



**Resource Development Council**  
**April 9, 2007**

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Wendy D. King  
ANS Gas Development Team

# Investing in Alaska Today

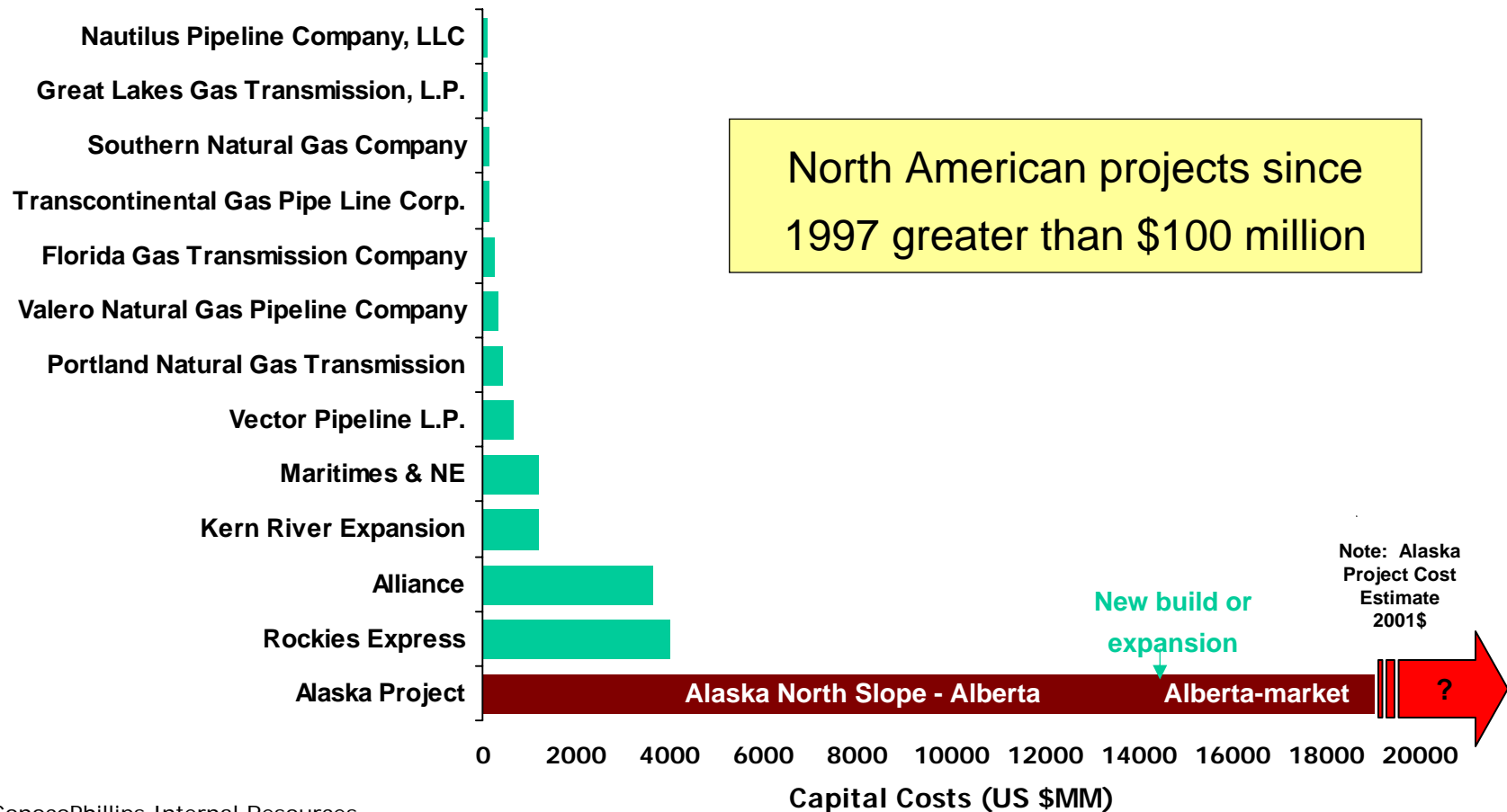
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- Alaska's #1 Oil Producer
  - 2006 production: 280,000 barrels of oil per day
- Alaska's #1 Gas Producer
  - 2006 production: 145 million cubic feet per day
  - Kenai LNG ~1200 uninterrupted LNG shipments since 1969
- Alaska's Leading Explorer
  - Largest acreage holder on ANS\*, 1.7MM net undeveloped acres
  - 60 wells since 1999, including 16 wells in NPRA
- Largest Industry Community Supporter
  - 2006 > \$12 Million Contributions
- 1,093 Employees
  - Annual Payroll over \$122 Million
  - Thousands of Induced and Indirect Jobs
- Largest Royalty and Taxpayer
  - 2006 Estimated Taxes and Royalties: \$2.1 Billion
- Alaska Capital and Operating Budget
  - More than \$12 Billion invested over past 10 years

