

PROGRESS *on* OIL & GAS ISSUES

**Resource
Development
Council
Breakfast**

**Commissioner
Daniel S. Sullivan**
*Alaska Department of
Natural Resources*

April 5, 2012

Anchorage, AK



OUTLINE

- I. STRATEGIES & GOALS *for* OIL & GAS DEVELOPMENT
 - A. ONE MILLION BARRELS/DAY
 - B. ROADMAP FOR GAS COMMERCIALIZATION IN ALASKA'S INTEREST
- II. ALIGNMENT *on* GAS COMMERCIALIZATION
- III. SETTLEMENT *of* POINT THOMSON
- IV. NEXT STEPS

ONE MILLION BARRELS/DAY

- ARRESTING TAPS THROUGHPUT DECLINE -

- TAPS has transported over 16.3 billion barrels of oil and natural gas liquids since June of 1977. Production peaked at 2.2 million barrels per day in the late 1980s, representing 25% of the U.S. domestic production
- Since its peak, however, throughput has steadily declined; today, TAPS is 2/3 empty and declining at 6% per year
- TAPS throughput decline threatens economic disruption and the very existence of our pipeline
- We must encourage industry to invest in exploration and development of conventional and unconventional resources on state and federal land, onshore and offshore
- TAPS has plenty of capacity for increased throughput
- Most near-term critical economic issue facing the state

SECURE ALASKA'S FUTURE: *OIL*

*The State of Alaska's
Comprehensive
Strategy to Increase
TAPS Throughput to
One Million
Barrels/Day*



- I. Enhance Alaska's global competitiveness and investment climate
- II. Ensure the permitting process is structured and efficient
- III. Facilitate and incentivize the next phases of North Slope development
- IV. Unlock Alaska's full resource development potential through partnerships with key stakeholders
- V. Promote Alaska's resources and positive investment climate to world markets

ROADMAP *for* GAS COMMERCIALIZATION *in* ALASKA'S INTEREST

Governor Parnell's 2012 "State of the State" address laid out five benchmarks for North Slope gas commercialization:

1. Resolve Point Thomson during the first quarter of 2012
2. Producers align during the first quarter of 2012 under an AGIA framework on an Alaska pipeline to tidewater (in-state).
3. Two projects—under AGIA and AGDC—complete discussions by third quarter of 2012 determining what potential exists to consolidate efforts
4. Harden numbers on an Alaska LNG project by the third quarter of 2012, and identify a pipeline project and associated work schedule
5. If milestones are met, the 2013 Legislature takes up gas tax legislation designed to move the project forward

TWO BENCHMARKS REACHED

- 1ST QTR OF 2012 -

On Friday, March 30, 2012, the State of Alaska reached the Governor's first two benchmarks as laid out in his "State of the State" Address:

- 1. Resolve Point Thomson during the first quarter of 2012**
- 2. Producers align during the first quarter of 2012 under an AGIA framework on an Alaska pipeline to tidewater (in-state)**

- These two benchmarks are positive steps for the State of Alaska and are closely connected—in fact, settling Point Thomson helped to drive alignment on commercialization
- Looking back, both on the history of working toward a Major Gas Sale project and Point Thomson production, there have been other announcements, promises and plans—but no action taken
- Skepticism is healthy, but we are optimistic

ALIGNMENT *on* GAS COMMERCIALIZATION

- Last October, Governor Parnell called on the three major North Slope leaseholders to consolidate their efforts and he invited the three CEOs to come together and begin a new era for Alaska
- Until just recently, these three companies pursued different directions on Alaska's gas, but came together with the Governor in January at the Governor's request
- ExxonMobil, ConocoPhillips and BP CEOs' letter to Governor Parnell, received March 30th, states that they are now formally aligned with the APP parties, under the AGIA framework, and have begun to undertake work together on the commercialization of North Slope gas with a specific focus on a large scale LNG project from southcentral Alaska
 - The parties have signed formalized agreements to work together on evaluating the feasibility of LNG from southcentral Alaska
 - *“Within the AGIA framework”* means that the producer/shippers consolidate their efforts to APP/TC—the AGIA licensee—and work together to commercialize North Slope gas

ALIGNMENT on GAS COMMERCIALIZATION



March 30, 2012

Governor Sean Parnell
550 West 7th Avenue, Suite 1700
Anchorage, Alaska 99501

Dear Governor Parnell,

Our three corporations, collectively and individually, value our relationship with Alaska and believe that its citizens across the state, as well as our shareholders around the world, share a common interest in responsible resource development. We write today to inform you of our progress in working together on the next generation of North Slope resource development.

Alaska's vast North Slope holds over 35 trillion cubic feet of discovered natural gas. To date, this gas has been used to enhance North Slope oil production, adding several billion barrels to Prudhoe and Kuparuk recoveries. However, under the right business climate, the full commercial potential of this world-class resource can be unlocked. North Slope gas commercialization will bring new job opportunities, increased state revenues, reliable in-state energy supplies and new exploration opportunities, which will further the development of North Slope oil and gas. This will be key toward reaching per day through the Trans-Alaska Pipeline System.

Serious discussions between our companies have taken place over the past several months, along with the Alaska Pipeline Project (APP) parties who are supporting the AGIA License. We have aligned on a structured, stewardable and transparent approach with the aim to commercialize North Slope natural gas resources within a rapidly evolving global market, large-scale liquefied natural gas (LNG) exports from south-central Alaska will be assessed as an alternative to gas line exports through Alberta. In addition to broadening market access, a south-central Alaska LNG approach could more closely align with in-state energy demand and needs. We are now working together on the gas commercialization project concept selection, which would include an associated timeline and an assessment of major project components including in-state pipeline routes and capacities, global LNG trends, and LNG tidewater site locations, among others.

Commercializing Alaska natural gas resources will not be easy. There are several key issues that must be resolved, and we cannot do it alone. Unstable energy prices and capital for gas development will require competitive and stable markets. These markets in Alaska first be established. Appropriately structured, stable markets will bring new opportunities around the world, and will play a pivotal role in aligning with the global market and unlocking the economic potential of North Slope gas.

