

01/27/16

ALASKA

LNG: JOINT

VENTURE

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UPDATE

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JOINT VENTURE PARTICIPANT
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Alaska LNG

Venture Participant Update

House and Senate Resources Committees

January 27, 2016

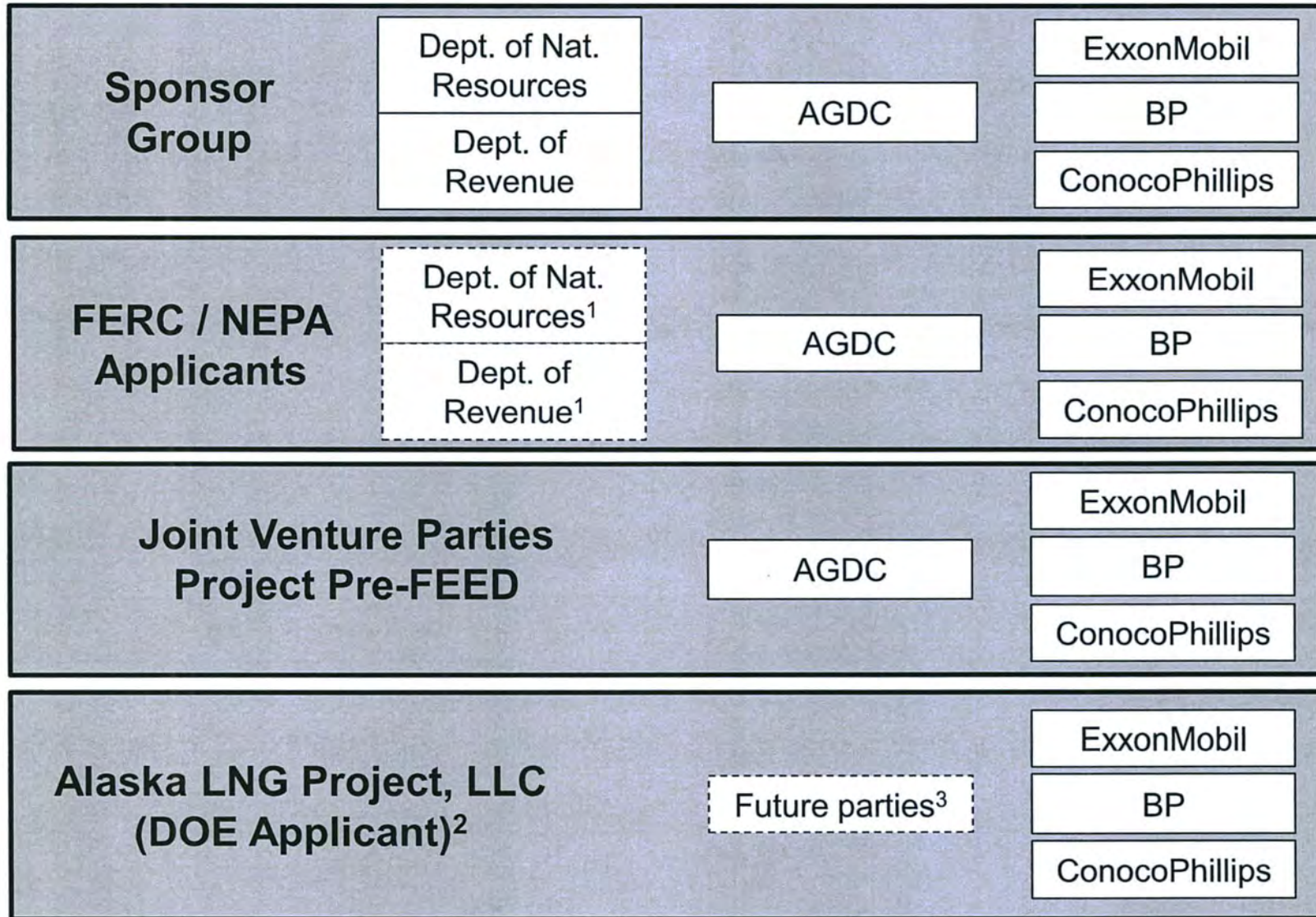
Marty Rutherford – State of Alaska
Fritz Krusen – AGDC

Bill McMahon – ExxonMobil
Dave Van Tuyl – BP
Leo Ehrhard – ConocoPhillips

Progress since September Update

- 2016 Work Program and Budget
 - Joint Venture Parties approved 2016 WP&B for Alaska LNG Project (AKLNG)
 - Funds to complete Pre-FEED deliverables
- TransCanada Interest
 - AGDC acquired TC Alaska entity and all associated rights under Pre-FEED JVA
 - Seamless transition
 - To assist with completion of Pre-FEED deliverables, key TC personnel contracted to project team via Lead Party
- AOGCC authorized field gas offtake sufficient for AKLNG from:
 - Prudhoe Bay Unit (PBU)
 - Point Thomson Unit (PTU)
- AOGCC approved area injection order (AIO) for CO₂ into PBU
- AGDC formed in-state gas aggregator subsidiary

