

STATE CAPITOL  
P.O. Box 110001  
Juneau, AK 99811-0001  
907-465-3500  
fax: 907-465-3532



550 West Seventh Avenue, Suite 1700  
Anchorage, AK 99501  
907-269-7450  
fax 907-269-7461  
www.Gov.Alaska.Gov  
Governor@Alaska.Gov

Governor Bill Walker  
STATE OF ALASKA

January 18, 2016

Ms. Janet L. Weiss  
President  
BP Exploration (Alaska) Inc.  
900 East Benson Boulevard  
PO Box 196612  
Anchorage, Alaska 99519-6612

Mr. Jim Flood  
Vice President, Arctic Projects  
ExxonMobil Development Company  
Wellness 2, 5A.345  
22777 Springwoods Village Parkway  
Spring, Texas 77389

Mr. Joe Marushack  
President  
ConocoPhillips, Alaska, Inc.  
700 G Street, ATO (99501)  
PO Box 100360  
Anchorage, Alaska 99510-0360

**Re: AKLNG Project – North Slope Development**

Dear Janet, Joe and Jim:

As we have discussed previously, my highest priority is to commercialize Alaska's abundant North Slope natural gas resources. Given Alaska's \$3.5 billion annual deficit, we have no option other than to monetize this valuable asset as quickly as possible. Prior to the start of the upcoming 2016 regular legislative session, I want to reiterate my expectations for the milestones that BP, ConocoPhillips, and ExxonMobil ("Producers") must reach in the near future concerning development of the AKLNG Project. It is my understanding that you and your teams are aware of and working towards these milestones.

As you know, approximately two years ago, in January 2014, the State and the Producers entered into a Heads of Agreement ("HOA"), which laid out an agreed road map for the AKLNG Project. That agreement expired as of December 31, 2015. Among other things, the HOA contemplated that a legislative session would be held in 2015 to ratify any commercial agreements negotiated by the parties to advance the AKLNG Project. In other words, the HOA anticipated that the commercial contracts would be ready for submittal to the Legislature for the last legislative session. The HOA also specifically contemplates that such project-enabling agreements will be agreed by the parties before the Commissioner of the Department of Natural Resources ("DNR") can make a determination whether to elect to take the State's royalty in kind ("RIK") for gas produced into the AKLNG Project. Unfortunately, those project-enabling agreements have not yet been agreed, largely as a result of the Producers' failure to reach alignment with each other, and with the State, on gas balancing terms and other key issues.

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I recognize and appreciate the fact that on December 4, 2015, BP, ConocoPhillips and the State entered into a Gas Availability Agreement (“GAA”), which I believe ensures that gas will be available for the Project if BP and/or ConocoPhillips withdraws from the Project. As you know, on the basis of commitments from BP and ConocoPhillips that led to the GAA, and commitments made by ExxonMobil in my conversation with Jim on October 23, 2015, and correspondence from ExxonMobil on this issue, I decided to continue to pursue real and substantive progress on the commercial terms for the AKLNG Project and to postpone proposing the alternative approach of a gas reserves tax bill, at least for so long as such negotiations are progressing and deadlines are met. I am satisfied with the present gas commitments from each of your companies and do not see a need to take up valuable time to further refine those existing commitments.

I have been extremely patient in allowing the negotiations to proceed in the hope that the parties will reach alignment on the agreements necessary to move the AKLNG Project forward and thereby commercialize Alaska’s gas. I gave the parties the entire year of 2015 to reach alignment. Given that the parties have failed to meet the 2015 deadline contemplated by the HOA, I am increasingly concerned about the lack of progress in negotiating the necessary commercial agreements to enable the AKLNG Project to proceed. I am determined to take significant steps to commercialize Alaska’s gas in 2016, preferably by advancing the AKLNG Project but, if the parties fail to reach alignment, then through other approaches.

Accordingly, I want to make clear my expectation that, prior to the end of the 2016 regular session, the AKLNG parties, including the Producers and the State (along with the Alaska Gasline Development Corporation), must reach agreement on the following project enabling agreements and issues:

1. Gas Supply and Balancing Agreement, including any associated Dedication Agreement and Supply Forecasting Agreement;
2. Byproduct Handling Terms;
3. Field Cost Allowance;
4. Point Thomson Lease Modifications/Conversions;
5. Joint Venture Marketing Agreement(s) and/or acceptable Producer Offers as required by Senate Bill 138 to purchase, dispose of, or market the State’s royalty gas “on the same or substantially similar terms” as the Producers sell, dispose of, or market their own gas through the AKLNG Project;
6. Members Agreement and other associated governance agreements, including terms for expansions, long-term release of unneeded capacity, and use/development of common infrastructure for new LNG/GTP trains;
7. System Use Agreement; and
8. Domestic gas sales, including a commitment by each Producer to offer to sell a pro rata amount of gas through the AKLNG Project for domestic needs on commercially reasonable terms.

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If the parties do not reach alignment on these important contracts and issues, then I will have no other choice but to consider other options for commercializing Alaska's gas. In addition, absent such alignment on all of these agreements and issues, my Administration will be unable to support any Fiscal Contract that the Producers may seek, or a Constitutional Amendment supporting such Fiscal Contract.

I look forward to working with you to reach the alignment needed to move the AKLNG Project forward and thereby commercialize Alaska's gas resources.

Sincerely yours,



Bill Walker  
Governor