Point Thomson is an excellent example of a challenged, world-class resource. With approximately 25% of known North Slope natural gas, Point Thomson development is an important element in consideration of North Slope gas commercialization. However, economic models must span decades into an uncertain future to estimate economic returns. Your Administration has taken the lead in forging a Point Thomson settlement that will bring long-term resources, revenues and jobs to help Alaska's economy. With settlement now finalized, our companies are moving forward, as participating co-venturers, with the initial development phase at Point Thomson with confidence that North Slope gas development will ultimately bring the Point Thomson resource to market.

We agree the next generation of North Slope resource development is achievable, working together with the APP parties, as well as with the State of Alaska. Thank you for your leadership and your confidence in us to take on these challenges. We join you in a vision of prosperity and promise. There is much work to do and opportunities yet to discover.

Sincerely,


Rex Tillerson


Jim Mulva


Bob Dudley

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ALIGNMENT *on* GAS COMMERCIALIZATION

**The State of Alaska has cause
for optimism:**

**1. First time producers and APP are
working together—we believe that this
initial phase of work will go fast**

- Much APP work has already been accomplished
- The Denali project completed valuable work as well

Work from these projects will be combined,
which is in the best interest of the state

**2. Producers are working together on a
state effort**

- Previous state efforts have lacked producer involvement



ALIGNMENT *on* GAS COMMERCIALIZATION

3. **CEOs are very involved**—*January 12, 2012, meeting shows that direction for this project is being given from the top*—Joint letter from CEOs
4. **In-state use is emphasized**
5. **Moment of opportunity: LNG Asia market provides promise, not just for gas, but for what we believe is a desire for *Alaska* gas**
 - Comparative advantages of Alaska LNG include:
 - Huge conventional resources next to existing infrastructure and massive resource potential
 - Liquid-rich gas
 - Longstanding tradition of exports to Asia—40 years of LNG exports to Japan
 - Stable investment and political climate
 - Geo-strategic portfolio diversification
 - World-class businesses already investing
 - Trained workforce
 - Close proximity to markets
 - Cost competitive
6. **Friday’s announcements put Alaska resources and opportunities back on the World stage; but we will still have to compete with other sources, which is why alignment is so important**

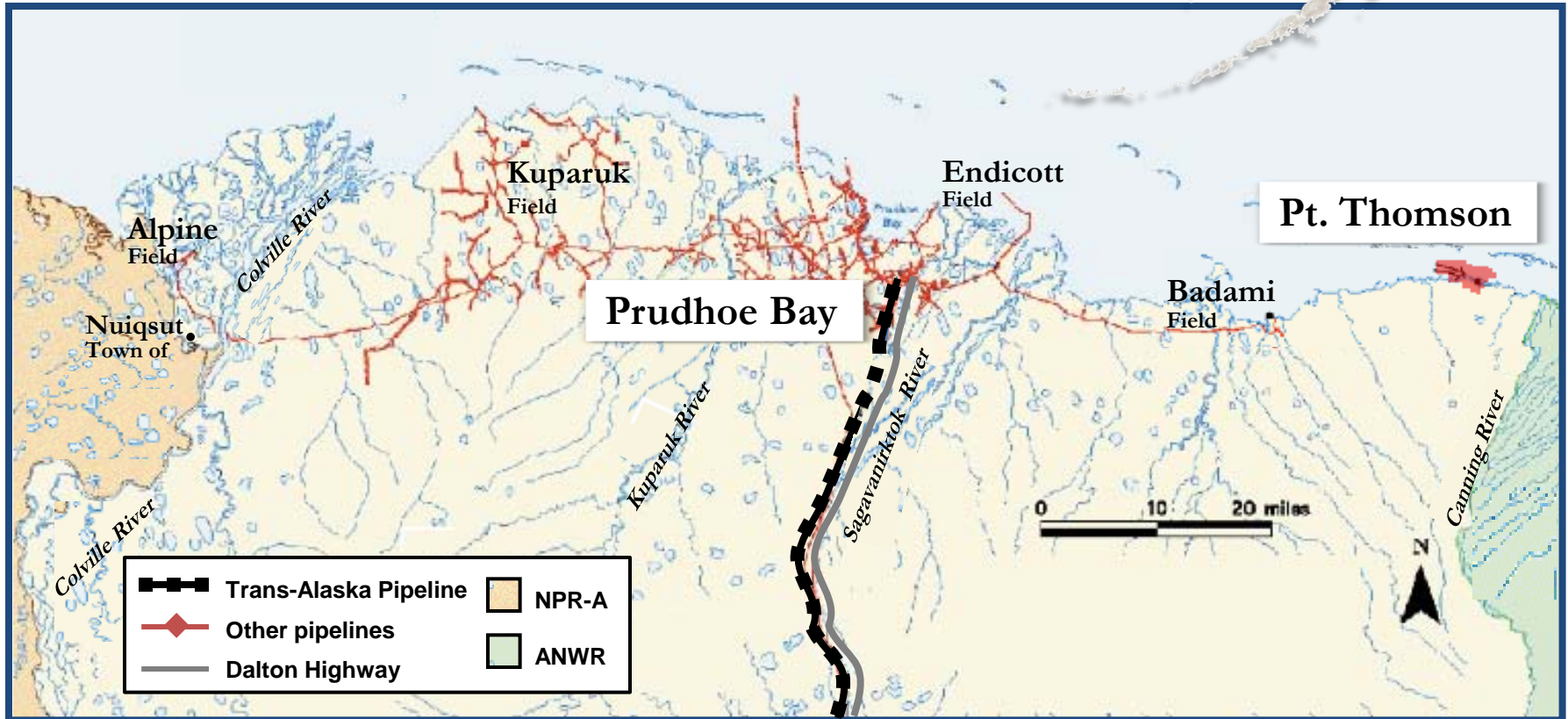
“Alaska, Gas Firms Clear Way For Pipeline”

Settlement “...paves the way for a pipeline project to ship natural gas from the North Slope, unleashing the state's massive gas reserves.”