Alaska LNG Project Arrangements



¹ Consultant role for DNR / DOR

² DOE authorization also covers anticipated State RIK and TAG volumes

³ AGDC

Alaska LNG Project Arrangements

Sponsor Group

Dept. of Nat.
Resources

Dept. of
Revenue

AGDC

ExxonMobil

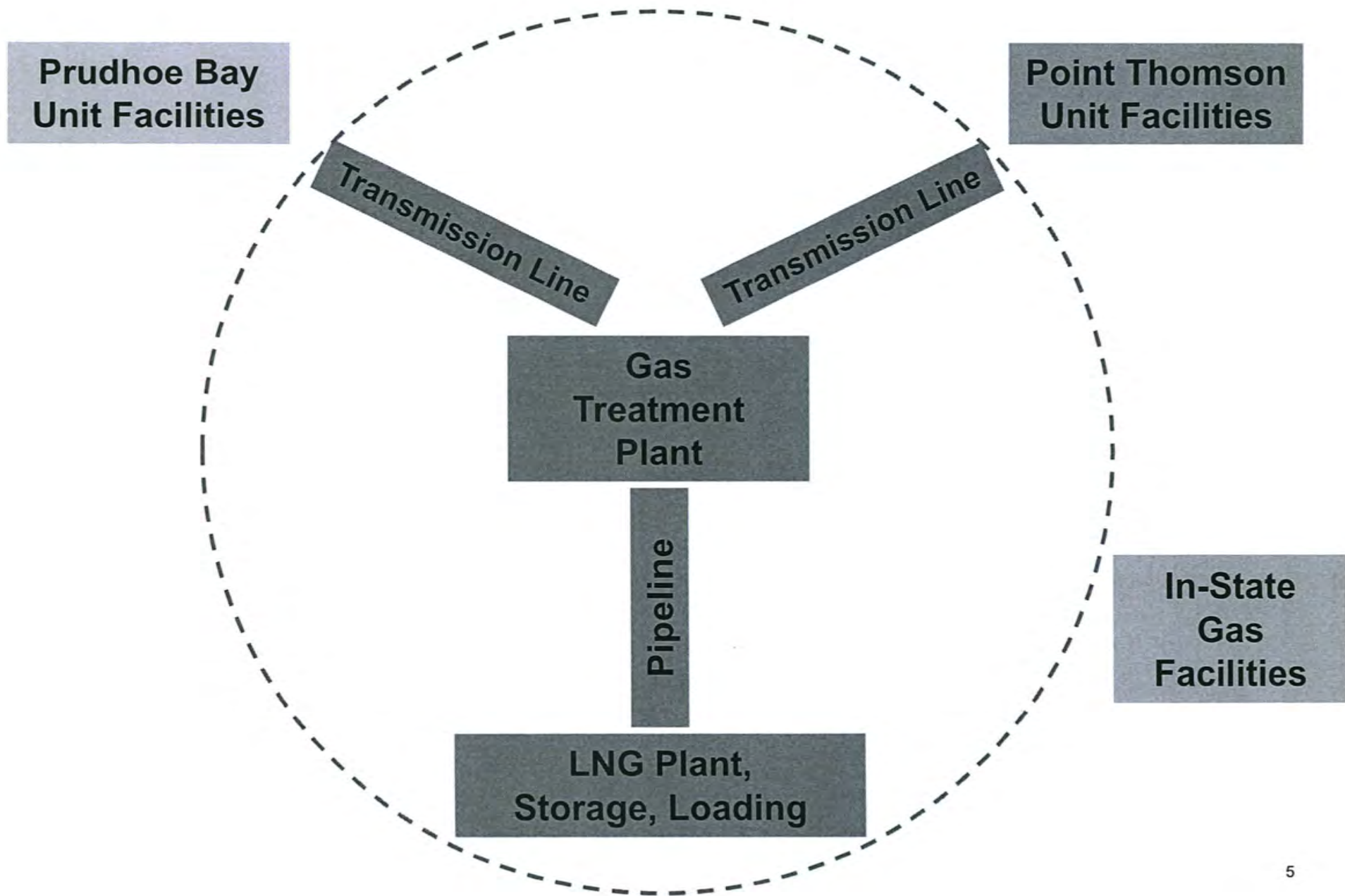
BP

ConocoPhillips

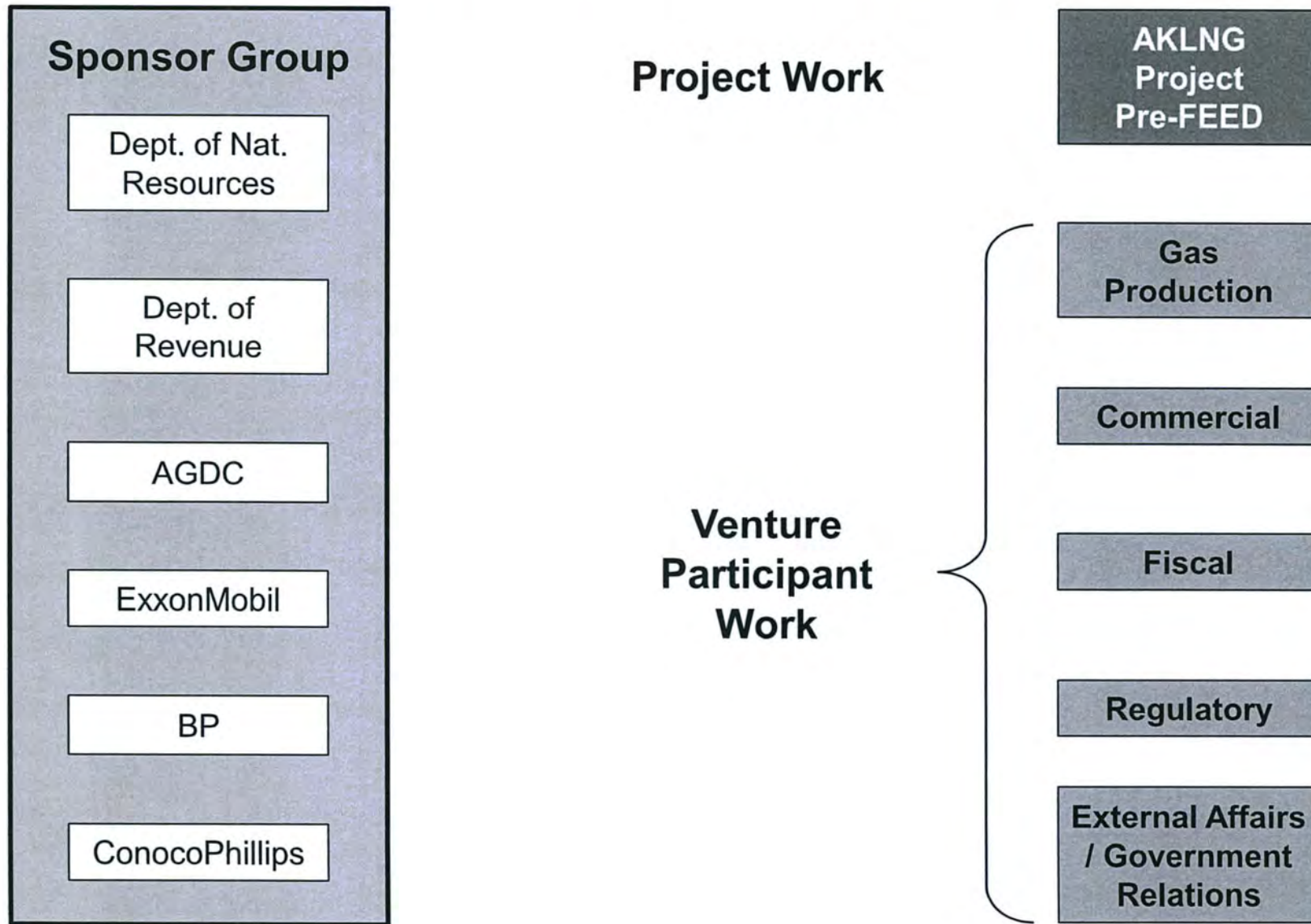
AKLNG
Project
Pre-FEED

- Integrated team includes experienced personnel from ExxonMobil (Lead), BP and ConocoPhillips
- Continued access to key TransCanada personnel via contract with Lead Party
- Currently in Pre-FEED (Pre Front End Engineering Design)
- Advancing engineering of AKLNG Project facilities
- Conducting field studies to progress design basis
- Drafting project execution plans
- Refining overall cost and schedules
- Developing environmental permitting applications
- Cooperation agreement with AGDC on field data collection and historical data exchange

