

ALASKA GAS PIPELINE PROJECT

ALASKA GAS INDUCEMENT ACT (AGIA)



- *ExxonMobil Overview*
- *Project Risk*
- *Pipeline Access*
- *Financing and Who Bears Project Risks*
- *Importance of Predictable / Durable Fiscal Terms*
- *Feedback on AGIA / Way Forward Approach*

***Resource Development
Council Meeting***

April 9, 2007



ExxonMobil

ExxonMobil Today

- **Worldwide Operations**

- Business in nearly 200 countries and territories
- World's largest private oil and gas producer

- **Resources (oil-equivalent barrels)**

- Resource Base: 74 billion
- Proved Reserves: 22 billion

- **Daily Production**

- 2.7 million barrels of liquids
- 9.3 billion cubic feet of gas

- **Petroleum Product Sales**

- 8 million barrels/day
- 45 refineries in 26 countries
- 35,000 branded service stations
- Chemical sales in 150 countries

- **2006 Capital and Exploration Expenditures - \$20 billion**

- **Worldwide Leader in Technology – Over \$3 billion in research since 2002**



Alaska Oil and Gas History - ExxonMobil's Role

Over 50 years in Alaska - planning for 50 more.

- 1954 Conducted comprehensive study of oil and gas potential
- 1965 Partner in Granite Point discovery
- 1968 Partner in Prudhoe Bay discovery
- 1977 TAPS completed and PBU production began
ExxonMobil major gas discovery at Point Thomson (\$800 million spent to date by owners)
Alaska Natural Gas Transportation System (ANGTS) study
- 1983 PBU waterflood
- 1986 PBU Central Gas Facility (CGF); Lisburne field began production
- 1987 Endicott field began production
- 1988 ANS production peaks at 2 million BPD
- 1989 Valdez oil spill
 - + Spent \$2 billion on clean-up; paid \$300 million immediately to those impacted; paid \$1 billion to State/Federal governments
 - + Current lawsuit addresses punitive damages, not actual damages - lawsuit will follow the proper course
 - + Operations integrity management system put in place
- 1990-98 PBU gas expansions (GHX I/II); Pt. McIntyre, Satellite fields start-up
Alaska Liquefied Natural Gas Study
- 1998-00 ExxonMobil Gas to Liquids Conversion study
- 2001-06 Alaska Gas Pipeline study/negotiations

EM Production: ~150,000 BOPD

- **ExxonMobil has been a key player in Alaska oil industry development**
- **Extensive ExxonMobil technology applied to oil development and gas commercialization**
- **Alaska and ExxonMobil have benefited from this relationship**