Wall Street Journal, 3/30/12

POINT THOMSON

- BACKGROUND -



POINT THOMSON

- BACKGROUND -

About Point Thomson

- Point Thomson (PT) is located approximately 60 miles east of Prudhoe Bay and is adjacent to the Arctic National Wildlife Refuge (ANWR)
- The first leases were acquired in 1965; oil discovered in 1975; gas discovered in 1977
- The PT unit formed in 1977
- The PT unit contains 38 state leases on approximately 93,000 acres of state land
- PT contains about 8 TCF of gas and hundreds of millions of barrels of oil
- PT has ~ 25% of known North Slope gas reserves
- PT unit has a massive Thomson Sands reservoir, a thin oil rim, and smaller Brookian oil accumulations
- The PT reservoir is a high-pressure retrograde condensate and natural gas reservoir that presents development challenges

About the Litigation

- In 2005, DNR defaulted the PT unit for lack of development
- In November 2006, DNR terminated the unit when the Producers failed to cure the default
- The Producers appealed to superior court; in December 2007, the court remanded the unit termination decision to DNR
- In April 2008, DNR rejected a new plan of development and again terminated the unit
- The Producers appealed to superior court, which ruled that DNR erred in terminating the unit
- The Alaska Supreme Court granted the State's Petition for Review, which halted the current superior court litigation – final court resolution is years away

LONG-STANDING GOALS RELATED *to* POINT THOMSON

State of Alaska's Goal for Point Thomson:
Advance the State of Alaska's Strategic Interests

For years the State of Alaska has focused on these common goals related to PT:

- Begin producing PT hydrocarbons into TAPS—*no more warehousing*
- Keep development and production moving forward
- Incentivize and lay out clear path for full-field development
- Ensure significant consequences if the Producers fail to meet commitments
- Encourage commercialization of North Slope gas
- Create increased employment and economic opportunities for Alaskans