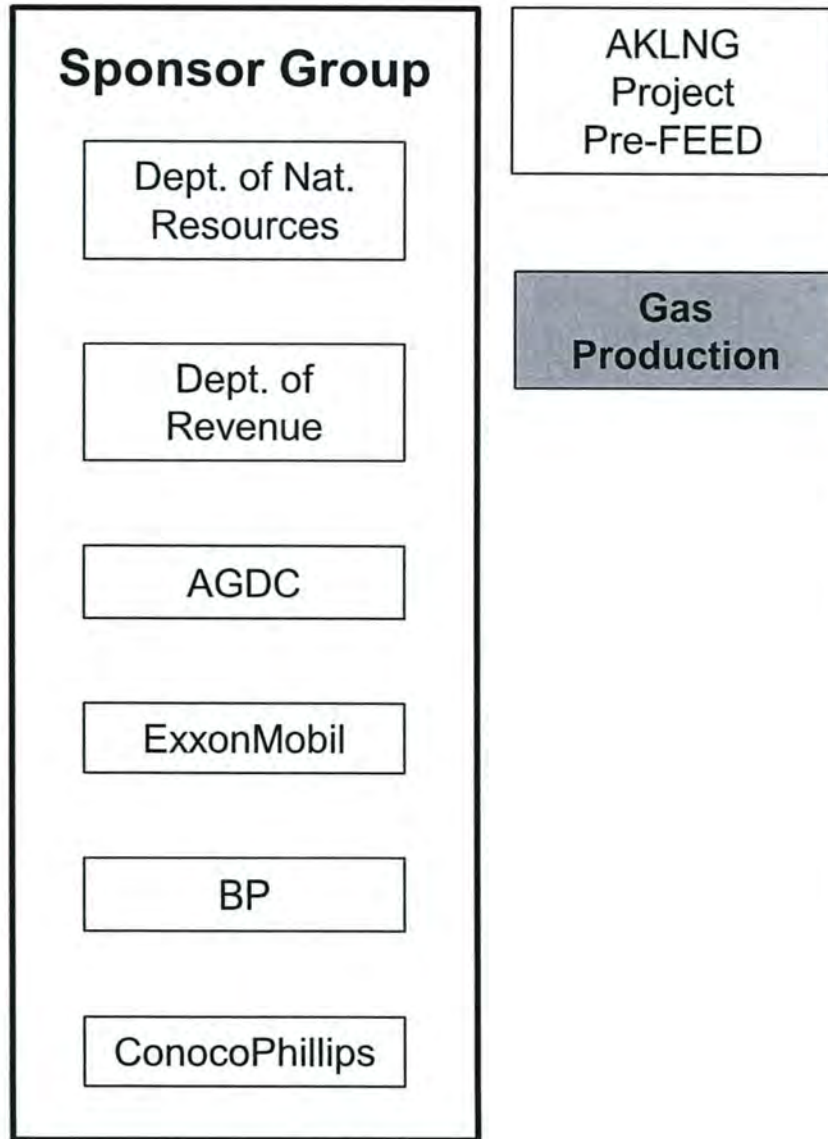
Alaska LNG Project Facilities



Alaska LNG Venture Arrangements



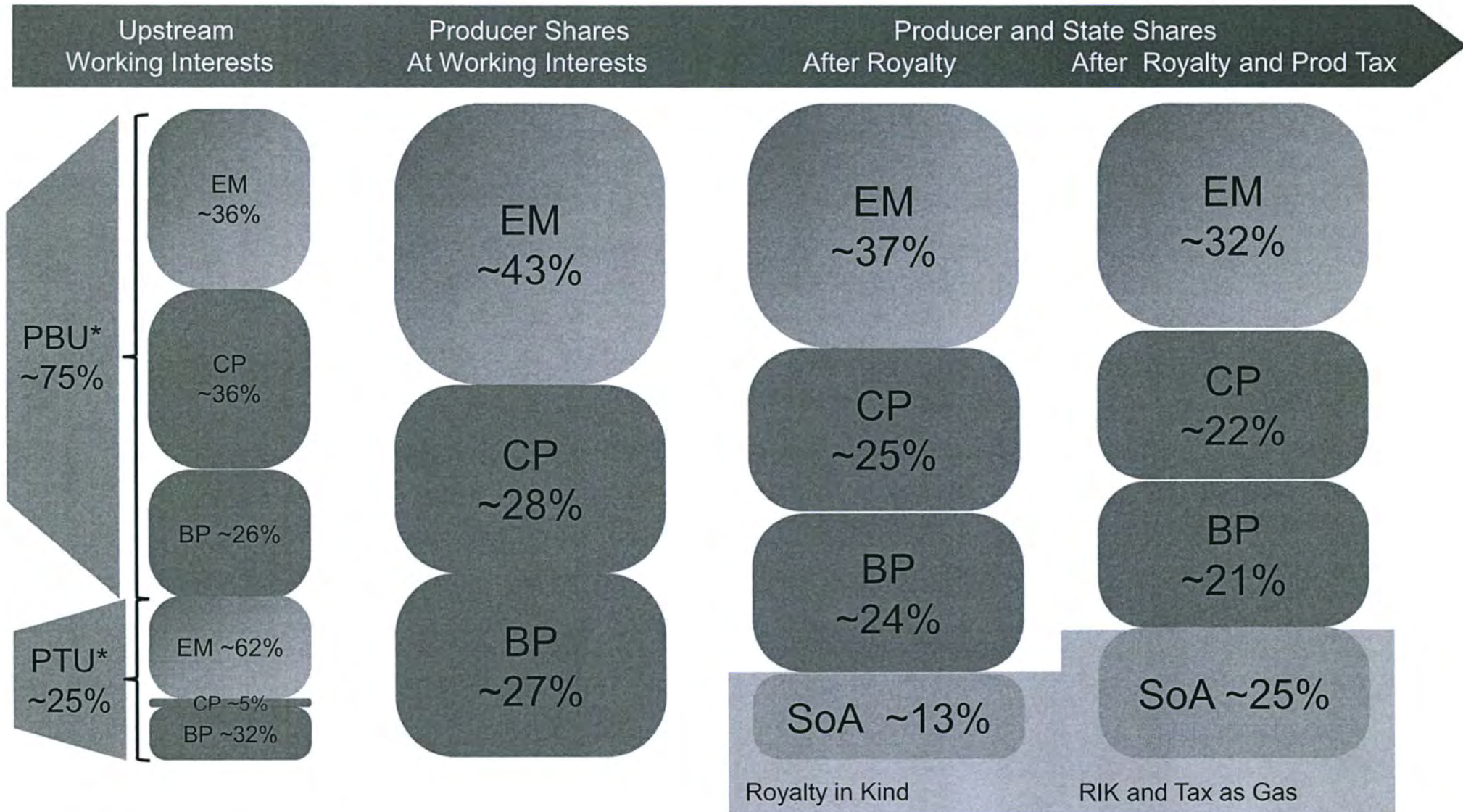
Alaska LNG Venture Arrangements



PBU / PTU Facilities Work

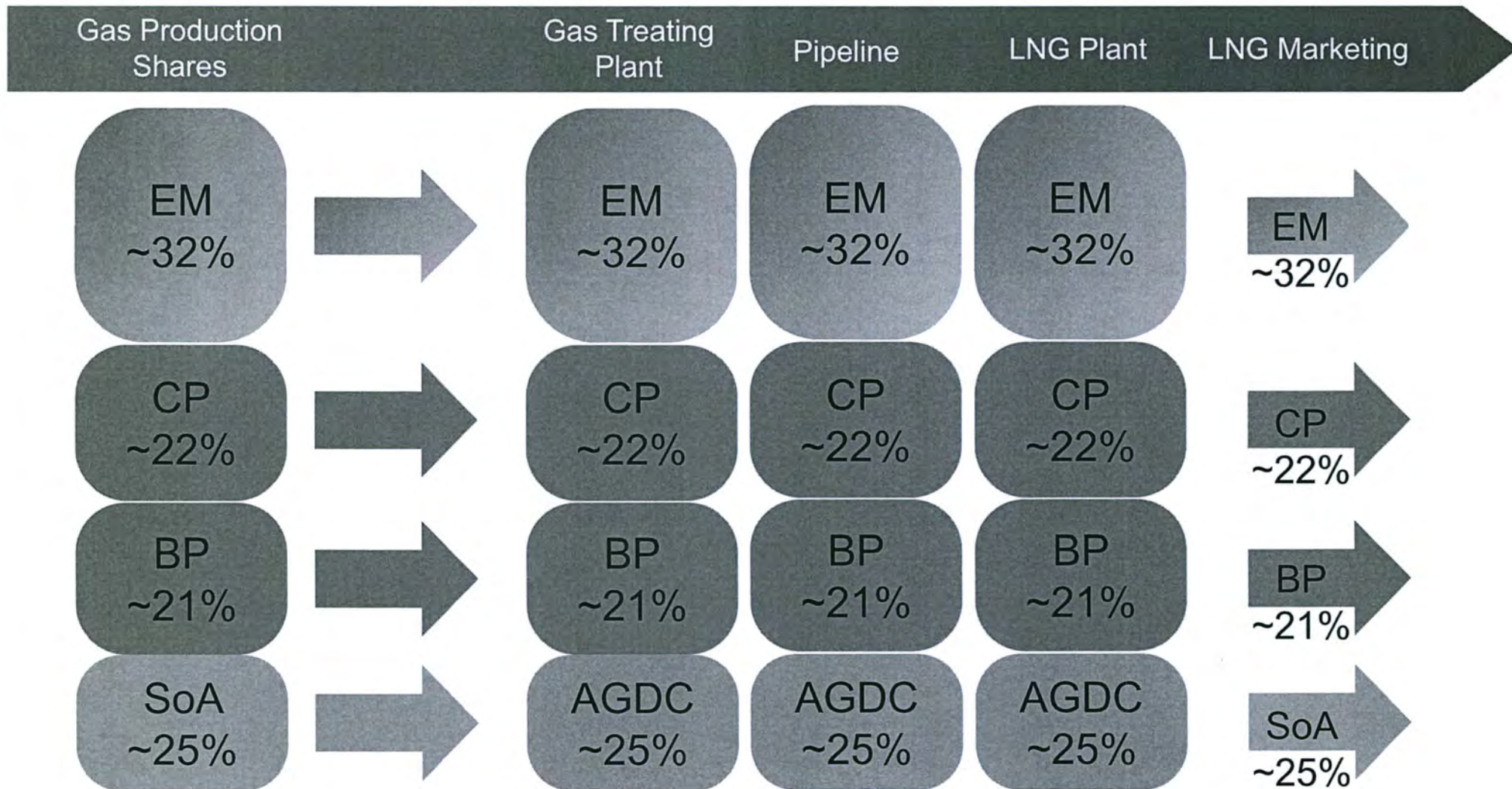
- Preparations for commercial natural gas production are underway at both Point Thomson Unit (PTU) and Prudhoe Bay Unit (PBU)
- Significant natural gas development required at PTU including drilling and gas handling facilities
- PBU would also require some new facilities
- AOGCC issued amended PBU field gas offtake authorizations on October 15, 2015
 - Also authorized injection of CO₂ from other fields into Prudhoe Bay
- AOGCC issued PTU field gas offtake authorizations on October 15, 2015

