and	)	Docket No. P-19-016
Operating Authority thereunder from	)	Docket No. P-19-017
BP Pipelines (Alaska) Inc. to Harvest Alaska, LLC	)	
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Dear Commissioners,

The Alaska Public Interest Research Group has been deeply interested and involved with BP's proposed sale of midstream assets to Hilcorp and Harvest, Alaska. AKPIRG is a 501(c)3 nonprofit and the only non-governmental consumer advocacy and research organization in Alaska. We are nonpartisan and focus on consumer and good governance issues.

We urge the Commission to require new and updated financial statements from Hilcorp Energy, I, L.P.; Hilcorp Energy Company; Harvest Midstream, I, L.P.; Harvest Midstream Company; Hilcorp Alaska, LLC; Harvest Alaska; and any other Hilcorp affiliate that has technical, managerial or financial capabilities that may be relied upon to support the responsibilities of pipeline ownership or operation. These companies should be required to submit audited (and in the event there are no audited financial statements, unaudited financial statements) first quarter financial statements to the RCA. If the Commission will not conclude its

inquiries until September, as noted in Order No. 6, the companies should also be required to provide similar financial statements from the second quarter of 2020.<sup>1</sup>

In order to fulfill the Commission’s duty to evaluate Hilcorp’s fitness, willingness, and ability to operate these midstream assets, the Commission should take into account the unprecedented global energy and financial turmoil of the past month—namely the historic decline of oil prices and the corresponding financial shock to the oil industry. Hilcorp’s financial situation has changed dramatically and precipitously over the past month. A unique combination of COVID-19 virus fears and decisions by Russia and Saudi Arabia to open the floodgates of oil production have reshaped the fundamentals of the global oil industry.

The situation facing the world today has no equal in oil market history.<sup>2</sup> The nearest events of similar proportions were the oil crises of the 1970s. “This may be the most brutal environment for oil and gas businesses in decades,” BP CEO Bernard Looney acknowledged.<sup>3</sup>

This major shift in fundamentals especially impacts a less-resourced company like Hilcorp which relies heavily on debt and capital markets to finance its operations. Because Hilcorp wants to borrow so much money at relatively high costs, Moody’s Investor Service and Standard & Poors are considering a downgrade to Hilcorp’s credit rating. Moody’s cited “uncertainty created by the lack of any funding details” and warned that Hilcorp’s debt could triple to \$6 billion.<sup>4</sup> According to the *Wall Street Journal*, investors are asking Hilcorp founder

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<sup>1</sup> Order P-19-015(6)/P-19-016(6)/P-19-017(6). *Order Granting Motions for Waiver; Denying Motion to Strike and Motion for Expedited Consideration; Declaring Financial Statements Confidential Under AS 42.06.445(c); Finding Request for Confidential Treatment of Financial Statements Under 3 AAC 48.045 Moot; and Addressing Timeline for Decision*, dated March 12, 2020

<sup>2</sup> Robert McNally, *Crude Volatility: The History and Future of Boom-Bust Oil Prices* (New York: Columbia University Press, 2017).

<sup>3</sup> Lesley Clark, Carlos Anchondo and Mike Lee, “Trump to Host Oil Meeting: Who’s Going and Why It Matters”, *E&E News*, April 2<sup>nd</sup>, 2020.

<sup>4</sup> Alex DeMarban, “Hilcorp’s \$5.6B Alaska deal draws close look by credit rating agencies”, *Anchorage Daily News*, March 11<sup>th</sup>, 2020.

Jeffrey Hildebrand to contribute some of his own capital toward funding the proposed BP deal to mitigate their risk.<sup>5</sup>

The crash comes at a time when the energy industry was already falling out of favor with investors. The *New York Times* describes that the relationship between Wall Street and oil companies as “in tatters” as the novel coronavirus pandemic has driven the fastest collapse of oil prices in more than a generation.”<sup>6</sup> With less cash flow and higher interest rates, Hilcorp and other smaller energy companies will have an even harder time securing capital. Investors say refinancing costs will remain high especially for firms reliant on natural gas production; Hilcorp is primarily a gas producer.<sup>7</sup> Oil and gas producers have more than \$85 billion in debt maturing over the next four years, stoking fears of defaults and driving up interest rates.<sup>8</sup> Fitch Ratings projects that oil and gas companies will default on \$33 billion of debt this year alone.<sup>9</sup> *The Wall Street Journal* Editorial Board observed that concerns of mass defaults on energy debt are precipitating fears of a “systemic financial consequences for banks and other lenders.”<sup>10</sup>

The Commission should evaluate how this historic price war and demand collapse affects Hilcorp’s ability and fitness to be the dominant owner of the State’s most important energy infrastructure. We applaud the Commission for requiring the Applicants to explain the impact of this major shift in market fundamentals to their assets, fitness, and resources in Order No. 7.<sup>11</sup>

We urge the Commission to require updated financials and verify the Applicants’ response.

