

SETTLEMENT AGREEMENT

THIS SETTLEMENT AGREEMENT ("Agreement") is entered into on this the 2nd day of January 2008, by and between the **STATE OF ALASKA ("State")**, **MARATHON OIL COMPANY ("Marathon")**, and **CONOCOPHILLIPS ALASKA NATURAL GAS CORPORATION**, on behalf of itself and its affiliates ("**ConocoPhillips**", together with Marathon, "**Applicants**"). Each of the State, Marathon, and ConocoPhillips is referred to as a "**Party**" and collectively as the "**Parties**".

RECITALS

WHEREAS, the Parties agree that the natural gas liquefaction and marine terminal facility located in Kenai, Alaska ("**Kenai LNG Facility**"), jointly owned by the Applicants, through an affiliate, (i) serves an important reliability role in the supply and demand balance in the Cook Inlet region, providing for the ability to divert, on a real time basis, natural gas for heating and electricity generation during times of peak demand, (ii) has a positive impact on future investment in the development of regional gas supplies, and (iii) provides employment and private and local government income in the Kenai Peninsula Borough as well as royalty and tax income to the State;

WHEREAS, on March 31, 2009, the Applicants' current authorization from the United States Department of Energy, Office of Fossil Energy ("**DOE**") to export up to 64.4 TBtus of liquefied natural gas ("**LNG**") annually from the Kenai LNG Facility expires;

WHEREAS, Applicants have applied for a Blanket Authorization with DOE to export up to 99 TBtus (requiring a total of approximately 116 Bcf into the liquefaction and shipping process) of LNG from the Kenai LNG Facility from April 1, 2009 thru March 31, 2011 ("**Export Period**") in Docket No. 07-02-LNG ("**Application**" and "**Docket**");

WHEREAS, the State, as a party to the Docket, has sought to achieve certain objectives, namely natural gas supply agreements for the local utility needs as projected by ENSTAR Natural Gas Company ("**ENSTAR**") and Chugach Electric Association, Inc. ("**Chugach**", together with ENSTAR, "**Utilities**") with either of the Applicants or other natural gas suppliers, as well as commitments by the Applicants (i) to undertake further natural gas development activities, (ii) to make data available to third parties on a commercially reasonable basis to encourage exploration and development, and (iii) to purchase natural gas produced by other natural gas producers for the production of LNG at the Kenai LNG Facility; and

WHEREAS, Applicants and the State desire to reach a settlement as to the issues which prompted the State to intervene in the Docket;

NOW THEREFORE, the State, being satisfied that its objectives will be achieved through this Agreement and that it is in the best interests of the State for DOE to grant the Application, agrees with the Applicants as follows:

ACKNOWLEDGMENTS

1. **State and Applicants.**

(a) The Parties acknowledge that the State has an interest in the natural gas supply needs of the Utilities and their customers. The Parties also acknowledge that the State has an interest in encouraging exploration and development of natural gas supplies over the long term.

(b) The Parties acknowledge that the individual negotiations of ConocoPhillips, Marathon, and other possible natural gas suppliers with the Utilities are independent commercial processes and are subject to the willingness of the negotiating parties to act in a reasonable manner in light of market conditions.

(c) The Parties acknowledge that Cook Inlet natural gas resources are more than adequate to satisfy both Southcentral Alaska demand and the export volume requested in the Application during the Export Period.

(d) The Parties acknowledge (i) that current levels of natural gas production in the Cook Inlet cannot all be used by the Utilities during the Export Period, and (ii) that wells must continue to flow or else risk significant reduction in deliverability and reserves.

(e) The Applicants acknowledge their commitment to continue operation of the Kenai LNG Facility during the Export Period if the DOE authorization requested in the Application is obtained and LNG sales contracts are secured on terms that meet the Applicants' commercial requirements. The State of Alaska acknowledges its desire to support the continued operation of the Kenai LNG Facility during the Export Period.

(f) The Applicants acknowledge their desire to continue natural gas development and/or exploration in the Cook Inlet region provided adequate economic incentives exist. The Applicants also acknowledge their desire to continue operation of the Kenai LNG Facility beyond the Export Period if future DOE authorizations are obtained and LNG sales contracts are secured on terms that meet the Applicants' commercial requirements. The State of Alaska acknowledges its desire to support the continued operation of the Kenai LNG Facility beyond the Export Period.