\*Note: Federal and State Lands

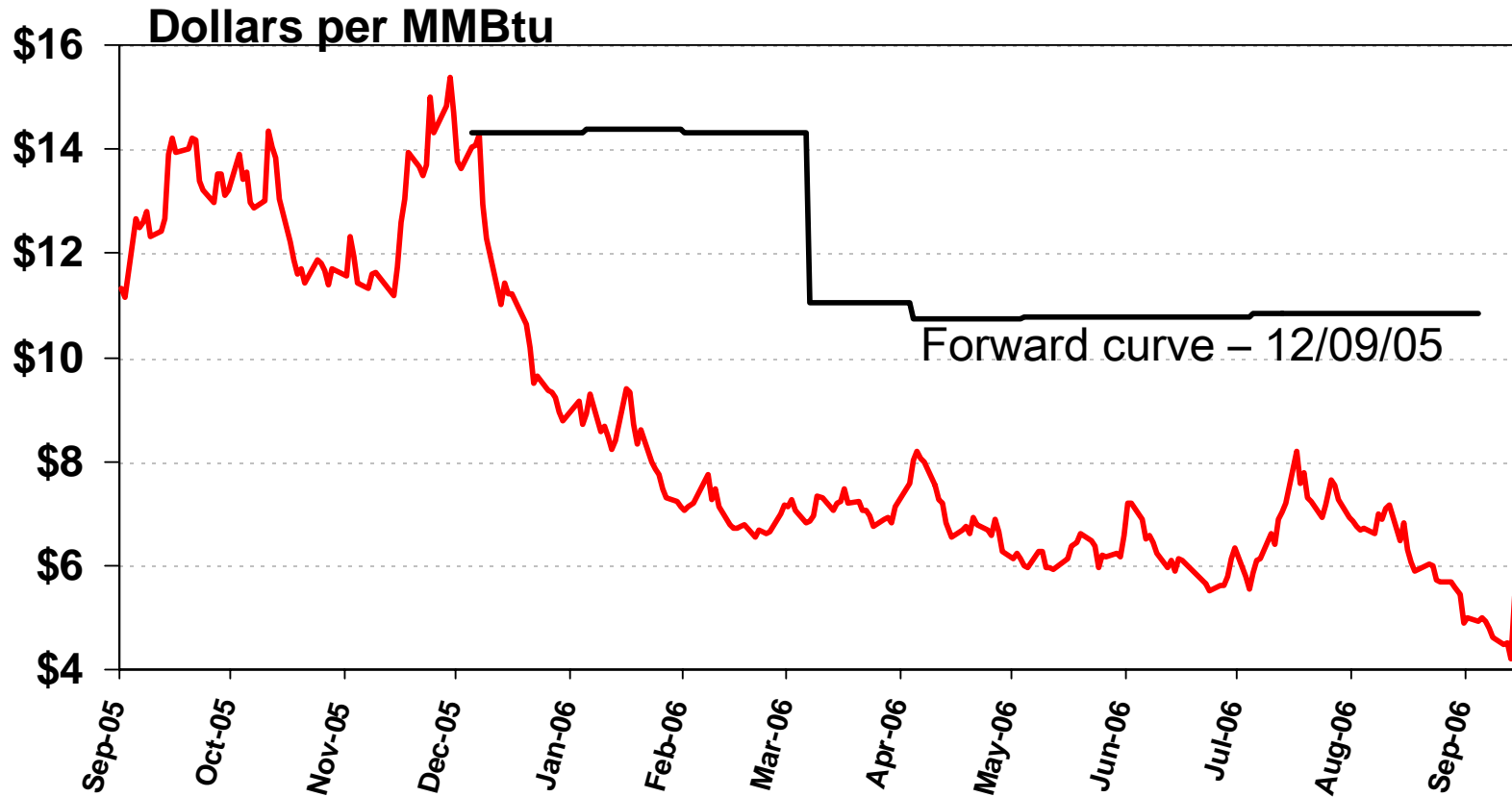
# What makes the Alaska Project Different?