Gas Sources and Shares

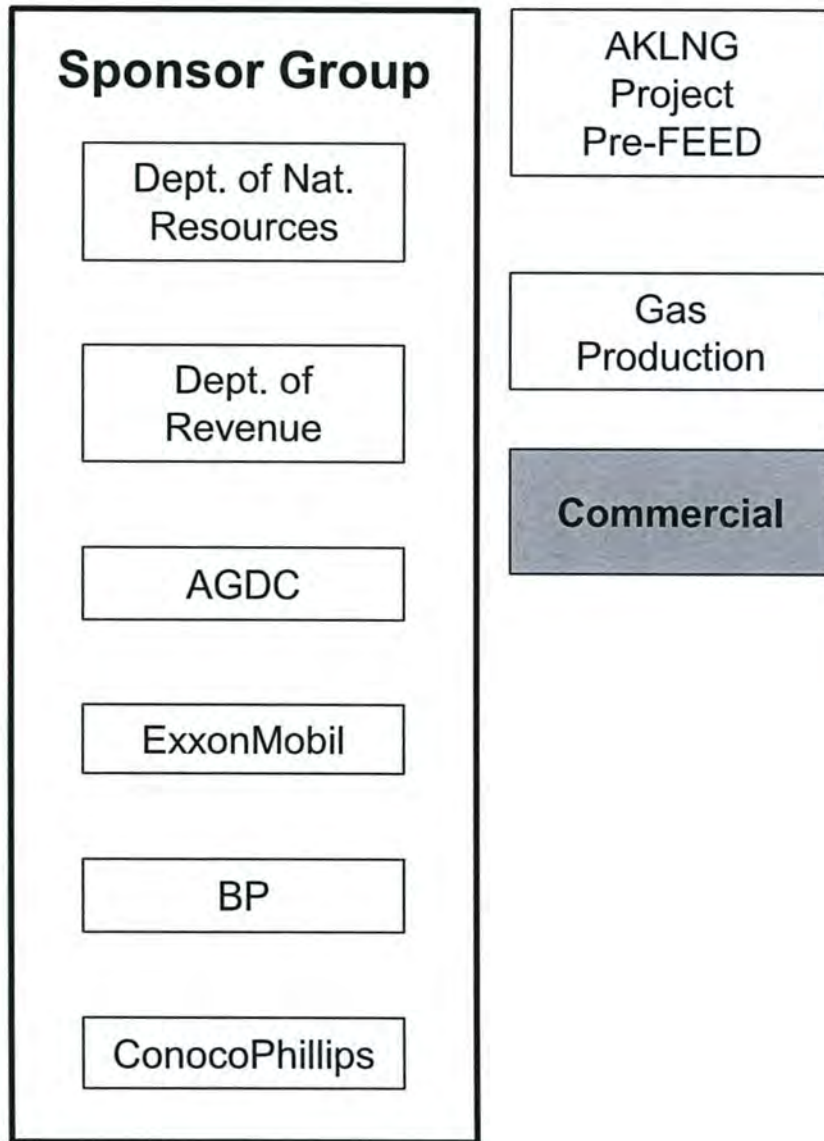


* PBU / PTU split subject to gas supply agreements and regulatory authorizations

Gas and Project Shares



Alaska LNG Venture Arrangements



Drafting DNR applications

- SB 138 Lease Modifications to address RIK / RIV switching and PTU SSR / NPS leases

Developing commercial basis for the venture

- Commercial foundation agreements among State, AGDC, ExxonMobil, BP and ConocoPhillips to be sufficiently completed before fiscal action by the Legislature
 - Governance for long term venture including expansions
 - Gas supply to Project
 - Gas / LNG lifting rights from Project
 - In-state gas
 - Others

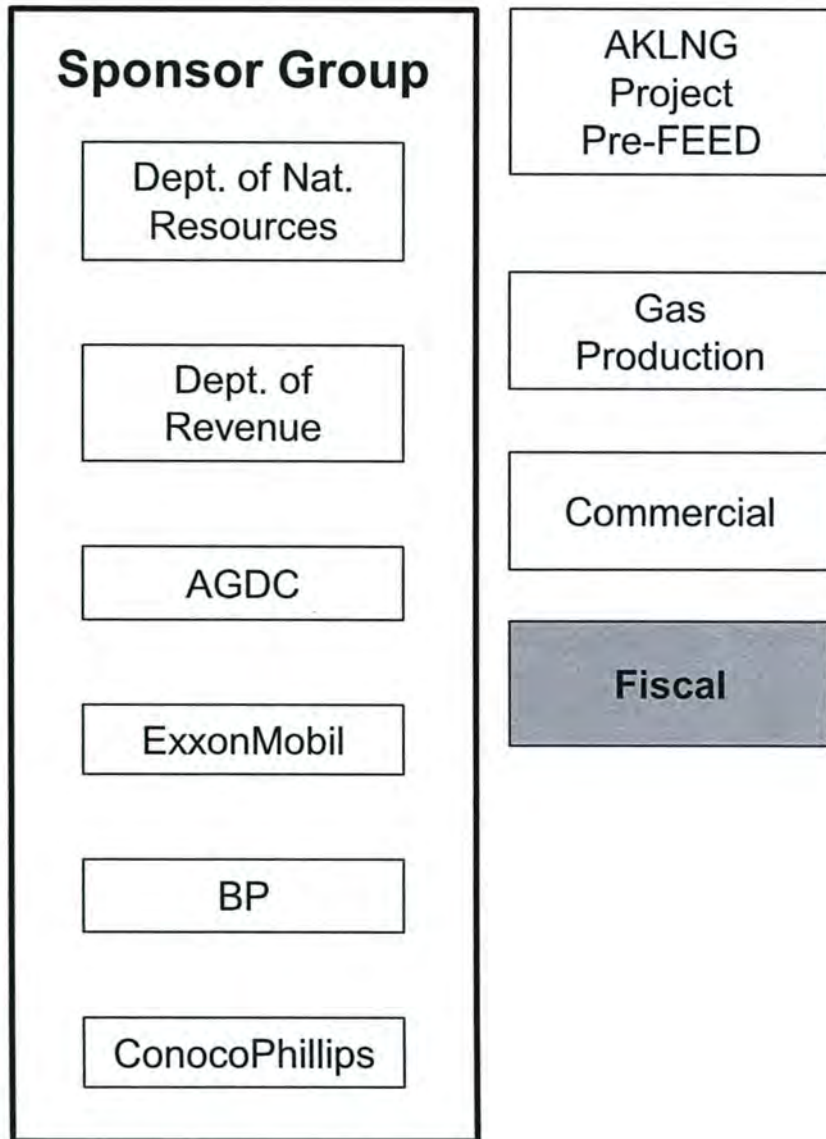
Legislative review and approval of some agreements will be needed

Commercial Basis for Venture

- Governance for long term venture including expansions
 - Contract texts advancing well
 - Outstanding issues likely resolved with fiscals and gas supply
- Gas supply to Project
 - Seeking alignment on common commercial structure
 - Two alternatives under consideration
- Gas / LNG lifting rights from Project
 - Principles during Pre-FEED, text worked during FEED
- In-state gas
 - AGDC developing State's preferred commercial structure for in-state gas distribution
 - AGDC to seek in-state gas supply proposals
- Others
 - GTP by-product handling
 - Field cost allowance
 - PTU lease conversions
 - LNG marketing structure(s) in relation to State's LNG share

Completion of these agreements will support DNR royalty in kind election and Special Session to approve fiscal terms