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<sup>5</sup> Sam Goldfarb and Alexander Gladstone, “The New Threat to Energy-Company Bonds: Virus Fears”, *The Wall Street Journal*, February 3<sup>rd</sup>, 2020.

<sup>6</sup> Matt Phillips and Clifford Krauss, “American Oil Drillers Were Hanging On by a Thread. Then Came the Virus,” *The New York Times*, March 20<sup>th</sup>, 2020.

<sup>7</sup> Sam Goldfarb and Alexander Gladstone, “The New Threat to Energy-Company Bonds: Virus Fears”, *The Wall Street Journal*, February 3<sup>rd</sup>, 2020.

<sup>8</sup> Julia-Ambra Veraine, “Energy Companies Face Looming Debt Burden”, *The Wall Street Journal*, February 19<sup>th</sup>, 2020.

<sup>9</sup> Lesley Clark, Carlos Anchondo and Mike Lee, “Trump to Host Oil Meeting: Who’s Going and Why It Matters”, *E&E News*, April 2<sup>nd</sup>, 2020.

<sup>10</sup> Editorial Board, “Now Comes the Oil Shock”, *The Wall Street Journal*, March 9<sup>th</sup>, 2020.

<sup>11</sup> Order P-19-015(7)/P-19-016(7)/P-19-017(7) at 11, *Order Requiring Filing*, April 2<sup>nd</sup>, 2020.

Without requiring updated financials, the RCA will be evaluating a company whose past financial statements bear little relationship to reality. Hilcorp and Harvest's updated financials from the first quarter of 2020 are a much better reflection of the company's assets under pressure than their financial reports from past quarters. The contemporary oil shock provides a natural "stress test" which helps to evaluate the firm's fitness, ability, and wherewithal. But the Commission can only independently evaluate this impact if it has up-to-date financial information and data.

Requiring updated financials is especially imperative considering the Commission has ruled that Hilcorp is permitted to shield its basic financial information from the Alaskan public under AS.06.445(c). The public's limited view of Hilcorp is striking. While Hilcorp's assets and valuation is a closely guarded secret, national news outlets have reported on the financial decline of the firm's largest shareholder. In March, Founder Jeffrey Hildebrand dropped off Bloomberg's top billionaires list when his estimated wealth fell from \$5.4 billion to \$2.4 billion.<sup>12</sup> Hildebrand's drop in net worth likely parallels Hilcorp's declining value.

Since the public has no ability to verify the Commission's actions or review Hilcorp's basic financial information, requiring updated financials will send a strong signal that the Commission is responsive to public concern and an evolving global financial risks. Hilcorp's reduced financial capacity and wherewithal goes directly to the Commission's responsibility to evaluate the firm's fitness and ability, and to questions that AKPIRG and other interested parties have been concerned with since August, 2019:

- Does Hilcorp have sufficient assets to cover its liabilities?
- Is Hilcorp fit to be the dominant owner and properly perform services commensurate with sustaining Alaska's most important energy infrastructure?

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<sup>12</sup> Alex DeMarban, "Hilcorp's \$5.6B Alaska deal draws close look by credit rating agencies", *Anchorage Daily News*, March 11<sup>th</sup>, 2020.

- Can Hilcorp resource a major oil spill commensurate with the capaciousness and throughput of the infrastructure it seeks to own?
- Are Alaskans being exposed to undue financial and environmental risks if this deal is permitted without conditions?

Considering the historic nature of this deal, the precipitous decline in oil prices and Hilcorp's value, and the unprecedented concern of the Alaskan public in this pipeline transfer, we urge the Commission to acquire the most relevant and up-to-date financial information possible.

It is uncertain how long the COVID 19 pandemic, oil price war, and contracting global economic activity will last. But what is certain is that Alaskans need to ensure those companies entrusted with extracting our natural resources have the financial wherewithal to operate safely, resource any environmental cleanup, and make Alaskans whole if a spill were to occur.

Therefore, the Commission should require updated financials so it can make the most informed decision possible and best protect the public interest.

On behalf of the Alaskan Public Interest Research Group,

A handwritten signature in black ink, appearing to read "Philip Wight". The signature is written in a cursive style with a large initial "P" and a long, sweeping underline.

Philip Wight, Ph.D.

AKPIRG Policy Analyst