Source: ConocoPhillips Internal Resources

*Alaska Gas Pipeline will be much larger / more difficult than other US/CAN pipelines. Size brings additional risk.*

# Predicting Natural Gas Prices



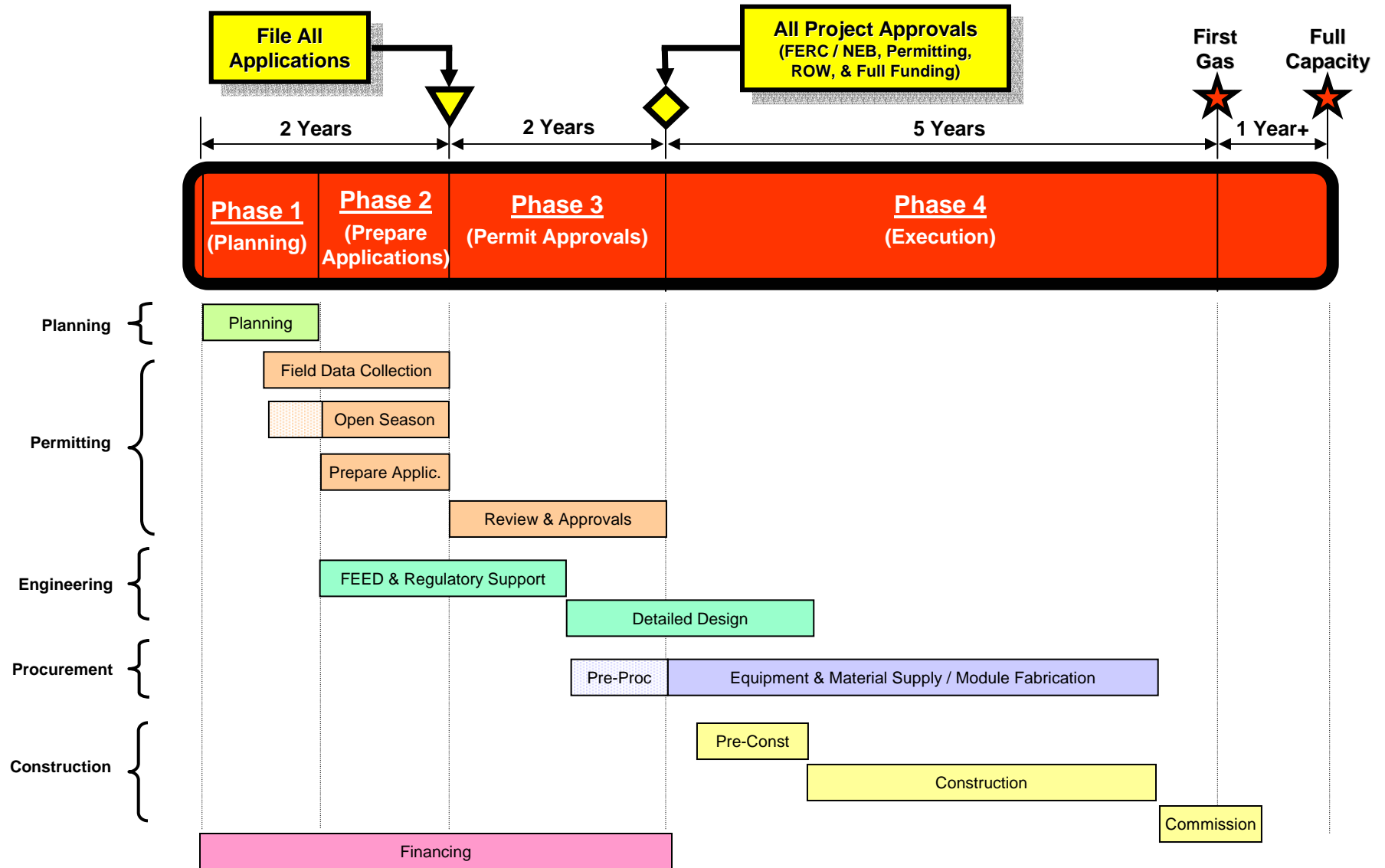
Source: New York Mercantile Exchange, Henry Hub Basis