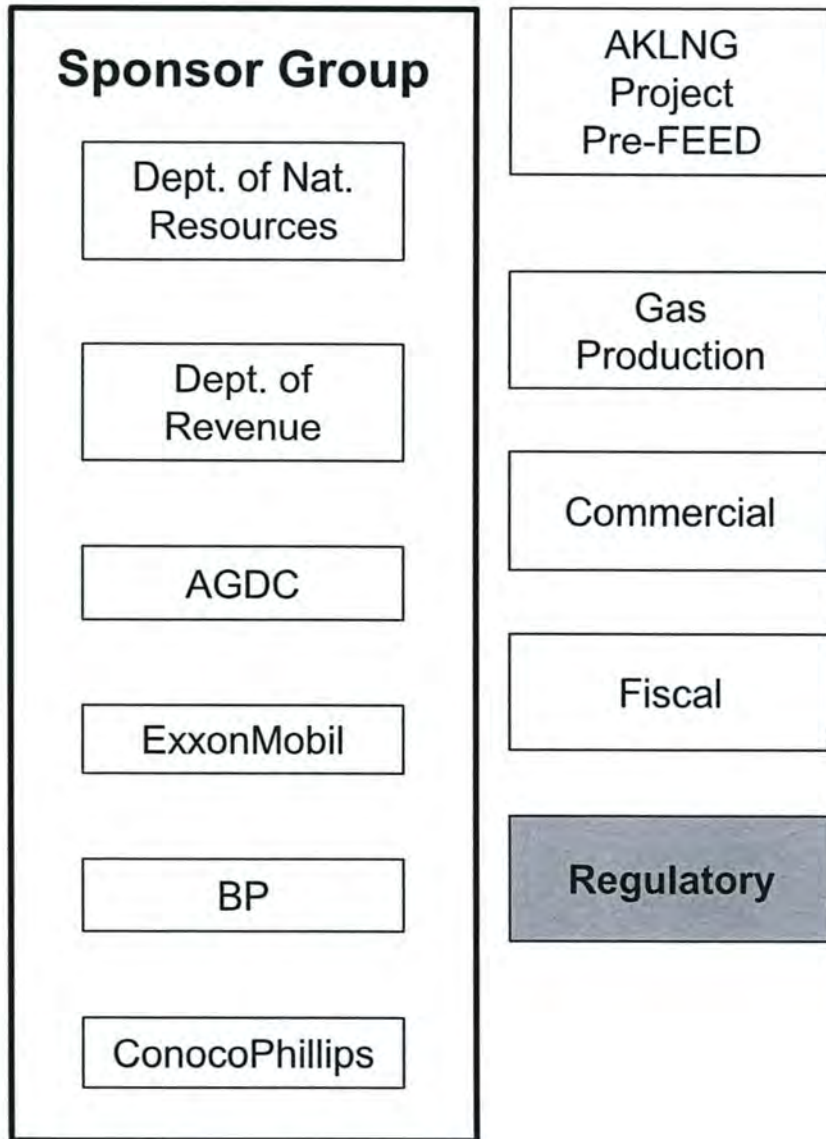
Alaska LNG Venture Arrangements



Developing fiscal basis for the venture

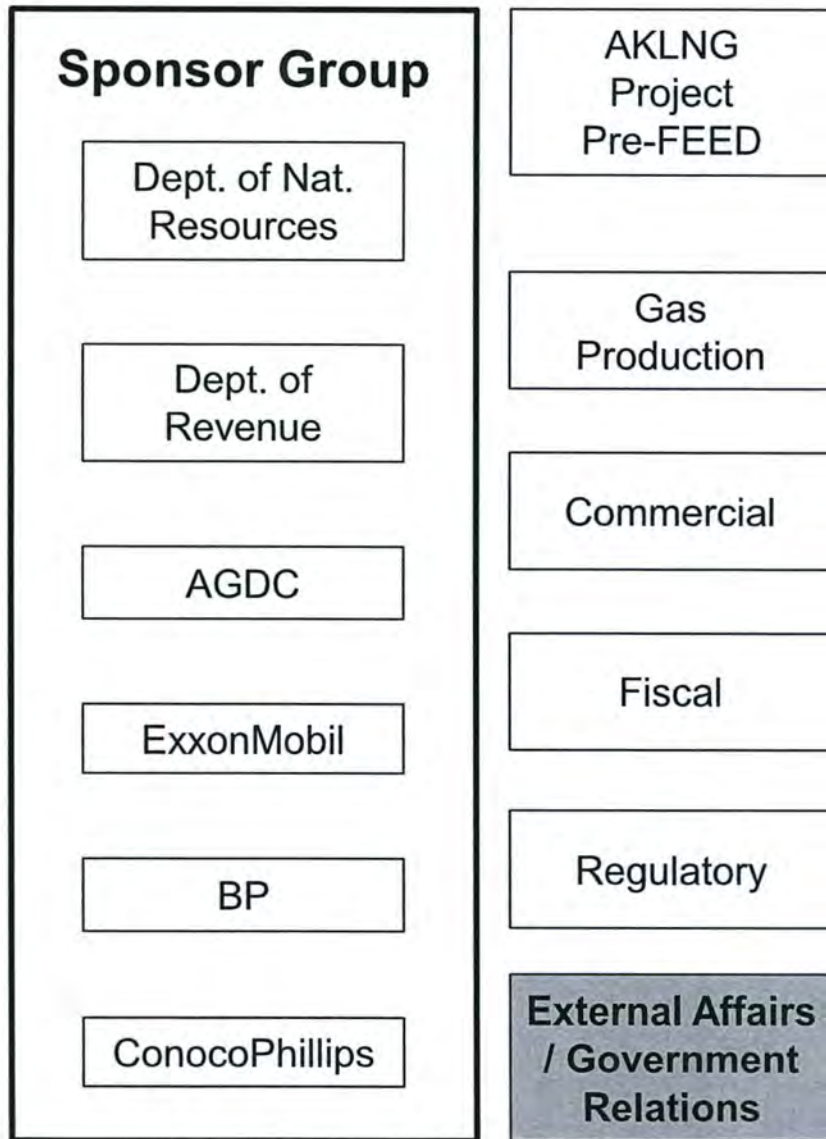
- Building on Jan 2014 HOA and SB 138
- DNR considering State Royalty in Kind
- Predictable and durable fiscal terms necessary for unprecedented scale, complexity and costs
 - Also required to compete in global energy markets
- Have aligned on constitutional amendment as vehicle to provide stabilization
 - 2/3rds legislative vote to place on ballot
 - Targeting November 2016 election
- Fiscal terms are a key enabler for the Project, and also with LNG Buyers, lenders and investors
 - Fiscal proposal being developed
- Legislative review and approval will be needed
- Seeking legislation to address property taxes
 - Tentative alignment reached on structure, subject to consultation with MAGPRB

Alaska LNG Venture Arrangements



- FTA and non-FTA DOE Export Authorizations received
 - Allows access to all key LNG markets
- NEPA Pre-File process sets foundation for the Environmental Impact Statement (EIS)
 - Two drafts of Resource Reports before final submission intended to facilitate stakeholder engagement
 - First draft submitted in Feb 2015 – available for public review on FERC website
 - Second draft of Resource Reports to include updated project description, specific, anticipated project impacts and proposed mitigation measures; expected to be submitted in 1H 2016

Alaska LNG Venture Arrangements



- Project of this magnitude / complexity cannot succeed without broad public support
- Facilitating public dialogue and community engagement about the Alaska LNG Project

