

MEMORANDUM OF UNDERSTANDING
BETWEEN THE OWNERS OF THE
TRANS-ALASKA PIPELINE SYSTEM AND
THE STATE OF ALASKA

WHEREAS, the State of Alaska ("State") has an interest in the rates applicable to transportation on the Trans-Alaska Pipeline System ("TAPS"), both intrastate and interstate transportation, because of its ownership of oil producing lands and the effect of pipeline tariffs on exploration, royalties, and production and income tax revenues; and

WHEREAS, for the foregoing reasons the State believes it would be in the public interest to negotiate successor agreements to the Interstate and Intrastate Trans-Alaska Pipeline System Settlement Agreements ("TAPS Settlement Agreements") among the TAPS Owners and the State, with such successor agreements hereafter referred to as "Successor Agreements"; and

WHEREAS, unless Successor Agreements are executed, the Parties anticipate litigation before the Federal Energy Regulatory Commission, the Regulatory Commission of Alaska and ultimately the courts will occur that will be lengthy, costly and recurring, which is not in the Parties' or the public's best interest; and

WHEREAS, the State and the TAPS Owners are interested in establishing mechanisms for achieving long-term lawful rates without litigation, which mechanisms would be in the public's best interest; and

WHEREAS, the State and the TAPS Owners are interested in securing a durable mechanism that allows interested parties to predict future TAPS tariffs; and

WHEREAS, the State has determined that it is in the public interest to negotiate with the TAPS Owners as a group, in order to achieve a comprehensive and durable resolution of the issues in a timely manner and to achieve predictability of future tariffs; and

WHEREAS, under the schedule provided for in the TAPS Settlement Agreements, BP Pipelines (Alaska) Inc., Phillips Transportation Alaska, Inc., ExxonMobil Pipeline Company, Williams Alaska Pipeline Company, LLC and Unocal Pipeline Company (the TAPS Owners”) and the State, individually “Party” and collectively the “Parties”, would not commence discussions regarding Successor Agreements to the current TAPS Settlement Agreements until after December 31, 2006; and

WHEREAS, the Parties believe that it would be in their best interests to commence discussions regarding such Successor Agreements prior to December 31, 2006;

NOW THEREFORE, the Parties enter into this Memorandum of Understanding (“MOU”), regarding these discussions.

1. The current TAPS Settlement Agreements contain the following provisions:

"Unless otherwise provided, this Agreement shall continue in full force and effect through 31 December 2011. Interstate Agreement, Section III-12.

State and each TAPS Carrier shall each have the right at any time after 31 December 2006 to require renegotiation of this Agreement. Renegotiation shall be initiated by written notice to the other parties. Following receipt of written notice, the parties shall negotiate in good faith, for a period not to exceed two years, the terms of a new agreement. During the two-year period or until a renegotiated agreement is executed, this Agreement shall remain in full force and effect. If a renegotiated agreement is not executed within the two-year period, State shall have the right to terminate this Agreement with respect to any TAPS Carrier and each TAPS Carrier shall have the right to terminate its participation in this Agreement on thirty-days notice in writing to the other parties, sent no earlier than thirty days prior to the expiration of the two-year period. Thirty days following this notice, this Agreement shall be of no further force or effect between the TAPS Carrier and State." Interstate Agreement, Section I-8.

* * * *

"Unless otherwise provided, this Intrastate Agreement shall continue in full force and effect through 31 December 2011. Intrastate Agreement, Section III-12.

State and each TAPS Carrier shall each have the right at any time after 31 December 2006 to require renegotiation of this Intrastate Agreement. Renegotiation shall be initiated by written notice to the other parties. Following receipt of written notice, the parties shall negotiate in good faith, for a period not to exceed two years, the terms of a

new agreement. During the two-year period or until a renegotiated agreement is executed, this Intrastate Agreement shall remain in full force and effect. If a renegotiated agreement is not executed within the two-year period, State shall have the right to terminate this Intrastate Agreement with respect to any TAPS Carrier and each TAPS Carrier shall each have the right to terminate this Intrastate Agreement with respect to its participation in this Intrastate Agreement on thirty days notice in writing to the other parties, sent not earlier than thirty days prior to the expiration of the two-year period. Thirty days following any such notice of termination, this Intrastate Agreement shall be of no further force or effect between the TAPS Carrier and State. Intrastate Agreement, Section I-8."

2. The Parties agree as follows:

- TAPS tariffs have a significant impact upon the finances of all the Parties;
- TAPS tariffs have been a controversial and litigated topic throughout the life of TAPS;
- obtaining long-term durability of the Successor Agreement mechanisms is required by all Parties; the Parties agree to negotiate in good faith to determine the steps necessary to achieve durability; and
- the early discussion and negotiation of lawful Successor Agreements would benefit all of the Parties, would avoid the litigation that is otherwise anticipated, is consistent with sound public policy, and is in the best interest of the Parties and the public.

3. The Parties agree to negotiate in good faith regarding Successor Agreements relating to TAPS tariffs. The Parties agree that any Successor Agreements would be submitted as appropriate for review and approval by the Federal Energy Regulatory Commission and/or the Regulatory Commission of Alaska, and the Parties will take other steps, as appropriate, to fully implement the Successor Agreements and to ensure their durability and predictability.