TERMS OF SETTLEMENT

2. State.

(a) The State will, on or before January 2, 2008, send to the DOE by nationally recognized overnight courier a Motion for Leave to File Supplemental Comments and Supplemental Comments informing DOE that: (i) a settlement has been reached between the State and the Applicants, (ii) the State's support for the Application is now unconditional, and (iii) the State's previous filings requesting additional procedures are withdrawn.

(b) The State's Supplemental Comments will be accompanied by a copy of this Agreement, but neither the State nor the Applicants are requesting that DOE take any action of any kind whatsoever at this time with respect to the terms and conditions contained in this Agreement other than to grant the Application as submitted to DOE by the Applicants.

3. Applicants.

(a) The Applicants commit, with respect to the gas supply requirements of the Utilities, as follows:

(i) Each of the Applicants has agreed with ENSTAR, as affirmed by ENSTAR to the State, on a non-binding term sheet that includes price, volume, and term, for the sale by the Applicant and purchase by ENSTAR of natural gas during the Export Period. As relevant, each Applicant will continue to exercise good faith efforts (1) to complete and execute gas supply agreements with ENSTAR based on the Applicant's existing term sheet and such other terms as are mutually agreeable to the Applicant and ENSTAR, each acting in its sole discretion, and that the Applicant believes, in good faith, is approvable by the Regulatory Commission of Alaska ("**RCA**"), and (2) to negotiate a gas supply agreement with Chugach (so long as Chugach does not have a term sheet with one or more other gas supplier that cover its Unmet Gas Requirements) on terms that are mutually agreeable to the Applicant and Chugach, each acting in its sole discretion, and that the Applicant believes, in good faith, is approvable by the RCA.

(ii) For so long as Chugach has Unmet Gas Requirements as provided in this Agreement, the Applicants will voluntarily reduce the LNG export quantities authorized by DOE in response to the Application to the Export Limit Agreement Quantity (defined below), which reflects a reduction proportionate to the Unmet Gas Requirements (as described in section 3(a)(iii) below). Based on the Application, the Parties agree that 116 Bcf represents the approximate volume of natural gas necessary to produce the requested LNG export volume of 99 TBtus. The Export Limit Agreement Quantity will be calculated as follows:

Export Limit Agreement Quantity = 99 TBtus x (1-(Unmet Gas Requirements/116))

(iii) The Unmet Gas Requirements are set out in the UGR Table below. When, at any time prior to the end of the Export Period, Chugach executes a new gas supply agreement with any seller of natural gas that provides for gas supplies during the Export Period (or any portion thereof, as the case may be) and submits that agreement to the RCA, or the agreement is submitted by one of the Applicants to the State of Alaska, Department of Natural Resources ("**DNR**") (on a confidential basis, if appropriate) under the conditions described below, the Export Limit Agreement Quantity will be adjusted by reducing the Unmet Gas Requirements from the numbers in the UGR Table by the amount of gas to be supplied during the Export Period under the new gas supply agreement and all previous new gas supply agreements. Agreements that will be submitted to DNR are (1) non-jurisdictional agreements that do not require RCA approval, (2) agreements that have been executed by all necessary parties and will be submitted to the RCA, but are not expected to be submitted to the RCA within 30 days of full execution, and (3) agreements that have been executed by all necessary parties and will be submitted to the RCA, but have not been submitted to the RCA within 30 days of execution despite the parties' original intention to do so. Similarly, as reasonably agreed by the State and the Applicants, the Unmet Gas Requirements will be reduced by volumes no longer required by Chugach due to merger or acquisition, loss of customers, efficiency improvements, conservation measures, or any other reason. For purposes of this Agreement, the Unmet Gas Requirements cannot be increased and once reduced, a reduction is not reversible.

Unmet Gas Requirements (UGR) Table

Utility	January 1, 2010 to December 31, 2010	January 1, 2011 to March 31, 2011
Chugach	5.2 Bcf	4.0 Bcf

(b) Each Applicant, respectively, commits, with respect to certain investments in development drilling and certain well and seismic data, as follows:

(i) ConocoPhillips will approve and submit Authorizations for Expenditure ("**AFE's**") to the Beluga River Unit ("**BRU**") working interest owners ("**WIO's**") for two wells to be drilled in 2008. Confirmation of ConocoPhillips' approval of the AFE(s) will be provided to the DNR Director of Oil and Gas ("**Director**") via submission of a sworn statement. The sworn statement will include the following elements: confirmation of ConocoPhillips approval of the AFE(s); confirmation that ConocoPhillips has submitted the AFE's to the BRU WIO's for approval; well name; well location; target interval; and anticipated spud date. If ConocoPhillips determines that market conditions warrant, ConocoPhillips will drill additional wells in the North Cook Inlet Unit.