Alaska LNG Venture Participant Update

- Key Accomplishments since September Update
 - Approval of 2016 WP&B
 - Seamless transfer of TransCanada Alaska entity to AGDC; continued access to key TransCanada personnel
 - AOGCC authorized gas offtake for PBU and PTU, and PBU CO₂ AIO
- Major Outstanding Issues
 - Domestic (in-state) gas supply structure(s) to supply gas to AGDC Aggregator
 - LNG marketing structure(s) in relation to State's LNG share
 - Timely completion of key commercial and fiscal contracts followed by legislative approval consistent with SB 138 – including gas supply to project
 - Royalty decisions
 - Lease modifications
 - RIK election (subject to project-enabling agreements)
 - Determine State Gas Share structure (since State is not a working interest owner at PBU / PTU), if RIK/TAG triggered
 - Legislation to authorize:
 - Public vote on constitutional amendment that provides durable / predictable fiscals
 - Property tax structure

Deliverables to Support FEED Decision

AKLNG Project

- Pre-FEED Project Deliverables / Prep for regulatory filings

Gas Production

- PBU / PTU Development Plans, AOGCC Offtake / PBU CO₂ AIO

Commercial

- Key Agreements (e.g., Lease Modifications, Governance, Gas Supply)

Fiscal

- Property Tax, Royalty-in-Kind, Predictable / Durable Terms, approved Constitutional Amendment

Regulatory

- DOE Export Authorizations Received, Progressing FERC NEPA Pre-File

External Affairs / Government Relations

- Broad support for Project

AGREEMENTS/ISSUES TO BE NEGOTIATED

CATEGORY	AGREEMENT(S)/ISSUE(S)	SIGNATORY/ LEAD	COUNTERPARTY	EXECUTED?	TARGET DATE	CONSULT ¹	LEGISLATIVE APPROVAL
GENERAL							
	AGIA Termination	DNR/DOR	TC	Q2 2014			No
	Fiscal Contract	DOR/DNR	Producers	No	Q2 2016	AGDC	Yes
EQUITY							
	Memorandum of Understanding (MOU); Equity Option Agreement (EOA) Term Sheet	DNR	TC	Dec. 2013		DOR/AGDC	No
	Purchase and Sale Agreement	DNR	TC	Nov. 2015		DOR/AGDC	Yes/ Appropriation
	JVA (Pre-FEED) <i>Joint Venture Agreement</i>	AGDC	AKLNG Project Parties	Q2 2014		DNR/DOR	Appropriation
	Members Agreement	AGDC	AKLNG Project Parties	No	Q2 2016	DNR/DOR	No
	Contract Operator Services Agreement	Company ²	ExxonMobil	No	Q2 2016	DNR/DOR	No
	Member Administrator Services Agreement	Company	ConocoPhillips	No	Q2 2016	DNR/DOR	No
MIDSTREAM							
	Precedent Agreement (PA)	DNR	TC	June 2014		DOR/AGDC	No (Not More Than 2 Years)
	Firm Transportation Services Agreement (FTSA) including Liquefaction Services with AGDC	DNR	AGDC	No	During FEED	DOR	Yes
	System Use Agreement	AGDC	Producer Parties	No	Key Terms by 2Q16/ During FEED ³	DNR	No

¹ The Governor and Department of Law are consulted on all agreements/issues.

² Company refers to the Alaska LNG Project Company (includes AGDC, but not DNR or DOR) as signatories for both the Contract Operator Services Agreement and Member Administrator Services Agreement.

³ Certain terms of the System Use Agreement that are relevant to gas balancing and other issues relevant to the RIK/RIV decision must be agreed prior to the RIK/RIV decision.

Current Understanding – January 28, 2016

UPSTREAM							
	Lease Modifications	DNR	Producer Parties	No	Q2 2016	DOR	No (SB 138 Provides)
	Gas Supply and Balancing Agreement (and any associated Dedication and Supply Forecasting Agreements)	DNR	Producer Parties	No	Q2 2016	DOR/AGDC	Yes
	Field Cost Allowance Agreement ⁴	DNR	Producer Parties	No	Q2 2016	DOR	Yes
DOWNSTREAM							
	Joint Venture Marketing or Other Gas Disposition Agreements	DNR	Producer Party or Parties	No	Q2 2016	DOR/AGDC	Yes
	Domestic Gas Agreement(s)	AGDC (as aggregator)	Producer Parties and DNR	No	Q2 2016	DNR/DOR	Yes if SOA a Party
OTHER ISSUES ⁵							
	Financing	DOR	TBD	No	TBD/FID	DNR/AGDC	Yes
	Property Tax Proposal and Property Tax Allocation and Disbursement Proposal/Recommendations	DOR	AKLNG Project Parties	No	Q2 2016	Communities/DNR	Yes – Statutory Changes
	Withdrawal Agreement (Gas Availability Agreement)	DNR/AGDC	BP and ConocoPhillips	Dec. 2015		DOR	No
	Byproduct Handling Agreement	DNR	Producer Parties (or Unit)	No	Q2 2016	DOR/AGDC	Yes
	Sales and Purchase Agreement (SPA)	DNR/Marketer	LNG Buyers	No	TBD	DOR/AGDC	Yes

⁴ Field Cost Allowance Agreement may not be a standalone agreement.

⁵ Items in the “Other Issues” category may not necessarily be independently negotiated, standalone agreements and may be part of other agreements listed above.

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

Gas Fiscal Testimony to Senate Resource Committees

David Van Tuyl, BP

January 27, 2016

Madam Chair, members of the committee, for the record my name is David Van Tuyl and I am Regional Manager for BP here in Alaska. I've been working for BP in Alaska for over 31 years, the last several of which have been dedicated to working to get Alaska's gas to market.

Now I have the privilege of working in my current roles on the joint fiscal team, and on the Management Committee of the Alaska LNG project effort.

I am very pleased to be here along with my colleagues to provide an update on the progress of the Alaska LNG project. The success of Alaska LNG is critical to BP's business here in Alaska, and it's also critical to the future of the State of Alaska and to so many Alaskans who will benefit, both directly and indirectly, from a successful project.

This past year, 2015, has been an important and very successful one for the Alaska LNG project. Alaska LNG continues to make progress towards becoming a reality, and I think it's worth taking a moment to reflect on some important achievements of this past year:

- In February, the project filed 12 draft resource reports with the Federal Energy Regulatory Commission (FERC), totalling over eight thousand pages of documentation.

- In March, the FERC issued a Notice of Intent to proceed with preparing an Environmental Impact Statement for the project, beginning a 9-month public consultation and commenting period.
- In May, the project received authorization from the Department of Energy to export up to 20 mmtpa of LNG to non free trade agreement countries, a huge message to the world and a major step forward for the project. The AK LNG project was able to “jump the queue” over other LNG projects also awaiting an export authorization, a feat we owe in large part to the hard work of our also the Alaska Federal delegation.
- In October, the Alaska Oil and Gas Conservation Commission increased the maximum allowable gas offtake rate from Prudhoe Bay to a level sufficient to support LNG export, and also authorized injection of CO₂ into the main Prudhoe Bay reservoir. AOGCC also established a gas offtake rate at Point Thomson that is critical in supporting AK LNG. Those are authorizations we have never had before.
- In November, the State of Alaska agreed to acquire TransCanada’s 25% interest in the midstream portion of the project.
- In December, BP, ExxonMobil, ConocoPhillips and the State of Alaska approved the 2016 work program and budget, authorizing over \$200 million in spend to continue advancing the project.