# Why an Open Season?

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- Why shipping commitments?
  - Shippers agree to ship gas, or pay demand charges for fixed term
    - Allows pipeline company to repay its debt and obtain a return on its equity contribution
  - Commitments allow pipeline company to obtain financing – the commitments serve as collateral for the financing
- Why is Open Season critical?
  - Allows open access to pipeline
  - Demonstrates no discrimination
  - Required by ANGPA – Sec. 103(e)
  - Establishes the demand for capacity, which impacts size, design, and cost of the pipeline
  - Also supports determination of whether project is viable commercially and can get financing

# Success Case Project Timeline



# Proposed AGIA

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## Initial Concerns:

- AGIA structure hinders competition and creative alternatives
  - Exclusivity
    - Licensed Project Assurances clause creates significant barriers to alternatives and competition
    - State could pick the wrong winner and be tied up for over a decade
  - AGIA ‘bid requirements’ are too narrow, prescriptive, and could result in subsidization that may not even be in the State’s interests
- Resource terms not adequately addressed - clearly ‘not a negotiation’
  - Long term firm shipping commitments are key to a successful pipeline project

## Suggestions:

- Convert AGIA ‘bid requirements’ to ‘bid variables’
  - Allow proposals to include other commitments and inducements
  - Allow resource-owner applicants to propose packages with resource terms
- Amend exclusivity provisions to protect Alaska’s options
  - Avoid treble damages which might penalize Alaska for prudent actions
  - State impairing its future ability to agree resource terms in the future with AGIA
  - Coordinator and streamlined permitting should be available to any project, like ANGPA