4. This MOU shall be effective as of February 1, 2004 and shall continue for a period of not longer than two years from that date. The two-year negotiation period was selected in view of the complexity of the issues to be negotiated, and is consistent with the negotiation period provided for in the Interstate Agreement, Section I-8. In the event an agreement is reached, negotiations will end prior to the end of the two year period. Negotiations hereunder will begin

as soon as practicable after February 1, 2004, and no later than March 1, 2004. If an agreement is not reached during the two-year period of negotiation, the obligation to negotiate under this MOU expires. Nothing prevents the Parties from agreeing to extend this MOU and negotiations initiated under it. The Parties will negotiate at mutually agreeable times and places, and representatives of all Parties will be invited and encouraged to participate in all such negotiations.

5. In order to facilitate the joint negotiation preferred by the State, the TAPS Owners will form a TAPS Re-negotiation Committee ("Committee") governed by a separate agreement that will describe the governance and process of how joint activities of the Owners will be directed. This agreement will be available for review by the State upon its request. The Committee will meet at agreed upon times and places convenient to all members to work together on proposals for appropriate interstate and intrastate transportation tariff mechanisms for TAPS. The Committee shall work to reach consensus and make joint proposals and counterproposals to the State.

6. Notwithstanding the formation of the Committee, this MOU shall not prevent any TAPS Owner from having separate conversations with the State at any time in respect of its own interests concerning matters within the scope of this MOU, provided the Party initiating those separate conversations timely informs the other Parties. Upon notification that separate discussions are being held, the remaining Parties to this MOU may suspend or continue joint negotiations on behalf of the remaining Committee members.

7. The negotiations agreed to under this MOU do not amend any of the provisions of the TAPS Settlement Agreements now in effect, including the provisions set forth in paragraph 1 above. The time periods for renegotiation and termination provided for in the TAPS Settlement

Agreements remain enforceable, unless they are otherwise amended or superseded by the Parties. This MOU does not abrogate the timelines established in the existing TAPS Settlement Agreements, nor does it deprive any Party of any benefits or relieve any Party of any obligations under the TAPS Settlement Agreements.

8. Media Communications

The Parties shall periodically agree on a set of joint external media messages relating to the negotiations. Joint statements shall be approved by all Parties. Individual media communications by a Party to the media shall be limited to those made by the Governor of Alaska, the State Attorney General, a TAPS Owner's President or Vice-President, or a Party's authorized Public Affairs representative concerning that Party's goals and positions regarding the negotiations and shall make clear that such Party is speaking only for itself.

9. Confidentiality

All communications (whether oral, written, printed, pictorial or otherwise) provided by a Party to another Party in pursuit of Successor Agreements shall be treated by the receiving Party as confidential and may not be disclosed by the receiving Party or used for any purpose without the consent of the disclosing Party, other than for the pursuit, defense or enforcement of Successor Agreements, unless disclosure is required pursuant to compulsory legal process initiated by a third party or other applicable law or regulation. Notwithstanding the above, in the pursuit, defense and enforcement of Successor Agreements (i) each TAPS Owner may disclose communications to its ultimate parent corporation and to corporate affiliates controlled by its ultimate parent corporation and (ii) each Party may disclose communications to its attorneys and professional consultants. A Party disclosing communications under the preceding sentence shall be responsible for ensuring that each entity, attorney and consultant, to whom such Party makes

disclosures, maintains the confidentiality of the communications consistent with the terms of this agreement. If disclosure of any of these communications is sought by any third party pursuant to legal process or other applicable law or regulation, the Party from whom disclosure is sought shall promptly notify the Party who originated the communication before any disclosure is made so that the Party has an opportunity to take any appropriate legal action to assert its position with regard to the disclosure of the communication. The Parties agree not to seek through legal process internal communications or documents prepared solely for use in the negotiation of the Successor Agreements ("Internal Negotiation Documents"), except in connection with proceedings to enforce or construe the Successor Agreements.

10. Each Party shall be separately responsible for all costs incurred by such Party during these negotiations.

11. The Parties shall comply with all applicable Federal and State laws and regulations.

12. This MOU may be executed in separate and identical counterparts.

13. Each signatory to this Agreement is authorized to officially represent the Party on whose behalf she or he is executing this document with respect to the subject matter hereof.



Gregg D. Renkes
Attorney General
State of Alaska

Dated: 1/22/04

Margaret A. Yacge
President
Phillips Transportation Alaska, Inc.

Dated: _____

Albert N. Bolea
President
BP Pipelines (Alaska) Inc.

Dated: _____

Mike P. Tudor
President
ExxonMobil Pipeline Company

Dated: _____

John F. Oveson
Vice President
Unocal Pipeline Company

Dated: _____

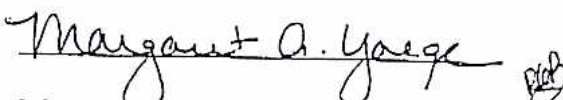
Karl Meyer
Vice President
Williams Alaska Pipeline Company, U.I.C

Dated: _____

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M. P. Tudor

Albert N. Bolea
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Dated: _____

Mike P. Tudor
President
ExxonMobil Pipeline Company

Dated: 1/29/04

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Unocal Pipeline Company

Dated: 1/23/04

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Williams Alaska Pipeline Company, LLC

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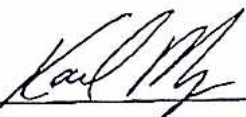
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ExxonMobil Pipeline Company

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John F. Oveson
Vice President
Unocal Pipeline Company

Dated: _____



Karl Meyer
Vice President
Williams Alaska Pipeline Company, LLC

Dated: 1/23/2004