- And as you just heard from Steve Butt, the Project Team is making good progress on the pre-FEED deliverables.

We also worked through a number of commercial issues during the course of 2015, and we continue to make progress on others:

- Beginning last February, we worked with the Administration to understand a bit more about the Administration's "Plan B", in the event that the Alaska LNG project was for whatever reason to not proceed, and the implications that "Plan B" had for our joint work so that we could continue working together on the Alaska LNG project.
- This past summer we responded both verbally and in writing to public notice of new confidentiality regulations proposed for AGDC, expressing our desire for terms facilitating AGDC's full and equal participation in the project, while also protecting the Project's competitive advantages.
- Throughout 2015, we have worked with the Administration in defining a property tax framework for the project, and that framework has been communicated through the MAGPRB process.
- We heard the Administration's desire to prioritize a withdrawal agreement, and BP successfully negotiated and executed a Gas Availability Agreement this past December, along with ConocoPhillips and the State of Alaska. BP also looks forward to continuing to work with the State as it desires to progress any other such agreements.

- We are also making progress on other commercial fronts, including support for the DNR in making its RIK election, defining fiscal terms for the project, working with the State on the manner in which in-state gas supply would be provided, and other commercial issues.

So while there is still much work to be done, we continue to make progress. We understand the Governor's recent statements about the need for additional progress. We agree.

Just as we said at our last Legislative update, the agreements we are actively negotiating are complex, and will impact this multi-billion dollar project that will span decades. Given the complicated issues we are working through and the fact that each of the parties in the negotiations has its own needs and concerns, it shouldn't surprise you that the negotiations can be difficult. Last time we spoke about hitting speed bumps along the way as an encouraging sign that we're tackling the tough issues and still moving forward. That continues to be the case.

BP desires to get these agreements done as soon as possible, but we also recognize that it is essential to ALL parties that these agreements are done well. BP is committed, just as we have been throughout this process, to working out our remaining issues as quickly and as fairly as possible.

We are encouraged that the project continues to make real, tangible progress, as measured by those key external milestones I mentioned.

BP remains actively engaged to continue progressing the Alaska LNG project, both with the technical work and the associated commercial work.

Given the current economic environment, 2016 looks to be a challenging year for all of us. We at BP, and we as Alaskans, know what it means to face challenges. The best way we have found is to do so together. That is the path that was envisioned in the January 2014 Heads of Agreement, it is the path that was forged by this Legislature with the passage of SB-138, and BP remains committed to progressing in an aligned way forward on Alaska LNG.

Thank you, Madam Chair.

Alaska LNG Project

ExxonMobil Opening Remarks

House Resources Committee (100 pm) / Senate Resources Committee (330 pm) –
Wednesday, January 27, 2016 in Juneau, Alaska

- Co-Chair Nageak, Co-Chair Talerico and members of the House Resources Committee [Chair Giessel and members of the Senate Resources Committee] for the record, my name is Bill McMahon.
 - The Walker Administration, AGDC, ExxonMobil, BP, and ConocoPhillips appreciate the opportunity to provide you an update on the progress of the Alaska LNG Project today and we all look forward to answering your questions.
 - After the five parties at the table introduce themselves, I will present the package that is before you.
- I am a Sr. Commercial Advisor and have over 30 years of experience with ExxonMobil and have worked on commercializing Alaska natural gas since 1992.
 - ExxonMobil remains committed to AKLNG and believes this project is the best project for developing Alaska North Slope natural gas resources
 - ExxonMobil, as a lease holder of natural gas resources on the Alaska North Slope (ANS), has diligently undertaken various individual and joint activities to commercialize ANS natural gas.
- We are now pursuing the Alaska LNG Project (AKLNG) with the State of Alaska, represented by AGDC, and with BP and ConocoPhillips.
 - We are following the framework established by the State of Alaska in 2014 that was set out in the AKLNG HoA (January 2014) and SB138 (April 2014),
 - Under this agreed framework, AKLNG has achieved significant project and regulatory milestones, including progress on Pre-FEED activities, receipt of export authorizations for both Free Trade and Non-Free Trade Agreement countries, and submission of draft environmental filings to the FERC.
 - The Pre-FEED alone, with ExxonMobil as lead party, will cost over \$500 million with ExxonMobil providing about one-third of the funding and two-thirds of the project personnel.
 - ExxonMobil appreciates the work by the Alaska Legislature during the Special Session to position AGDC for an affirmative vote for the 2016 WP&B. This has allowed the Pre-FEED effort to continue without interruption.
- The current Alaska LNG Project schedule calls for completing the Pre-FEED deliverables in 2016. This will position the project participant for the decision on entering the FEED phase – a phase that is expected to cost over \$1 billion.

- As ExxonMobil considers the stage / gate decision for the FEED phase, we will evaluate the Project's potential commercial and technical viability by assessing the following:
 - Project capital requirements and execution schedule.
 - Outlook for securing timely FERC and other regulatory authorizations
 - LNG market confidence and buyer support.
 - Business environment including LNG price outlook and availability of materials, equipment and qualified contractors / vendors
 - Project-enabling fiscal and commercial agreements
- As I have testified before, a key FEED requirement for ExxonMobil is a mutually acceptable fiscal contract that provides for competitive, predictable and durable terms.
- ExxonMobil is also cognizant that an affirmative vote for FEED by all participants is dependent on the availability of near term cash in today's challenging economic environment.
- Now, more than ever, we are reminded that projects must be extremely cost competitive to survive the inevitable up-and-down market cycles.
- As Steve Butt highlighted, the AKLNG parties continue to evaluate opportunities to reduce overall project costs through various engineering and technical options. These efforts will be critical to supporting the project's economic viability and positioning Alaska LNG to compete with other LNG projects around the world.
- When the Producers and the Administration are aligned and ready, legislative action on the project-enabling agreements would be sought consistent with SB 138.
- ExxonMobil believes that the support of all stakeholders, including ANS lease holders, the State of Alaska, and its citizens, is necessary for a successful project.
- Actions of ExxonMobil to complete Pre-FEED, negotiate agreements and secure timely regulatory approvals demonstrate our commitment to advance AKLNG.
- Thank you for the opportunity to testify before you today.
- I will ask [Marty Rutherford] to make her opening remarks.

[After opening remarks by the others]

- I will now go through the presentation package. We would encourage you to ask questions along the way.