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October 12, 2017

Mr. Andrew T. Mack, Commissioner
Alaska Department of Natural Resources
550 West Seventh Avenue, Suite 1400
Anchorage, Alaska 99501

Dear Commissioner Mack:

ExxonMobil Alaska Production Inc., as Operator of the Point Thomson Unit and on behalf of the Point Thomson Unit working interest owners, is providing this correspondence of clarification and explanatory information in response to issues raised by Division of Oil and Gas Director Walsh in the letter dated August 29, 2017, regarding the Point Thomson Unit Expansion Planning Plan of Development (POD) submitted by ExxonMobil on June 30, 2017. All actions by ExxonMobil have been and continue to be in full compliance with the terms of the Settlement Agreement, dated March 29, 2012, with the State of Alaska. In particular, ExxonMobil believes the POD is fully consistent with the Settlement Agreement and provides a sound basis for continued operation of the Initial Production System and to progress work on a potential expansion project at Point Thomson.

The Settlement Agreement addresses all aspects of plans of development provided to the DNR under the Settlement Agreement, including IPS operations beyond April 6, 2017. The Settlement Agreement sets forth the process for resolution of any disagreement between the parties under the Settlement Agreement. ExxonMobil believes the POD is fully compliant with the Settlement Agreement and DNR standard administrative processes do not apply to the POD submitted on June 30, 2017. ExxonMobil remains committed to continued discussions with the DNR to ensure a full understanding of the POD and owner plans necessary to confirm ongoing compliance with the Settlement Agreement.

The POD is a single plan of development for the Point Thomson Unit as contemplated by the Point Thomson Unit Agreement, the Settlement Agreement and DNR regulations. There are not separate PODs for separate projects, but a single POD for a Unit or specific participating area.

With respect to the Initial Production System, ExxonMobil has not breached the terms of the Settlement Agreement as claimed by the Division. As set forth in the Settlement Agreement, ExxonMobil has constructed and started-up a facility "designed with the capacity to produce and reinject (cycle) 200 million cubic feet per day of gas, utilizing reciprocating compression and with the objective of a minimum of 10,000 barrels per day of condensate." ExxonMobil has drilled, completed and placed on production wells capable of producing and injecting that volume of gas. ExxonMobil has demonstrated that the facilities have the capacity to produce and reinject 200 million cubic feet of gas per day since Point Thomson was placed on continuous operation

in April 2016. As clearly defined in the Settlement Agreement, continuous operations exist even when production temporarily ceases due to planned or unplanned maintenance, repairs, or upset conditions.

Similarly, subsequent to the date of the Settlement Agreement, ExxonMobil continued permitting for the East Pad and East Pad well and received approvals for that activity. As set forth in the POD, ExxonMobil's current assessment is that an East Pad and well would not be necessary for the Point Thomson Expansion Project. Also, as set forth in the POD, during the one year period from IPS start-up through April 6, 2017, ExxonMobil has evaluated potential debottlenecking opportunities to increase the capacity of the existing facilities beyond current design. However, rigorous production system testing has not identified any action that could be undertaken at this time, but we will continue to explore potential debottlenecking opportunities.

ExxonMobil believes it is important to clarify the legal considerations and facts regarding IPS operations, but given that none of the Division's claims of inconsistency relate to IPS operations, no further action by ExxonMobil is necessary. ExxonMobil will continue operation of the IPS as provided in the POD, as confirmed by the Division.

With respect to Expansion Project planning, the POD addresses all the matters identified in the Settlement Agreement and, contrary to the assertions of the Division, is consistent with the terms of the Settlement Agreement. The following clarification of the POD is provided to assist DNR's understanding. The explanatory information regarding the POD attached to this letter should assist the Division understanding of the POD and address concerns expressed during the October 9, 2017 meeting with the Division.

As set forth in the POD, ExxonMobil began permitting and engineering for an expansion project consistent with the terms of the Settlement Agreement and that work activity is continuing. The POD sets forth a process for accomplishing work activity and identifies certain work that would need to be accomplished in order for other work to occur. For instance, the more detailed engineering and permitting work that would occur during FEED could be influenced by the arrangements reached with the Prudhoe Bay Unit owners for delivery of gas to Prudhoe Bay and thus the POD identifies that activity as a preliminary step for FEED. Contrary to the Division's assertion, the POD does not condition all planning work on agreement on terms for delivery of gas to Prudhoe Bay, and engineering and permitting work is ongoing. As reflected in the schedule on page 7 of the POD, work on commercial arrangements for delivery and injection of gas at Prudhoe Bay is to occur in parallel with other work, including ongoing engineering and permitting work.