40 Years of Arctic Experience

1966



1970's



1984



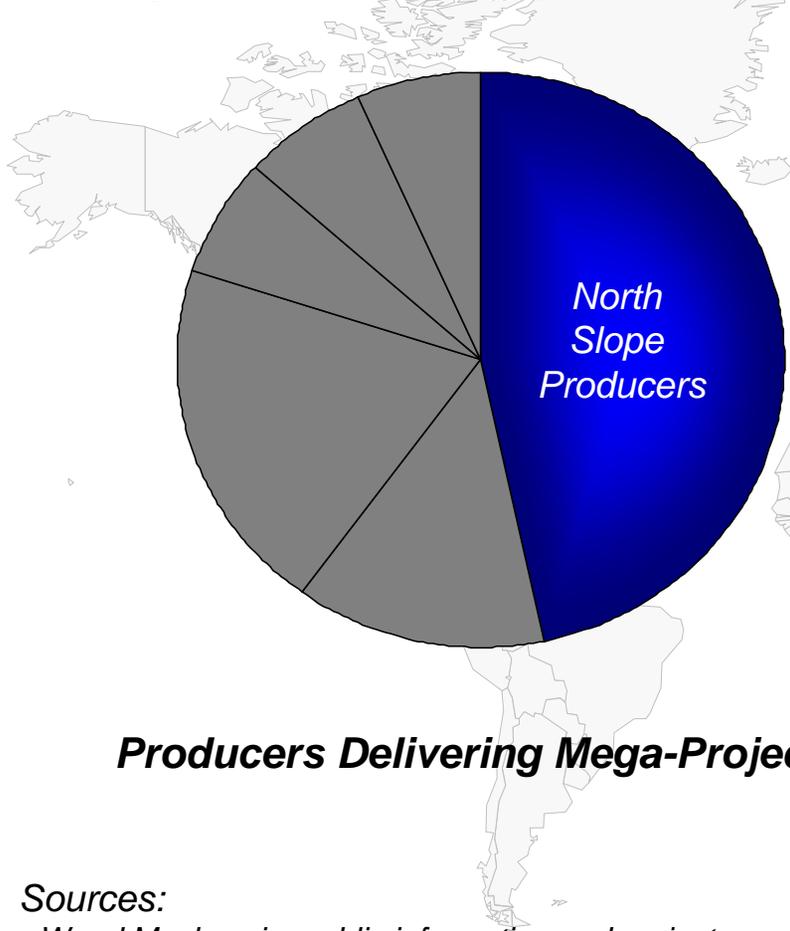
2005



- In 1966, ice resistant Granite Point Platform in Cook Inlet
- In 1970's, completion designs for permafrost for Prudhoe Bay field development
- In 1970's, combined hydraulic flow model and thermal simulator for design of TAPS
- In 1984, Concrete Island Drilling System (CIDS) to explore in Beaufort Sea - first mobile drilling platform in Beaufort
- In 1985, development of Norman Wells Field in Canada in the Mackenzie River area near the Arctic Circle
- Offshore Newfoundland, completed Hibernia platform, the first/only iceberg resistant offshore structure in the world
- In 2005, started up the Sakhalin 1 development in Russia where CIDS was reused and named Orlan
 - Producing 250,000 barrels of oil per day
 - Purpose-built tankers used year-round
 - Onshore drillsite set new industry limits for extended reach drilling in an Arctic and seismically active area

Experienced Project Management

Operators of Projects > \$5 Billion



Producers Delivering Mega-Projects

- ExxonMobil's global development company unique within industry
- ExxonMobil leads industry in project cost and schedule performance
- ~90% of ExxonMobil projects with costs >\$1 billion are delivered within 15% of estimated costs
- ~80% of those projects delivered within 15% of the funding schedule

Sources:

Wood Mackenzie, public information and project owner data.
Total of 15 projects >5B\$ 2001-10. Excludes companies owned by foreign governments.

ExxonMobil performance independently validated in report by Sanford C. Bernstein and Co. dated September 21, 2005

Project Risks / Factors Impacting Commercial Viability

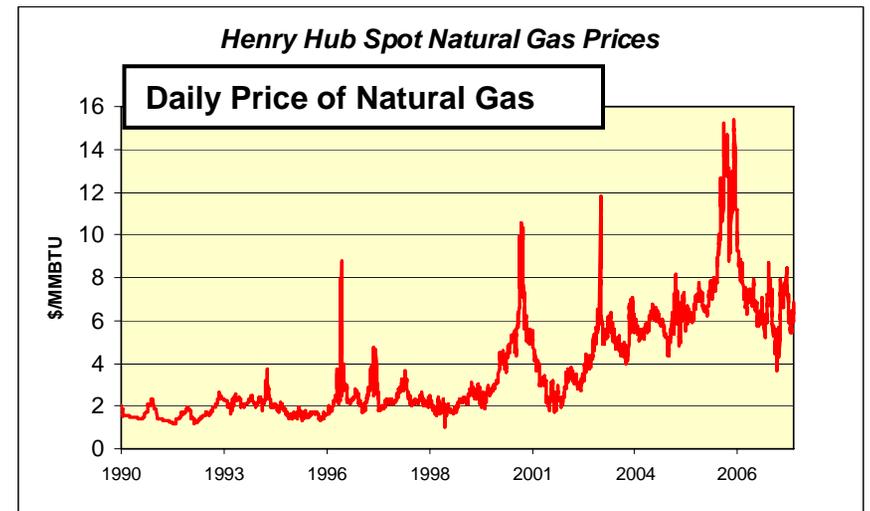
• Cost

- Previous \$20 billion (\$2001); cost estimate now substantially higher
- Since 2001, steel prices have nearly doubled
- Industry and construction labor costs experiencing hyperinflation
- Pressure from other world-wide projects requiring labor/material



• Price

- Despite recent increases, natural gas prices remain highly volatile
- Price before 2000 was less than estimated project toll
- No guarantee on future gas prices



On 9/29/06 HH Price = \$3.66/mmbtu, the lowest since 9/26/02

• Risks

- Cost-Overruns, Schedule, Market, Procurement, Construction, Resource, State Fiscal, Regulatory, Open Season, Commercial