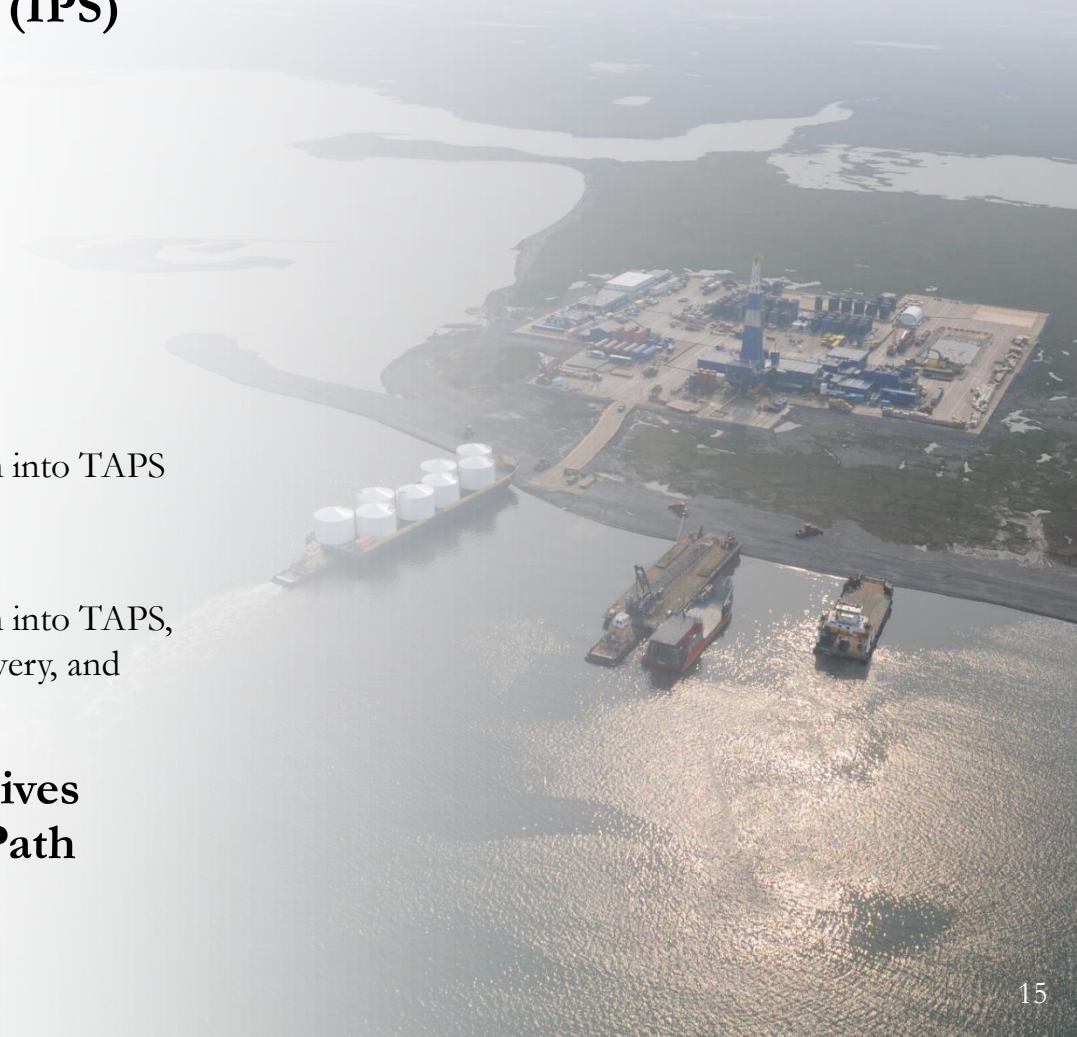


HOW *the* SETTLEMENT ADVANCES ALASKA'S INTERESTS

- Creates momentum on production and development
- Creates a near-term commitment of production into TAPS and increasing TAPS throughput
- Ends the warehousing of state resources
- Provides the quickest way to move PT into production by a certain date
- Opens the Eastern North Slope to new development opportunities by adding infrastructure and a 70,000 bpd common carrier pipeline connecting to TAPS
- Incentivizes and lays out a clear path and alternatives for full-field development, each of which will require billions of dollars in investment if pursued
- Generates significant investment in Alaska, which will create increased employment and economic activity for Alaskans: strong Alaska hire provision
- Establishes significant consequences if near-term or longer-term development is not pursued
- Increases competition on the North Slope
- Provides potential for significant gas volumes for in-state use no later than 2019
- Positions North Slope gas for a large-scale gas pipeline project
 - Near term work on liquids production undertaken simultaneously with gas commercialization efforts
 - Liquids production work commitments are a pre-investment for North Slope gas commercialization
 - Ends the cloud of litigation over PT
 - Catalyst for alignment among the Producers and TransCanada
- Requires a commitment to develop a separate oil reservoir within PT
- Improves technical and geologic understanding of the complicated PT reservoir to help determine the best way to maximize state resources
- Animating principle: “earn your acreage” – the more work, more commitment, more investment, and more production that occur, the more PT acreage companies will retain

COMPONENTS *of the* SETTLEMENT

- I. Initial Production System (IPS)
- II. Overview of Expanded Development Alternatives
 - A. ALTERNATIVE A:
Major Gas Sale
 - B. ALTERNATIVE B:
Expanded Liquids Production into TAPS
 - C. ALTERNATIVE C:
Expanded Liquids Production into TAPS,
Enhanced Prudhoe Bay Recovery, and
Gas for In-State Use
- III. Consequences and Incentives
Related to Development Path
Taken



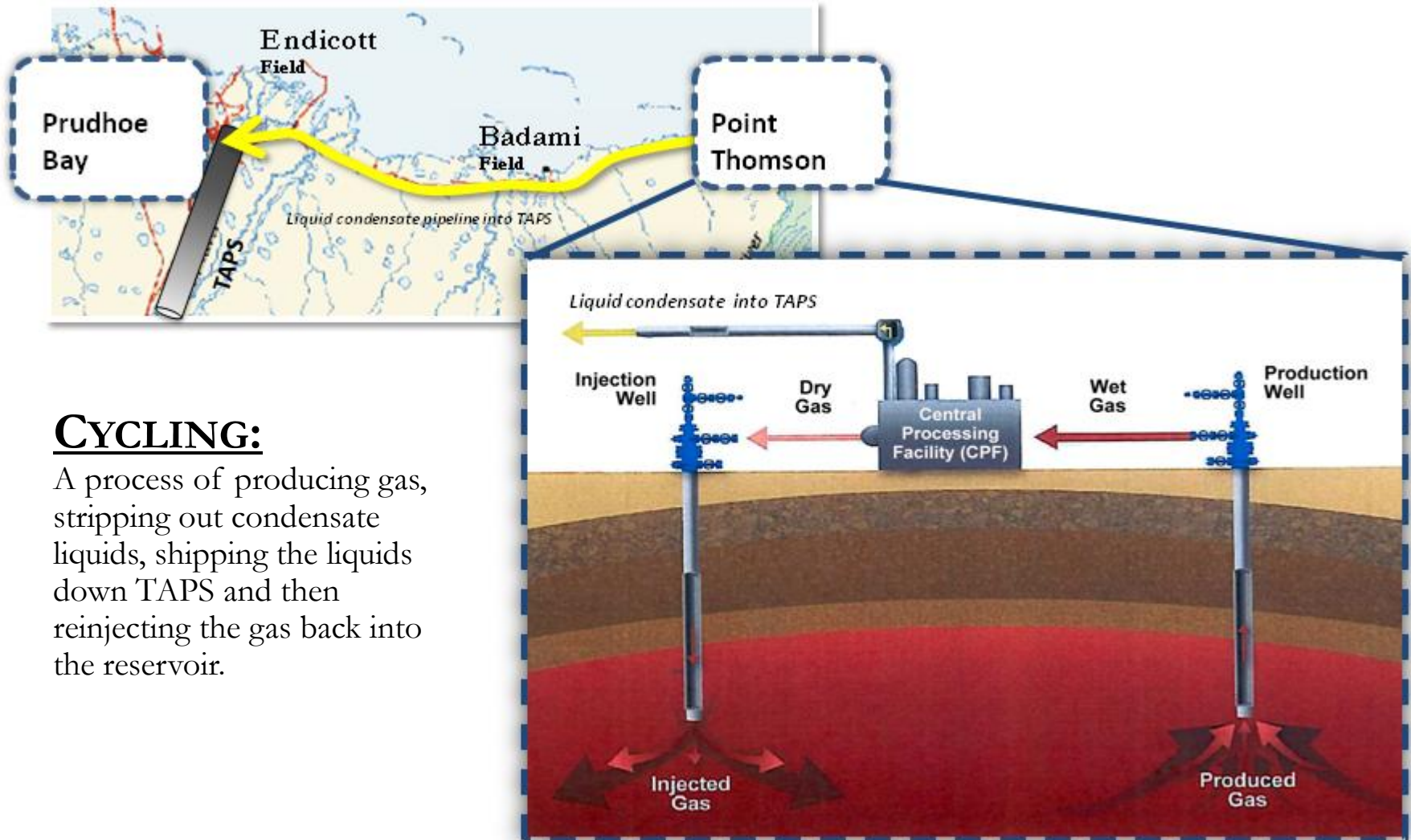
INITIAL PRODUCTION SYSTEM

- COMMITMENTS *and* TIMELINES -

- Producers will work together to complete the Initial Production System (IPS), will produce ~10k BPD of liquid gas condensates and cycle ~200 mm CFD
- To install the IPS, the Producers will complete the following work commitments:
 - Drill PT 15 & 16 wells from the central pad (completed); world-class wells in a remote location
 - Construct facilities and install 70k BPD liquids, common carrier pipeline to TAPS
 - Put PT 15 & 16 on production by end of 2015-16 winter season utilizing IPS
 - Original, agreed-upon timeline was pushed back one year because of federal permitting delays
 - Drill west pad well by end of 2016-17 winter season
 - Permit two additional wells and the east pad
- IPS installs infrastructure necessary for full-field development and will provide critical information for the next phase of development
- Detailed work schedule incorporated into the agreement (see slide 19)
- DNR technical review confirmed reservoir complexity
- If the IPS is abandoned, acreage automatically contracts from the unit and is returned to the state
- Unfavorable economics/ROI of IPS cannot serve as an excuse for non-performance
- Once production starts, limited acreage is secured consistent with state law
- IPS development proceeds in parallel with gas commercialization work