ExxonMobil, as Point Thomson Unit Operator, must obtain necessary authorization from the working interest owners as provided in the Point Thomson Unit Operating Agreement and has obtained such authorizations to progress expansion project work activity through 2017, and this work is ongoing as detailed in the attachment. All requisite approvals to progress expansion project work to a decision point of year-end 2019 have not been received and thus ExxonMobil has clarified the status and process for owner approvals. The POD sets forth a plan to progress that work and that is what the Settlement Agreement requires. The Settlement Agreement neither envisions nor requires certainty of result.

With respect to certain details questioned by the Division, the POD identifies the number of wells (two) and location (Central Pad) of wells currently planned for a Point Thomson Expansion Project and sets forth the timing for completing well planning work. Specific bottomhole locations are not required by the Settlement Agreement and would be included in an application for permit to drill filed with the Alaska Oil and Gas Conservation Commission at a later date (beyond year-end 2019).

The Settlement Agreement references the permit applications that must be filed by year-end 2019 to demonstrate that the working interest owners have committed to an Expansion Project. The POD addresses preparing and filing applications for those permits and authorizations during the POD period.

As noted with respect to the portion of the POD that addresses IPS operations, ExxonMobil similarly believes the portions of the POD related to expansion project planning are consistent with the Settlement Agreement and there is no action or further proceeding that need be undertaken by ExxonMobil. ExxonMobil will continue to act in a manner consistent with the Settlement Agreement and the POD submitted on June 30, 2017.

ExxonMobil welcomes the opportunity to continue discussions with the DNR regarding the POD and the ongoing activity by the owners to progress Point Thomson Unit development for the benefit of all parties, including the State. Should you have any questions or wish to discuss this letter and explanatory material, do not hesitate to contact me.

Sincerely,

CEQ/csl/rlr

Attachment

cc w/attachment: Darrell Becker, ExxonMobil
Damian Bilbao, BP Exploration (Alaska) Inc.
Jon Schultz, ConocoPhillips Alaska
Chantal Walsh, DNR/DO&G Director
Mark Wiggin, DNR Deputy Commissioner

ATTACHMENT TO EXPANSION PLANNING POD LETTER:
PROJECT ENGINEERING AND PERMITTING ACTIVITY

ExxonMobil recognizes DNR is seeking a better understanding of expansion project plans and appreciates the cooperative meeting on October 9, 2017. As such, ExxonMobil is providing this explanatory detail and clarification regarding development planning and processes for Point Thomson Unit and is hopeful this information will address specific concerns expressed by DNR.

During the ExxonMobil and Division of Oil and Gas (DOG) meeting, Director Walsh identified the following areas of concern for DNR: (a) what IPS infrastructure and equipment might be reused, (b) current well planning basis, (c) proposed PTEx gas and condensate processing equipment, and (d) plans for project permits and other approvals. This attachment is organized around these areas to facilitate DNR understanding.

(a) IPS Infrastructure and Equipment Planned for Reuse

As described on pages five and six of the Expansion Planning Plan of Development (POD), the majority of process equipment for the IPS is not expected to be used for PTEx, but it is anticipated that IPS existing infrastructure and the majority of utility systems will be leveraged. As referenced in the POD, a preliminary list of IPS facilities expected to be used for PTEx:

- Infrastructure (standby generators, telecommunications, camp, warehouses, airstrip and facilities, roads, etc.)
- Instrument Air
- Nitrogen
- Fine Water Mist
- High / Low Pressure Flare
- Power Generators
- Waste Heat Recovery Units
- Heat and Cooling Medium
- Condensate Export Pipeline
- Fuel Gas
- Control Room
- IPS wells + disposal well
- Gathering Lines
- Wastewater Injection:

(b) Current Well Planning

As also referenced in the PTEx Project Overview (page five of the POD), the current plan for PTEx includes two new production wells and one new disposal well all drilled from the Central Pad. Bottom-hole locations have not yet been finalized and would be optimized through FEED. The current planning basis for the wells based on preliminary modeling places the bottom-hole locations in the region of highest hydrocarbon density, where early cycling data from PTU-15,

PTU-16, and PTU-17 has supported reservoir connectivity. The lead case for the well design is that the new production wells would have 9-5/8" production tubing. Well completion design is expected to be optimized through FEED.