(ii) Marathon will approve and submit AFE's to the Ninilchik Unit WIO's for two wells to be drilled in 2008. Confirmation of Marathon's approval of the AFE(s) will be provided to the Director via submission of a sworn statement. The sworn

statement will include the following elements: confirmation of Marathon's approval of the AFE(s); confirmation that Marathon has submitted the AFE's to the Ninilchik WIO's for approval; well name; well location; target interval; and anticipated spud date.

(iii) Marathon, which owns 100 percent of the working interest in the Kenai gas field, will drill three wells in that field in 2008.

(iv) Each Applicant will catalogue well log data (well log data is that data which is required to be submitted to the Alaska Oil and Gas Conservation Commission) and seismic data (well log and seismic data are called "Data" hereafter) in the State's Cook Inlet Lease Sale Area (as identified on May 23, 2007) that it is interested in making available for sale to third parties. Data will be made available on an "as is" basis. Each Applicant has provided to the State a map of areas that will be excluded from that Applicant's catalogue, and will make a good faith effort to provide a complete catalogue of the Data outside of the excluded areas with the exception of Data obtained after the execution of this Agreement. The catalogue will be available by December 1, 2008. The State acknowledges that the Data is valuable to each Applicant and that neither Applicant will be required to sell the Data except on terms (including price and confidentiality) that are commercially reasonable; and nothing herein will be construed to limit either Applicant's ability to negotiate for the best commercially reasonable terms. For Data that the Applicant does not have the sole power and right to make available for sale to third parties, the Applicant will work, in good faith, with the co-owners of the Data to make it available for sale. Each Applicant will also make available for viewing (at a location determined by the Applicant, and at a time of mutual convenience for the party making the request and the Applicant) a representative sample of the Data that the party making the request is interested in purchasing if the agreements governing the control of the Data permit viewing by the party making the request under the relevant circumstances.

(c) Each Applicant acknowledges that when certain conditions exist, it may be practical for an Applicant to purchase natural gas from a third party for use at the Kenai LNG Facility. These conditions are the existence of: (i) excess liquefaction capacity that can be utilized in an efficient manner, (ii) excess shipping capacity on the LNG tankers used to transport LNG (during periods when such excess liquefaction capacity exists), (iii) a contract for the sale of any LNG so produced and transported, and (iv) a DOE export authorization in an amount that allows for the export of such LNG without violating the export cap imposed in the export authorization after taking into account the Applicants' cumulative forecasted natural gas supplies to the Kenai LNG Facility for the Export Period. To the extent that such conditions exist, the Kenai LNG Facility operator will post, on a periodic basis, the plant inlet capacity available for natural gas produced by third parties. Each Applicant agrees to solicit, individually, offers from third party gas suppliers for the sale of natural gas to the Applicant. To the extent that an Applicant receives a third party offer to sell natural gas that conforms to the conditions stated above, the Applicant agrees to negotiate in good faith for the purchase of such natural gas, but will not be required to purchase such natural gas except on terms that are mutually agreeable to the Applicant and the potential third party supplier, each

acting in its sole discretion. Each Applicant that has received a third party offer under the conditions described above will either accept the offer or make a bona fide counteroffer within thirty (30) days of receipt of the offer.

(d) On a semi-annual basis, the Applicants will review the forecasted excess plant, shipping, and LNG sales contract capacity for the upcoming six months. The Applicants will also discuss the basis for the forecast with the Director. The Applicants will notify the Director if the forecast discussed with the Director changes materially during the course of the forecasted period. All discussions surrounding the basis for the forecast will be limited to information that the Director can keep confidential, and will be kept confidential by the Director. This information will be disclosed to the Director for the sole purpose of demonstrating to the Director that the Applicants are making a good faith effort to identify opportunities to purchase natural gas from third parties during the Export Period.

4. Future Applications.

The State and the Applicants have a common interest in the continued operation of the Kenai LNG Facility. The benefits of the continued operation of the Kenai LNG Facility include the positive impact that this facility has on potential investment in the development of regional natural gas supplies. The State and the Applicants will work cooperatively, based on the common understandings and objectives set out in this Section 4, on future applications to DOE for authorization for additional LNG exports. The start date for the timelines set out below is the date that DOE grants the Application.

(a) Within two months, each Applicant will issue a request for proposals to determine available and prospective natural gas supplies for the April 1, 2009 through March 31, 2016 time period.