INITIAL PRODUCTION SYSTEM

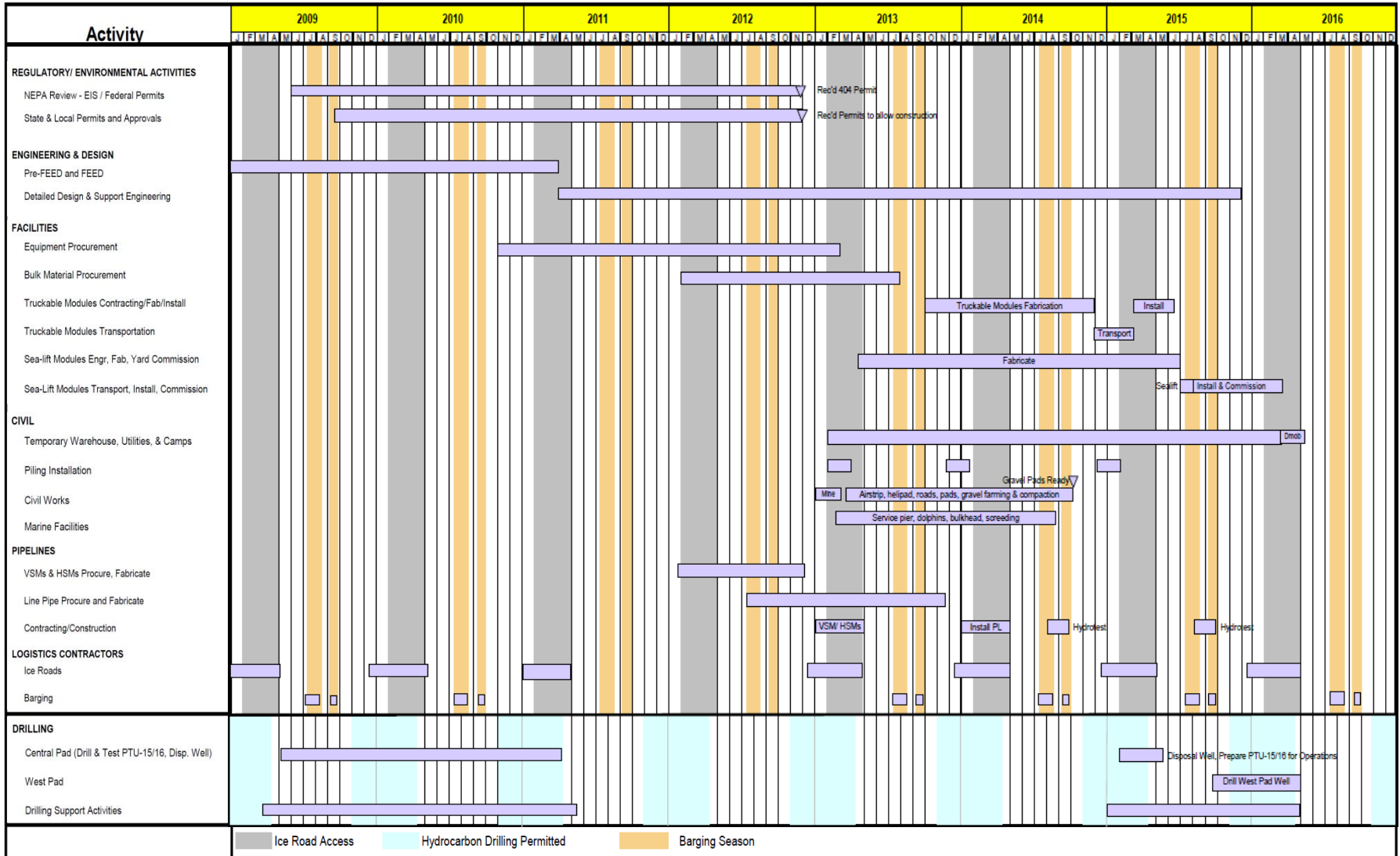
- OVERVIEW of CYCLING -



CYCLING:

A process of producing gas, stripping out condensate liquids, shipping the liquids down TAPS and then reinjecting the gas back into the reservoir.

IPS WORK SCHEDULE



OVERVIEW *of* EXPANDED DEVELOPMENT ALTERNATIVES

- In addition to the IPS production commitments and timeline, the settlement creates pathways, incentives, and benchmarks for full-field development of the PT reservoir – *critical component of the settlement*
- Once the IPS is on production, there are three alternatives to full-field development:
 - A. Major Gas Sale
 - B. Expanded Liquid Production into TAPS
 - C. Expanded Liquid Production into TAPS, Enhanced Prudhoe Bay Recovery, and Gas for In-State Use
- All three alternatives:
 - Can be pursued individually or simultaneously
 - Will require billions of dollars of additional investment to complete
 - Can only fully secure additional PT acreage once expanded production of hydrocarbons begins
- If none of the three expanded development alternatives are sanctioned or committed to, then the Producers automatically lose significant PT acreage
- Producers must also commit to Brookian oil formation production by 2018 or lose Brookian acreage
- A primary goal of the expanded development alternatives is commercializing North Slope gas
- But other full-field development scenarios— Alternatives B and C—are also available
 - Provides flexibility for the future: markets are hard to predict
 - State’s resources can be maximized depending on market conditions