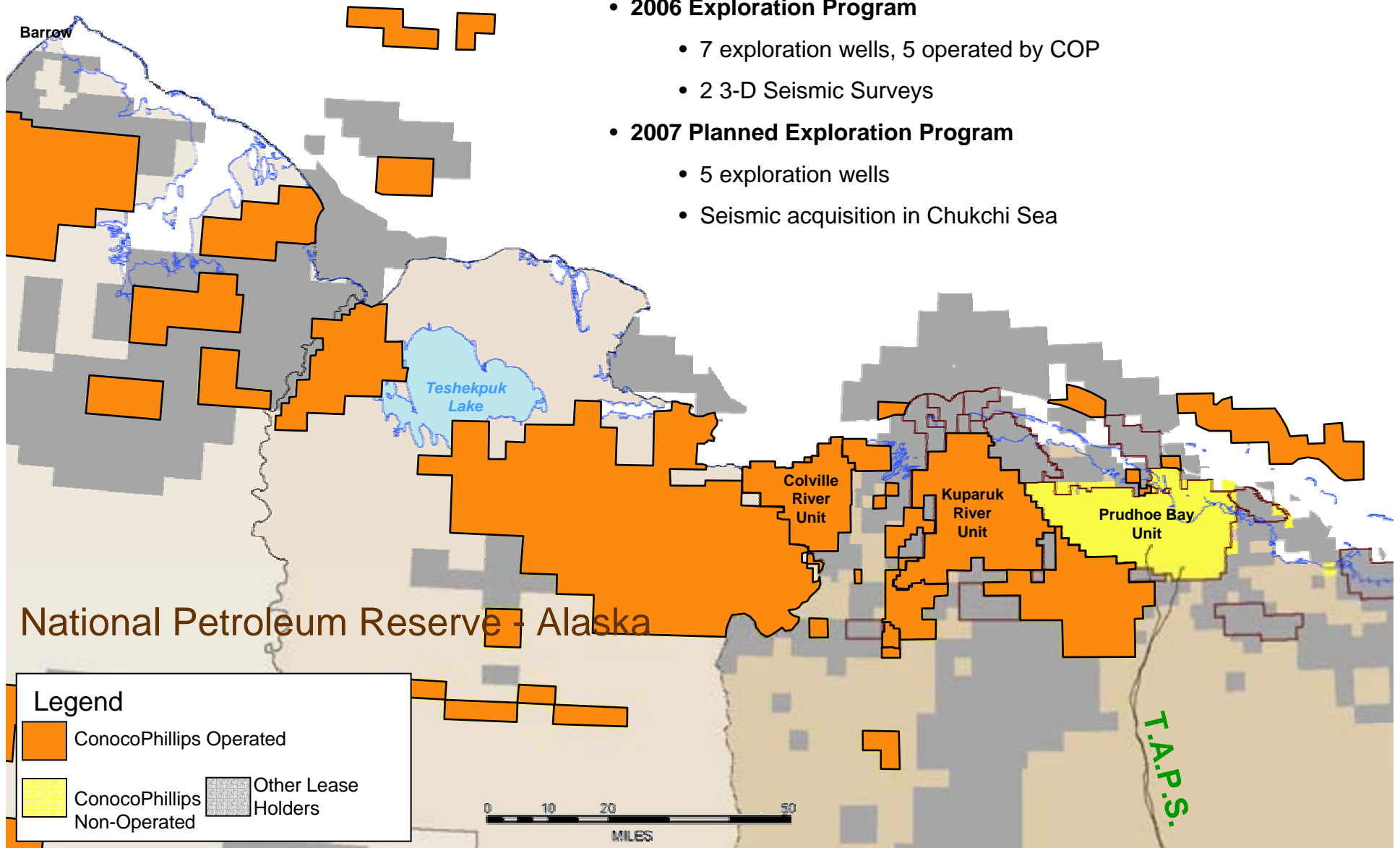
# Largest Base for North Slope Development

- **2006 Exploration Program**

- 7 exploration wells, 5 operated by COP
- 2 3-D Seismic Surveys

- **2007 Planned Exploration Program**

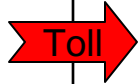
- 5 exploration wells
- Seismic acquisition in Chukchi Sea



National Petroleum Reserve - Alaska



# AGIA Project Risk Allocation

Project Risk	Pipeline Entity	Initial Shipper	Late Shipper
Upstream development and operating costs		XX	X
Gas reserves and deliverability		XX	XX
Increased State take over period of FT		XX	X
Increased tariffs from rolled-in rates on expansions		XX	X
Project delay causing increased costs	X	 XX	X
Obtaining shipping commitments from creditworthy parties	X		