(c) Proposed PTEx Gas and Condensate Processing Equipment

As also described in the PTEx Project Overview (page five of the POD), the current planning basis for PTEx gas and condensate processing equipment is to produce 920 mmscfd of gas and over 50,000 bpd of condensate. The processing scheme begins by separating produced gas from produced liquids through a three-stage separation process. Produced gas is then dehydrated in a TEG contactor and conditioned in a Low Temperature Separation (LTS) unit. Produced liquids are separated into a hydrocarbon stream and an aqueous stream. The combined hydrocarbon liquids stream and the condensate coming out of the LTS unit are stabilized to meet vapor pressure specifications of the condensate export pipeline inside a Reboiled Stabilizer Column. Separated water and any other waste fluids are injected into the Class 1 disposal well.

Attachment 2, Facilities Schematics Block Flow Diagram and PTU Central Pad Plot Plan, to the POD depicts the equipment listed below that is currently envisioned and how modules would be configured around current IPS facilities at the Central Pad.

- 1st Stage Separator
- Produced Water Separator
- Gas Air Cooler
- Turbo Expander
- Low Temperature Separator
- Low Temperature Separator Condensate Heater
- Turbo Expander
- Recompressor
- TEG Scrubber / Contactor
- Produced Water Injection Pumps
- Dry Gas / Sales Gas Exchangers
- Stabilizer
- Stabilizer Side Reboiler
- Stabilizer Reboilers (top and bottom)
- Condensate Cooler
- Condensate Booster Pumps
- Condensate Shipping Pumps
- 2nd Stage Separator
- 3rd Stage Separator
- LP / MP / HP Compressors
- LP / MP / HP Compressor Scrubbers
- LP / MP / HP Compressor Coolers
- TEG Regeneration Package
- High Integrity Pressure Protection System (HIPPS)

(d) Plans for Project Permits and Other Approvals

Permitting efforts directed towards a potential Point Thomson expansion have been ongoing since early 2016. The initial focus was for a Point Thomson major gas sales project in conjunction with construction of an Alaska LNG project. The current focus is on a gas "blowdown" to Prudhoe Bay through PTEx. PTEx would utilize similar facilities as those contemplated for a major gas sales project, and much of the earlier work has been able to be leveraged.

The project team is continuing to progress plans and activities necessary for application for and acquisition of major federal and state permits. This activity includes preparation of a Project Description and Environmental Report, which facilitate agency engagement, agency review of formal applications for major federal and state permits, and the overarching NEPA review. Key milestones would include submittal of necessary applications to U.S. Army Corps of Engineers (USACE), DNR, and AOGCC by December 31, 2019.

A PTEx project would require a USACE Clean Water Act §404 permit, a major federal action subject to National Environmental Policy Act (NEPA) review, and a substantial permitting effort. These processes would involve multiple federal, state, and local agencies and include input from the public and other stakeholders. Planning for acquisition of permits is necessarily driven by the need to comply with these regulatory requirements and processes.

The plan to initiate NEPA review and filing of formal applications for major permits from USACE, the Alaska Department of Natural Resources (DNR) and the Alaska Oil and Gas Conservation Commission (AOGCC) during the Expansion Planning POD period entails a coordinated, but also sequential, regulatory process. These processes give rise to a series of activities which an applicant must prepare to undertake in order to move forward successfully. Planning and undertaking these efforts will progress in conjunction with conceptual engineering design work for this potential project.

The NEPA process includes consideration of a proposed project, and also considers all reasonable alternatives. This occurs in conjunction with development of alternatives under the §404 permit, particularly the least environmentally damaging practicable alternative (LEDPA), consultation under Section 7 of the Endangered Species Act (ESA), and consideration of many other regulatory programs such as the National Historic Preservation Act (NHPA). NEPA review also provides for State participation and input, including potential State participation as a Cooperating Agency, and serves to advance major State permitting as well. Because of the critical role of the LEDPA determination, as a practical matter many other permits typically would not be issued by other agencies until a §404 permit is finalized.

Planned environmental and regulatory activity during the Expansion Planning POD period broadly includes the following:

- Identification of applicable regulatory requirements and environmental, agency and public review procedures and processes.