(b) Within six months, the Applicants will meet and confer with the State on the filing of an application by the Applicants for blanket authority to export additional LNG volumes during the time period covered by the Application (April 1, 2009 through March 31, 2011), with the intention that the natural gas used to manufacture these additional LNG volumes would be purchased from other natural gas producers. The volumes covered by this application would be incremental to the volumes authorized in the Docket and possibly reach the maximum volume of LNG that the Kenai LNG Facility can produce and export under reasonable and prudent operational conditions.

(c) Within twelve months, the Applicants will meet and confer with the State on the filing of an application by the Applicants for authority to export LNG with the target of a five year authorization term commencing on April 1, 2011. The natural gas used to manufacture LNG volumes included in this application would be a combination of natural gas produced by the Applicants (or their affiliates) and natural gas purchased from other natural gas producers. The volumes covered by this application would possibly reach the maximum volume of LNG that the Kenai LNG Facility can produce and export under reasonable and prudent operational conditions.

(d) It is the goal for the State and the Applicants that the two potential applications described above would provide for a minimum of 30 MMscf/d of plant inlet capacity available for natural gas produced by third parties (cumulative for natural gas purchased from all third parties) provided that the Applicants are economically exporting LNG. The State and the Applicants acknowledge that negotiations with other natural gas producers will be independent commercial processes and will be subject to (i) the willingness of the negotiating parties to act in a reasonable manner, (ii) plant and shipping operational constraints, (iii) timely commitments of natural gas, (iv) LNG sales opportunities, and (v) the willingness of the Applicants to accept any new, material federal or state regulatory burdens related to third party gas.

(e) If either of the two potential applications described above are filed with DOE after the State and the Applicants meet, confer, and agree on the content of the application, the State will support the application in comments to DOE and, if intervention is allowed by DOE, in briefs filed by the State as a party to the proceeding, provided, in the case of 2009 through 2011, that the Unmet Gas Requirements described in Section 3 are met, and in the case of 2011 and beyond, among other things, that the natural gas to be exported is excess to the requirements of regional utilities for the period covered by the application.

(f) Nothing in this Agreement restricts the Applicants from filing any application with DOE at any time for additional LNG export authority for the Export Period or later periods, and except as otherwise provided in this Section 4, nothing in this Agreement restricts the State from filing any responses to any applications by the Applicants.

(g) Although a copy of this Agreement will be provided to DOE shortly after execution, the Parties do not seek DOE action of any kind whatsoever with respect to a potential application in advance of filing the application.

5. Application.

The Parties acknowledge and agree that approval of the Application by DOE in the export amount requested and the ability of the Applicants to make sales of LNG during the Export Period are the underlying bases for the commitments undertaken by the Applicants under Sections 3 and 4 of this Agreement. If DOE does not grant an authorization on the basis requested by (or with modifications or conditions that are acceptable to) the Applicants, or if the Applicants are not able to enter into LNG sale agreements (on terms acceptable to each Applicant) for the authorized volume, then this Agreement will terminate (and will no longer be binding on any Party) with no further obligations on any Party.

6. Authority.

Each Party represents and warrants that it has the requisite power and authority to execute, deliver, and perform this Agreement, that this Agreement has been executed and delivered by a duly authorized representative thereof, and that this Agreement is a valid, binding, and enforceable obligation thereof (subject to the limitations in Section 8 below).

7. Public Statements.

The Parties will endeavor to communicate and cooperate in advance on any press release or other public statement regarding this Agreement.

8. Enforcement.

The obligations undertaken by the Applicants in this Agreement are corporate commitments to the State subject to enforcement as follows:

(a) Any dispute regarding the obligations in this Agreement will be promptly communicated and subject to a thirty (30) day good faith negotiation period prior to the State resorting to any other enforcement mechanism described in this Section 8.

(b) The obligation of the Applicants to observe the Export Limit Agreement Quantity during the Export Period due to Unmet Gas Requirements under Section 3 may be enforced by the State via a complaint to DOE in the Docket in accordance with this paragraph (b).

(i) Although the obligation to reduce the LNG export volumes according to the Export Limit Agreement Quantity will be self-executing, the State may choose to file a complaint with DOE if there is a dispute about the calculation of the Export Limit Agreement Quantity or if the State otherwise desires to formalize the Export Limit Agreement Quantity in the DOE authorization issued in the Docket at times specified in the following paragraph. The State's complaint will be limited to a request that DOE adjust the export volumes authorized in the Docket to the Export Limit Agreement Quantity as described in the following paragraph. An opposition to the State's complaint will only be filed by the Applicants if they do not agree with the State's calculation of the Export Limit Agreement Quantity.

