

## Opening Statement

- Madam Chair, members of the committee, for the record my name is Leo Ehrhard.
- I am the Vice President for Commercial Assets for ConocoPhillips. I live in Anchorage and have been in this role for about 9 months.
- In my role, I have accountability for Cook Inlet operated assets, the Prudhoe Bay non-operated assets, our TAPS and other pipeline interests, Aviation and important to today's conversation, AKLNG.
- In my 30 years industry experience I have worked LNG projects in Business and project development capacities in the Middle East, North and West Africa and now here in Alaska.
- For the Alaska LNG project, my role is as a project owner and COP representative. My team's role is to integrate all aspects of the project - technical, commercial, and marketing. Our objective, like yours is to monetize economically, ANS gas resources.
- ConocoPhillips continues to support this project. We continue to work to progress commercial and technical aspects. But... we have to be realistic about the project in the current price environment we have to be realistic about the commercial challenges.
- Our industry faces weak oil prices not seen for more than a decade and weak natural gas prices not seen for more than 15 years. Together this has created challenges to our industry as we deal with greatly diminished revenues.
- The AKLNG project faces significant economic headwinds. Low oil and gas prices have depressed Asia LNG prices by 60% since early 2014. The LNG market is very tight if not oversold for 2016. Fortunately, we are not trying to sell into this market today.
- In these times, we must be careful stewards of cash and closely manage all of our expenditures. This applies to all of our projects, including AKLNG. We will work with our AKLNG partners to find cost savings in our 2016 spend. Just as we have done for our Alaska and our worldwide portfolio.
- As you will hear from Bill in the joint presentation, there is a long list of commercial agreements that need to be completed to support the special session.

- Unfortunately, have not made the progress on these agreements, compared to what we had hoped for this point in the process. As most of you are aware, the Governor has identified a list of agreements that he wants completed before a special session. This will be very difficult to accomplish. Of particular concern to us is the Gas Supply agreement.
- As ConocoPhillips testified in February, June and September, the gas supply agreement is foundational for the project. It is the basis for determining the rate and total volume of gas to be supplied to the project from Prudhoe and Pt. Thomson. It directly or indirectly sets the equity participation levels. It says what happens if volumes are not supplied – for example if a field has a problem; or if there's an opportunity to increase production.
- ConocoPhillips believes that the gas supply agreement is one of the key agreements required for the legislature to consider action on a fiscal contract. This agreement is required for a FEED decision. We testified in September that it was crucial to agree this now..., to ensure the project has a solid commercial foundation upon which the legislature can ratify fiscal legislation and a constitutional amendment.
- Should we find an impasse on these agreements, we will not stand in the way of the project and will make our gas available to the state on commercially reasonable terms.
- Regarding the process, ConocoPhillips remains committed and engaged with the other parties to complete all the agreements on the table. Further, we are encouraged by the State's ongoing engagement to progress the project – this includes the Governor's accessibility and engagement. We appreciate their ongoing effort to find a way forward in a timely manner.
- I want to thank the Chair and the committee members for the opportunity to testify today.

END PREPARED REMARKS

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