ALTERNATIVE A:

- MAJOR GAS SALE -

A. ALTERNATIVE A: Major Gas Sale

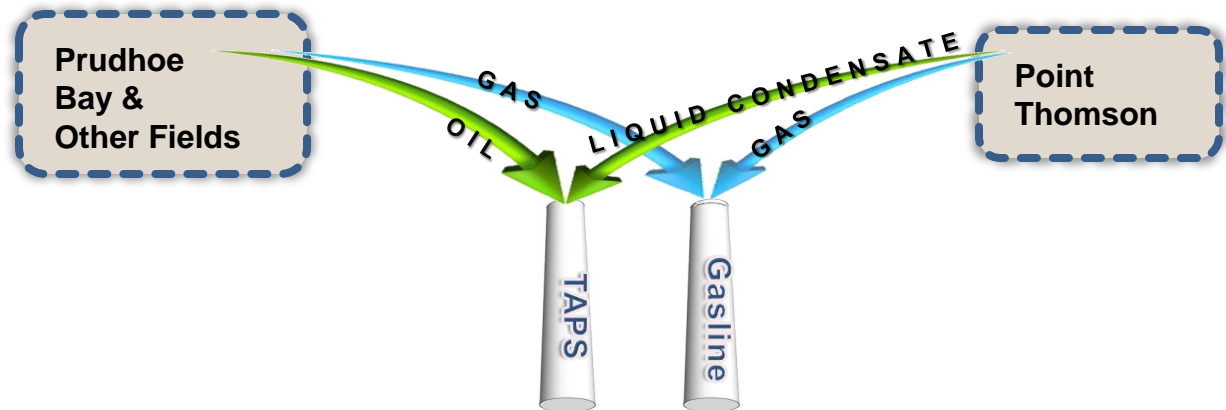
B. ALTERNATIVE B:

Expanded Liquids
Production into TAPS

C. ALTERNATIVE C:

Expanded Liquids
Production into TAPS,
Enhanced Prudhoe Bay
Recovery, and Gas for In-
State Use

- An important aspect of the settlement are the pathways, incentives, and benchmarks for the full-field development of PT
- A primary goal of this settlement is to incentivize commercialization of North Slope gas/Major Gas Sale (MGS)
 - MGS must exceed 500 million cubic feet/d on the North Slope
 - Provides flexibility to allow different MGS scenarios
- The agreement will advance a MGS in a number of ways:
 - Unlocks the potential and resources of the PT field, which contains approximately 25% of North Slope gas
 - Requires that, in addition to the IPS, the parties undertake work to commercialize North Slope gas now in conjunction with the IPS; work begins immediately on dual spending for IPS and MGS/LNG
 - Incentivizes progress on a MGS in a number of ways



ALTERNATIVE A: - MAJOR GAS SALE -

A. ALTERNATIVE A: Major Gas Sale

B. ALTERNATIVE B:

Expanded Liquids
Production into TAPS

C. ALTERNATIVE C:

Expanded Liquids
Production into TAPS,
Enhanced Prudhoe Bay
Recovery, and Gas for In-
State Use

- There are two windows to “sanction” a MGS: (1) from present to 2016 and (2) from 2016 to 2019
 - “Sanction” means that all required state and federal gas line permits have been issued and the pipeline sponsors have secured all necessary financing and received full corporate approval to proceed with pipeline construction
 - Getting to a sanctioned decision will likely require investing hundreds of millions/billions of dollars
- MGS production makes gas available for in-state use
- If a MGS is not sanctioned by June 2016, the Producers must begin engineering & permitting to expand PT production either through Alternative B or C
- Once MGS is sanctioned, the Producers will temporarily retain most of the PT unit; but the PT unit will only be fully secured once gas is flowing into a gas pipeline
- If a MGS is not sanctioned by 2019, the Producers will have had to commit to Alternative B or Alternative C or lose significant acreage

ALTERNATIVE B:

- EXPANDED LIQUID PRODUCTION INTO TAPS -

A. ALTERNATIVE A:

Major Gas Sale

B. ALTERNATIVE B:

Expanded Liquids
Production into
TAPS

C. ALTERNATIVE C:

Expanded Liquids
Production into TAPS,
Enhanced Prudhoe Bay
Recovery, and Gas for In-
State Use

- Producers can expand the IPS cycling capacity and increase production to a minimum of approximately 30,000 bpd of liquids into TAPS
- Producers must commit to expanded cycling by 2019
- Production will likely exceed 30,000 bpd of liquids into TAPS—*lip of the funnel*
- Any expansion less than 30,000 bpd of liquids will result in certain acreage automatically contracting from the unit
- This alternative will likely result in the greatest long-term recovery of liquids from PT into TAPS, but PT gas will remain in the reservoir
- The enhanced understanding of the PT reservoir, gained from the IPS, will help determine the feasibility of this option
 - Will be influenced by factors such as condensate yield, reservoir connectivity and oil price forecasts
- Will require additional wells and larger gas processing and production facilities
- Once the Producers begin producing under this option, they will retain most of the unit acreage
- Producers can also pursue other alternatives simultaneously

ALTERNATIVE C:

- EXPANDED LIQUID PRODUCTION INTO TAPS, ENHANCED PRUDHOE BAY RECOVERY, AND GAS FOR IN-STATE USE -

A. ALTERNATIVE A:

Major Gas Sale

B. ALTERNATIVE B:

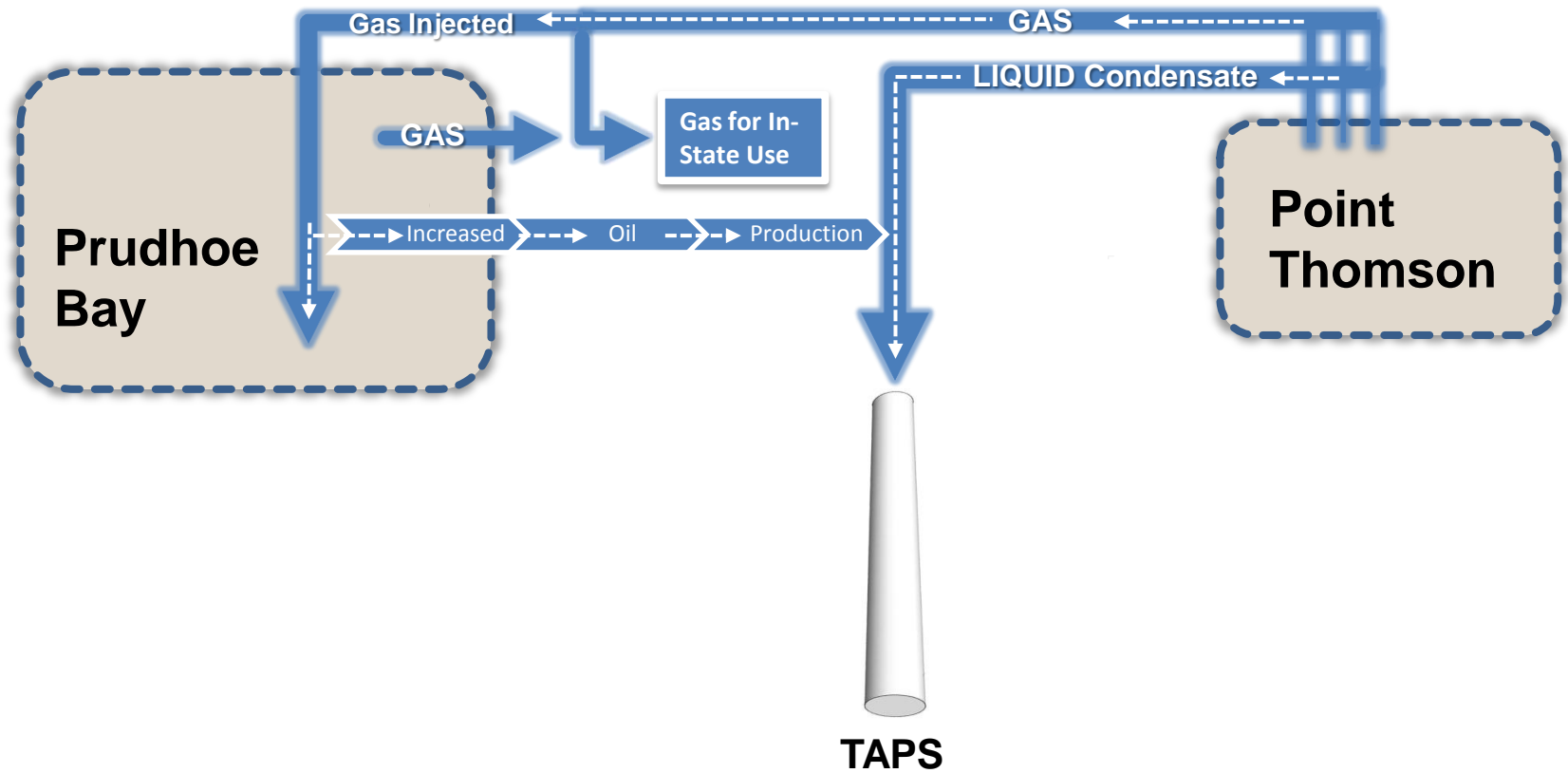
Expanded Liquids
Production into TAPS

C. ALTERNATIVE C:

Expanded Liquids
Production into
TAPS, Enhanced
Prudhoe Bay
Recovery, and Gas
for In-State Use

- Requires complex reservoir integration between Prudhoe Bay and PT
 - PT dry gas produced, transported and injected into Prudhoe Bay
 - This will significantly increase oil production and enhanced oil recovery at Prudhoe Bay into TAPS
 - Includes significant liquids production from PT into TAPS
- Essentially a hybrid between Alternative A: MGS and Alternative B: Expanded Liquid Production
- Significantly increases TAPS throughput
- Major investment, infrastructure and hydrocarbon pre-positioning required for this alternative will facilitate North Slope gas commercialization
 - Completes installation of infrastructure, including PT gas pipeline to Prudhoe Bay and additional wells and production facilities
 - Prudhoe Bay becomes a central collection point for critical North Slope gas
- Alternative C also requires that significant volumes of gas be available for in-state use from Prudhoe Bay no later than 2019
- Once PT gas is transmitted to Prudhoe Bay, state Royalty-in-Kind (RIK) gas is made available for in-state use
- This provides the state with an opportunity to plan for large-scale, in-state gas-use projects, e.g. GTL, methanol, gas sales, etc.
- This alternative could take place prior to or in conjunction with Alternative A or B