(ii) If Unmet Gas Requirements for January 1, 2010, to December 31, 2010, are not reduced to zero by June 30, 2009, then the State may file a complaint requesting that DOE adjust the export limit authorized in the Docket to the Export Limit Agreement Quantity, as calculated under the equation set out in section 3(a)(ii) above using the remaining Unmet Gas Requirements for January 1, 2010, to December 31, 2010, as the Unmet Gas Requirements value in the equation. If Unmet Gas Requirements for January 1, 2011, to March 31, 2011, are not reduced to zero by June 30, 2010, then the State may file a complaint requesting that DOE adjust the export limit authorized in

the Docket to the Export Limit Agreement Quantity, as calculated under the equation set out in section 3(a)(ii) above using the remaining Unmet Gas Requirements for January 1, 2010, to March 31, 2011, as the Unmet Gas Requirements value in the equation.

(iii) The Applicants will have fifteen (15) days to respond to the State's complaint. The State's complaint and the Applicants' response will comply with the general requirements for filing set forth in 10 CFR Part 590. After the filing of the State's complaint and the filing of a timely response by the Applicants, the Applicants will not object to the DOE's issuance, on an expedited basis, of an order adjusting the TBtu's of natural gas authorized for export in the Docket to the Export Limit Agreement Quantity specified in the State's complaint or the Applicant's response. If DOE adjusts the authorized export limit and the Unmet Gas Requirements that formed the basis for the adjustment are subsequently reduced, the State and/or the Applicants may ask DOE to revise the export limit to the recalculated Export Limit Agreement Quantity based on, and to the extent of, a reduction in the Unmet Gas Requirements. If the State does not join the Applicants in asking DOE to revise the export limit, the State can only file an opposition to revising the export limit if it does not agree that the Unmet Gas Requirements that caused the adjustment have been reduced as described in the Applicants' filing. The State must file its opposition to the Applicants' filing within fifteen (15) days and, after that time period, may not object to the DOE's issuance, on an expedited basis, of an order adjusting the TBtu's of natural gas authorized for export in the Docket.

(c) Any claim or controversy regarding the obligations of each Applicant under section 3(b)(iv) above will be settled by arbitration in accordance with the CPR Rules for Non-Administered Arbitration then currently in effect ("**CPR Rules**"), and judgment on the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. Any provisions available within the CPR Rules to expedite the proceeding will apply to the proceeding unless otherwise agreed by the Parties.

(d) This Section 8 sets out the exclusive enforcement rights of the State for any breach of this Agreement, but is not intended to limit any other right of action by the State not based on breach of this Agreement.

9. No Third Party Beneficiaries.

Nothing in this Agreement, express or implied, confers on any other person or entity any rights, remedies, obligations, or liabilities of any nature whatsoever.

10 Entire Agreement; Counterparts.

This Agreement evidences the entire agreement among the Parties with respect to the subject matter hereof and supersedes all prior agreements, letters of intent, understandings, proposals, offers, negotiations, and discussions, whether oral or written, among the Parties. The Parties may execute this Agreement in multiple counterparts, each of which constitutes an original, and all of which, collectively, constitute only one

agreement. The signatures of all of the Parties need not appear on the same counterpart, and delivery of an executed counterpart signature page by electronic transmission is as effective as executing and delivering this Agreement in the presence of the other Parties.

11. Governing Law.

To the extent that it is necessary for a body of law to be used to resolve questions concerning the construction, validity, and interpretation of this Agreement, and performance of the obligations imposed by this Agreement, the domestic law of the State of Alaska, without giving effect to its conflicts of laws principles, will govern.

12. Term.

This Agreement is effective upon delivery of an executed counterpart from each Party to the other Parties and will remain in effect until the end of the Export Period, unless sooner terminated as provided in this Agreement.

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STATE OF ALASKA
TALIS J. COLBERG
ATTORNEY GENERAL

CONOCOPHILLIPS ALASKA NATURAL GAS
CORPORATION

Name: Craig Tillery
Title: Deputy Attorney General

Name: J.L. Bowles
Title: President

STATE OF ALASKA
TOM IRWIN
COMMISSIONER, DEPARTMENT OF
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MARATHON OIL COMPANY

Name: Marty Rutherford
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Name: Pat Kuntz
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Sales