Project Financing / Who Bears Project Risks

- **Firm transportation commitments required to underpin the project**
 - Pipeline owners are unlikely to finance or fund project without massive (\$10's of billions) firm, long-term, ship-or-pay contracts provided by parties that own and ship the gas (i.e., Producers and, directly or indirectly, the State)
 - Pipeline owners rely on financial strength of shippers to secure project financing
 - Producers cannot make firm commitments unless they are confident the gas pipeline project can be built and operated on a long-term, commercially viable basis, including being competitive with other sources of gas supply
- **Firm transportation shippers bear majority of project risks**
 - Pipeline owner risks mitigated by shippers' fixed transportation commitments
 - Through fixed transportation commitments, pipeline owners pass project cost and other risks to shippers
 - Parties taking the risks need to manage those risks
- **Producers and State have maximum incentive to control cost**
 - Low capital and operating costs key to lower toll **➡** higher netback value
 - No such incentive for third-party owners, who benefit from increased capital costs

Pipeline Access and Expansion

- **Recognize importance to the State, explorers and others of having access to the project so gas can be treated and transported to markets**
- **To ensure a project constructed, it must be commercially attractive to shippers at the time they make initial firm transportation commitments**
- **Producers (shippers) who must invest substantially to explore for, develop and produce gas resources will not be willing to enter into long-term financial commitments if they believe their initial rates could be significantly increased in the future to accommodate expansions**
- **Under the Alaska Natural Gas Pipeline Act, Congress struck what it determined was the proper balance between encouraging investment and providing an opportunity for future access to the pipeline**
 - **Because of the unique nature of the Alaska gas pipeline project, FERC approved unprecedented policies to enable FERC-mandated expansions to benefit explorers.**
- **The issue of how potential shippers access initial capacity and future expansion capacity, if needed, should be administered by the FERC for all elements of the project in the United States**
- **Sponsor Group only appealing FERC ability to mandate design changes; all other regulations in place**

Why a Predictable/Durable Fiscal Framework is Needed

- **Unprecedented Risks**
 - Project costs, gas prices and other factors
- **Producers willing to take geologic risks, development cost risks and commodity price risks – unwilling to take risk of fiscal terms changing**
 - Producers have developed industry leading expertise to manage geologic and development cost risks
 - Market risk is inevitable in a commodity business such as oil and gas
 - Fiscal risk is outside Producers' control...if fiscal terms can be changed in the future, then well-founded investment decisions cannot be made on behalf of shareholders
- **Investments must be made over a period of many years before any revenue is generated from those investments**
 - Increases in taxes on oil and gas related activities could significantly impact the commercial viability of the project and offset the benefits of taking on a project of this magnitude

Fiscal Framework Objective



Create a predictable and durable fiscal framework for oil and gas necessary to enable a commercially viable gas pipeline project that balances State and Producer needs.

Predictable:

- » State take is calculated in a way that is consistent and not open to interpretation.
- » State and Producer share of revenue clearly defined and calculated in a predictable and transparent manner to increase probability that a commercially viable project will be achieved.

Durable:

- » The terms agreed will last throughout the life of the project.

The Alaska Pipeline Project will be the largest private investment in North America - significantly larger than most 'model' worldwide oil and gas mega-projects

Feedback on AGIA

- **Alignment between the State and the leaseholders is essential to a basin opening project of this magnitude**
 - Establishing the right approach going forward is the most important activity for the Project at this time
 - Upstream and project issues must be resolved contemporaneously – the upstream pays for the construction of the project (midstream)
- **AGIA is too prescriptive in describing how to meet State objectives**
- **AGIA leaves too much to administrative discretion through regulation – uncertainty too great**
- **Any proposal should demonstrate how a successful open season would be achieved**
- **Upstream fiscal terms are not adequate to achieve a commercially viable project**
- **Current form of AGIA actually limits competition**

Proposed AGIA Approach

- **AGIA should establish broad objectives the State wants to achieve**
 - Not practical to address required fiscal term details in legislation

- **Allow applicants flexibility in meeting the State’s objectives and describing requirements necessary to make the project commercially viable**
 - Project proponents may have different needs and different approaches to achieve an acceptable outcome

- **Better define criteria to select a winning applicant**
 - Ability to deliver project
 - Value (revenue) to State
 - Plans to achieve State’s broad objectives
 - Including plans for obtaining financing and achieving a successful open season

Summary

- ***Predictable and durable fiscal terms on a \$20+ billion gas pipeline project are critical to ensure the commercial viability and advancement of the project***
- ***Producers (shippers) bear the risk of funding the gas pipeline project by providing firm transportation commitments***
- ***A Producer-owned pipeline will result in best value for the State and the Producers***
 - Producers have the experience and financial strength to construct / operate mega-projects
 - Parties taking risks need to manage those risks
 - Producers are motivated to develop resources by providing the lowest cost project maximizing value to State and Producers
- ***AGIA should establish broad objectives the State wants to achieve and allow applicants flexibility in meeting those objectives and describing requirements necessary to make the project commercially viable***