*Risks are greater for initial shippers*

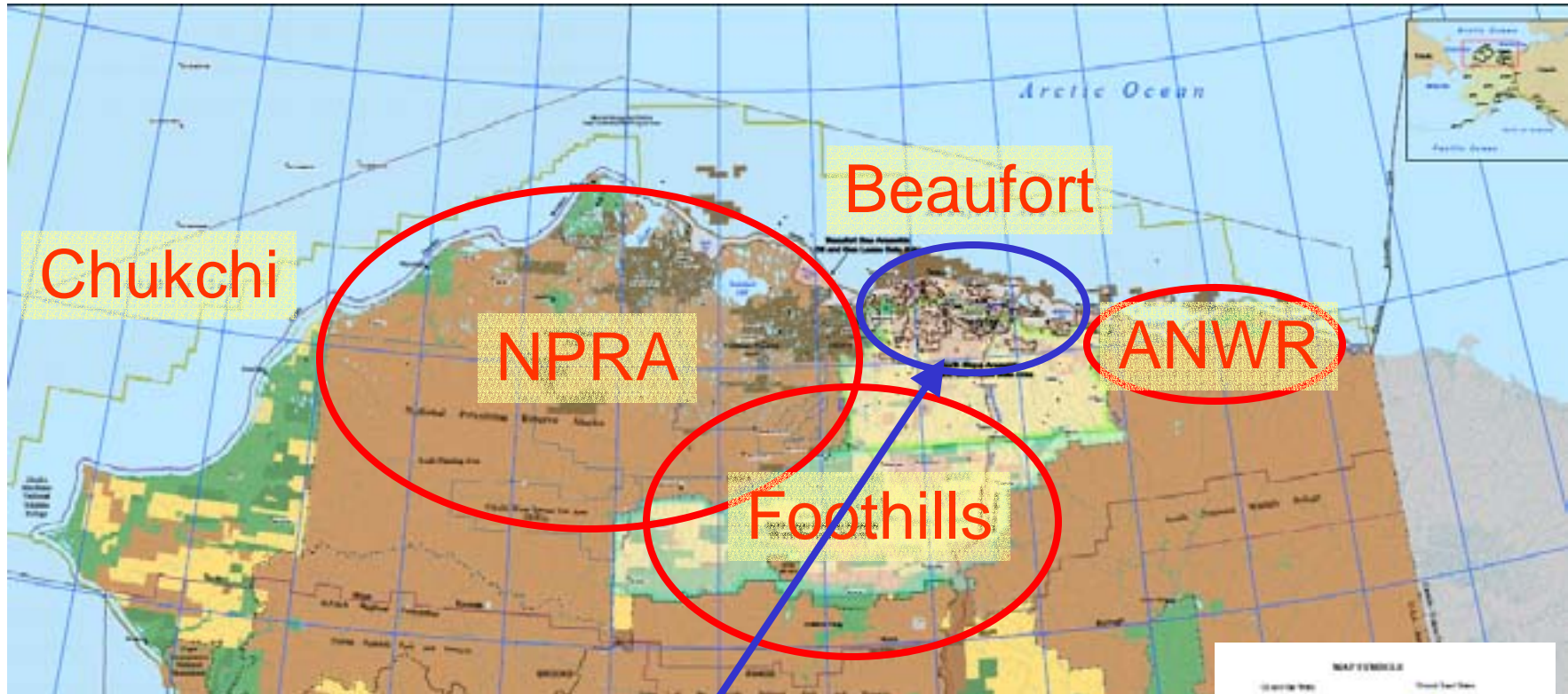
# Order 2005 on Rolled-in Rates

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*“In conclusion, to provide guidance to potential shippers in advance of the initial open season that is the subject of this rule, the Commission intends to harmonize both objectives (rate predictability for initial shippers and reductions of barriers to future exploration and production) in designing rates for future expansions of any Alaska natural gas transportation project. It is consistent with our guiding principle that competition favors all of the Commission’s customers, as well as with the objectives of the Act, **to adopt rolled-in treatment up to the point that would cause there to be a subsidy of expansion shippers by initial shippers, if any subsidy were to be found.**”*

– page 44, 18 CFR Part 157, Order No. 2005, 2/9/05

# Alaska's North Slope



Existing infrastructure  
predominantly on State Lands

# ANS Exploration Potential

	Acres	Range (5 – 95%)	State Royalty?	State Taxes?
State lands* (onshore & offshore)	15 million	24 – 45 TCF unassociated	Yes	Yes
Private lands* (mostly native)		3 – 6 TCF associated		Yes
<b>Federal onshore</b>				
1002 Area of ANWR	19 million	0 – 20 TCF	Shared Federal Royalty	Yes
NPRA	23 million	39 – 83 TCF	Shared Federal Royalty	Yes
<b>Federal OCS</b>				
Beaufort Sea		1 – 72 TCF		
Chukchi Sea		10 – 210 TCF		

\* Includes Foothills acreage

Source: USGS assessments for State (2005), ANWR (1998), NPRA (2002), Chukchi (2006), Beaufort (2006)