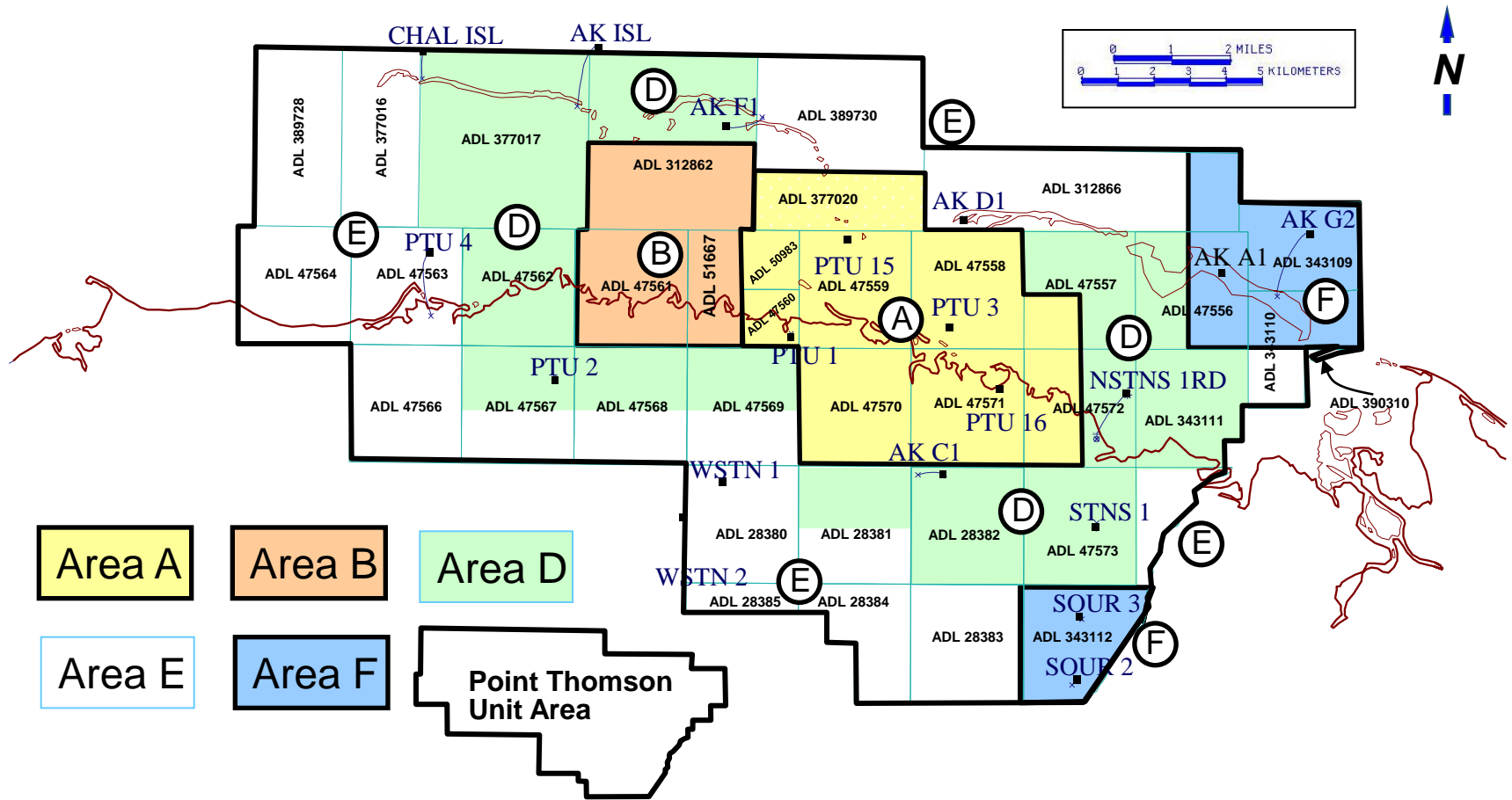
OVERVIEW of ALTERNATIVE C



CONSEQUENCES & INCENTIVES RELATED to DEVELOPMENT PATH TAKEN

- The settlement centers on one animating principle: Producers must *earn* acreage – more work, more commitments, more production secures more state acreage
- Key Goal: Keep parties focused on near-term production (IPS) and longer-term hydrocarbon production expansion (full-field development)
 - Settlement seeks to anticipate contingencies
 - Provides incentives for work completed
 - Provides for fair and expeditious dispute resolution
- The settlement also has severe consequences if the Producers fail to develop or expand development
- If Producers abandon the IPS/fail to keep the provisional work schedule, there will be a significant contraction of PT acreage by 2015
- If there is no IPS production and a MGS is not sanctioned by 2019, then the unit terminates and all acreage automatically returns to the state *without appeal*
 - This includes leases with capable wells
- If the Producers do not commit to expand production beyond the IPS, or do not sanction a MGS, then significant acreage contracts from the unit and automatically returns to the state *without appeal*
- If the Producers commit to expanded development, or sanction a MGS by 2019, but do not follow through, the unit will contract to the area in production
- If there is no commitment to Brookian oil formation production, then Brookian acreage automatically contracts in 2018 and returns to the state *without appeal*
- “*Without appeal*” is used throughout the agreement—it means that the Producers waive their right to appeal automatic termination of their leases to any tribunal in Alaska or the United States

POINT THOMSON UNIT



HOW SETTLEMENT & ALIGNMENT GET ALASKA CLOSER *to* GAS COMMERCIALIZATION

- No gasline guaranteed, but we are an important step closer. *Why?*
- Without settlement of PT, which holds 25% of the North Slope's gas reserves, a MGS project would be very difficult
- Having a MGS project would be difficult without alignment of the key parties—the state, producers, and the APP parties
- We are now aligned and settlement of PT helped get us here
- Significant work has already been completed and new work will build on this
- The IPS required by the agreement and the full-field development alternatives set forth in the agreement all serve as a pre-investment on the ultimate goal for a large-scale gas commercialization project in terms of the billions of dollars required to develop the infrastructure needed—wells, pads, pipelines



INTERRELATED STRATEGIC OIL & GAS GOALS

- Ultimate goal is dual, big pipes coming off of the North Slope—this would be mutually and strategically reinforcing
- But we have to have a competitive, healthy oil industry to support the gas industry
- We need to work on our *own* alignment



NEXT STEPS

- Continue to focus on the Governor's roadmap as outlined in his 2012 "State of the State" address

Step Three: Two projects—under AGIA and AGDC—complete discussions by third quarter of 2012 determining what potential exists to consolidate efforts

Step Four: Harden numbers on an Alaska LNG project by the third quarter of 2012, and identify a pipeline project and associated work schedule

Step Five: If milestones are met, the 2013 Legislature takes up gas tax legislation designed to move the project forward

- Closely monitor work on the Producers' and APP's gas commercialization efforts and PT development
- Continue efforts to locate markets for North Slope gas, e.g. TransCanada solicitation, continued education of the comparative advantages of Alaska natural gas to Pacific Rim markets
- Bottom line: we have momentum and are not standing still

