

STATE OF ALASKA

DEPT. OF ENVIRONMENTAL CONSERVATION
OFFICE OF THE COMMISSIONER

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June 5, 2007

James L. Bowles
President
ConocoPhillips Alaska Inc.
P.O. Box 100360
Anchorage, AK 99510-0360

Subject: North Slope Ultra Low Sulfur Diesel Transition Agreement

Dear Mr. Bowles:

The North Slope Ultra Low Sulfur Diesel Transition Agreement (Agreement) with ConocoPhillips Alaska Inc., British Petroleum Exploration Alaska Inc. and the State of Alaska was intended to achieve a superior environmental outcome while providing for on-slope flexibility in the construction of the new module to be used to produce the cleaner diesel fuel. Through recent conversations with Georg Storaker and Ken Donajkowski, and in Mr. Donajkowski's May 3 letter, ConocoPhillips informed us of its decision to extend the schedule for construction of the module necessary to produce ultra low sulfur diesel (ULSD) fuel. This makes it unlikely the companies will meet the 2008 sealift schedule, or the December 31, 2008 on-slope fuel production date called for in the Agreement.

The Agreement contemplates the potential for such a delay and includes an interim remedy for the transport of ULSD fuel to the North Slope pending production from the new module. DEC Staff have carefully considered the advantages and disadvantages of transporting ULSD fuel to the North Slope and determined this is the best interim course of action. By this letter, we are providing notice to ConocoPhillips and British Petroleum to make preparations to deliver ULSD fuel in accord with paragraph 2(h) of the amended Agreement starting January 1, 2009.

Should the companies desire, we could discuss a modification to the Agreement that would substitute a comparable air pollution reduction project for the interim transport and use of ULSD fuel. Please let me know if you wish to engage in that dialogue.

We would expect the economic investment by ConocoPhillips and BPXA in an alternative project would be comparable to the added cost of hauling fuel under the Agreement's default provision. Since we are not in a position to quantify these costs with certainty, we would expect the companies to provide a cost estimate by an

independent consultant approved by DEC. DEC would also need to approve the consultant's scope of work, which would involve quantifying the costs of hauling ULSD fuel for the period of January 1, 2009 until the projected date that the on-slope unit is fully operational.

While we are open to all good ideas about projects which could accomplish significant on-the-ground air quality improvements, we believe one particularly ripe opportunity exists in Fairbanks. With the tightening of the health standard for fine particle pollution, Fairbanks will soon be classified as non-compliant for this air pollutant. Under federal law, the local government and the state are responsible for resolving this public health problem in the coming years. As you may expect, there are many opportunities to clean-up air pollution in Fairbanks. You may be aware of other opportunities that are more closely related to your North Slope operations, however, and we would be willing to discuss those as well.

We understand it will require many months of planning to implement the default provision of the Agreement. I would appreciate DEC being periodically informed of the companies' progress in fulfilling this aspect of the Agreement. Tom Chapple and the Air Quality division staff will continue to be available to work with your team in fulfilling the terms of our Agreement.

Sincerely,



Larry Hartig
Commissioner

cc: Doug Suttles, President, British Petroleum Exploration Alaska Inc.
Ken Donajkowski, Vice President, ConocoPhillips Alaska Inc.
Bob Batch, Vice President, British Petroleum Exploration Alaska Inc.
Tom Chapple, Director, Air Quality, ADEC
Steve Mulder, Assistant Attorney General, ADOL