- Preparation for NEPA review, including review of the IPS FEIS to identify key issues and previously adopted mitigations, and initiation of additional work to prepare an Environmental Report with updated environmental baseline conditions and conclusions about potential environmental impacts.
- Initiation of agency pre-application consultations to secure direction and feedback on permitting requirements. Permitting plans include engagement with agencies prior to submittal of permit applications and initiation of the formal NEPA process. Pre-application agency engagement facilitates a coordinated and effective progression through the NEPA process and permitting of Project drilling, construction, product transportation, and operations.
- Evaluation of Project engineering design scope for environmental considerations, including optimization of footprint and mitigation measures, and support for preferred design in light of alternatives developed during the NEPA process. As engineering design progresses, the project team incorporates revised project elements into preparatory permitting materials.
- Preparation and filing of a USACE §404 permit application to initiate the NEPA process. This includes preparation of a Project Description, a preliminary jurisdictional statement, a statement of how wetlands impacts have been avoided or minimized, and compensatory mitigation proposal.
- Preparation of materials to facilitate agency review and timely initiation of the major consultations associated with a NEPA process. This includes the NHPA Section 106 consultation, an Essential Fish Habitat assessment under the Fishery Conservation and Management Act, and, if authorized by the federal resource agencies, preparation of draft Biological Assessments for the National Marine Fisheries Service and US Fish and Wildlife Service ESA Section 7 Consultations.
- Support as needed to address and move forward in the NEPA process including preparation of responses to requests for information, conducting workshops to inform agencies about project technical design elements in relation to environmental analyses, and response to proposed alternatives and agency and public comments.
- Conduct of preliminary air dispersion modelling for NEPA review and to support detailed air permitting.
- Preparation and filing of major State permit applications necessary to progress the Project. The nature and scope of these permits would be determined in consultation with the State agencies. The final scope of certain permits may be affected by the footprint and design of the approved project alternative under §404. The permit applications could include a State ROW lease, dependent upon regulatory requirements for a gas pipeline to Prudhoe Bay, and other DNR or AOGCC authorizations as may be appropriate.

Throughout the permitting process, community engagement and stakeholder outreach help ensure public concerns are received and considered. Consideration of stakeholder concerns and early and ongoing consultation with neighboring communities are essential elements of project permitting.

Phased Project Management Process

The work plans in the POD incorporate a project execution strategy that uses a disciplined stepwise approach to identifying, designing, and ultimately building and operating a viable development project. Systematic and comprehensive planning and analysis is essential in the evaluation of a potential development scenario to achieve an informed and well-supported development decision. Expansion project planning work activity at PTU has progressed through certain initial stages of the screening and evaluation process. The POD references some of this earlier and ongoing work, but focuses on the activities planned to occur during the POD period.

In each step of the process, a thorough analysis and understanding of the matters under evaluation must be attained so areas of uncertainty can be identified and resolved to achieve the necessary confidence whether a potential development scenario merits further consideration before making a decision to proceed to the next stage. Full consideration of this foundational information is necessary to allow project work activity and planning to progress to the next stage of evaluation of potential development.

Upon completion of screening analysis, a project that demonstrates potential viability may continue to the conceptual engineering stage. In this stage, facility designs are further refined by drawing upon company expertise on a project team and contractors with experience on large North Slope projects similar to Point Thomson. For instance, the project team for the Point Thomson expansion project (PTEx) is engaged in ongoing activity related to proposed vessel design (size, wall thickness and internals). Other work planned will include flow assurance modeling, wellbore operability limits, erosion and well location and completion optimization. Execution planning and contracting strategy will also advance during this stage.

As noted in the POD, coincident with the work activity and to allow the owners to make an informed decision whether to proceed to the next stage, the Unit Operator must prepare the necessary cost and funding information and receive the necessary owner approvals before continuing to progress project work activity. The Unit Operator will seek such approvals for further funding of work activity if there is sufficient certainty on key aspects of the potential project. For the expansion project under consideration at PTU, this includes clarity on the terms for injection of Point Thomson gas into Prudhoe Bay.

The next stage of development is Front End Engineering and Design (FEED), and the elements of FEED are discussed in the POD. During FEED, designs are refined, vendor quotes for materials are obtained and a detailed project execution schedule is prepared. Cost estimates for facilities and flow rates from subsurface simulations are utilized in economic analysis by each owner. Assuming continued viability of a development, the project would move to a final design stage.