

Arctic Gas Symposium

Houston

November 18, 2002

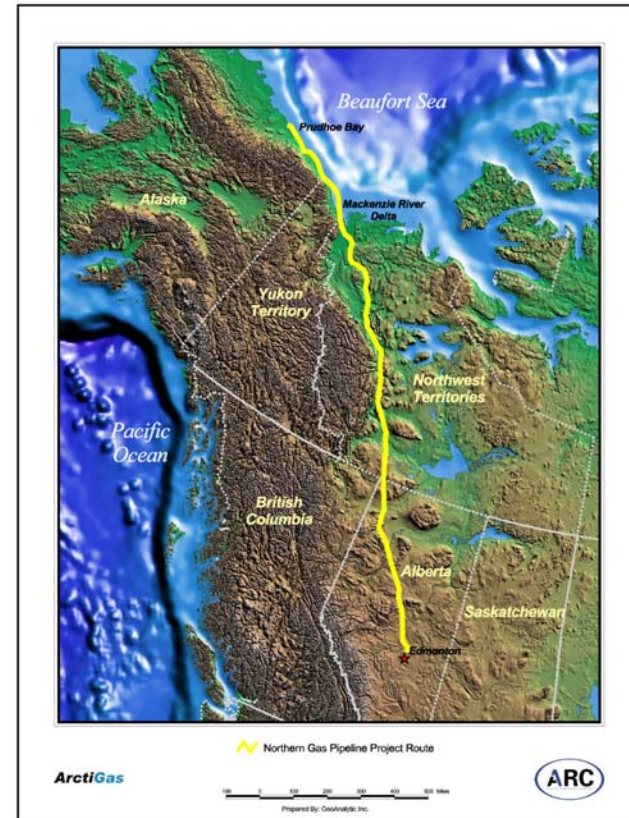
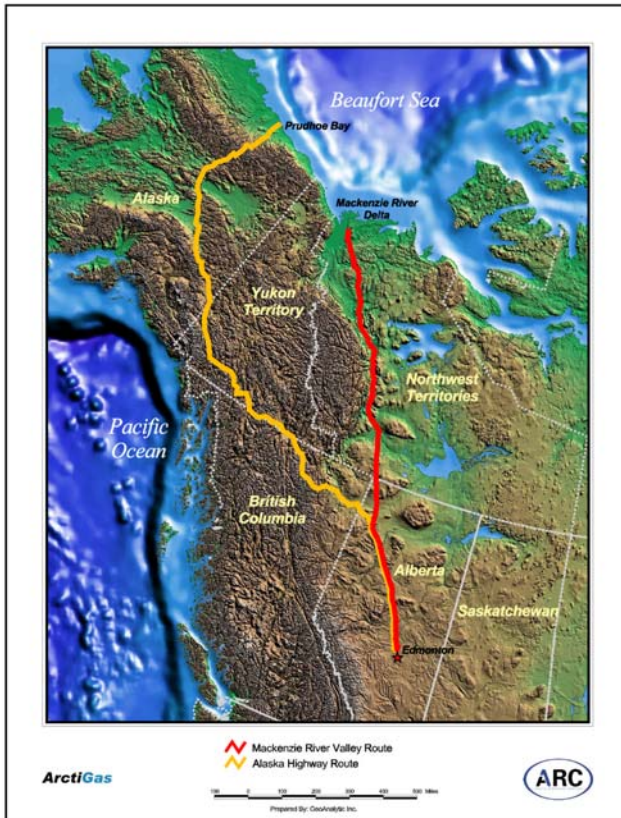
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The Prize

	Proven Reserves <u>(Tcf)</u>	Potential <u>(Tcf)</u>
Alaska		
North Slope	35	100
Canada		
Northwest Territories	9	60

Pipeline Options



Economic Comparisons

2 – Line Approach

	<u>Alaska Hwy</u>	<u>MVGP</u>	<u>Total</u>	<u>Northern Route</u>
Capital Construction Cost (US\$ Billion):	11.6 ^{1,3} +	3.0	= 14.6	7.8 ²
Capacity (after ramp up) (BCFD):	4.5 +	1.2	= 5.7	5.2
Length to Edmonton, AB (± Miles):	2,140 +	1,350	= 3,490	1,665
Mountains to Cross (± Miles):	900 +	0	= 900	0
Wellhead Netback (Mcf): (at US\$2.50/Mcf into Chicago)	\$0 to \$0.20	\$0 to \$0.10		\$0.75 to \$0.90

Keys:

- ✓ NGPP economic at \$2.50 Chicago price
- ✓ \$0.50 to \$0.75 North Slope differential price
- ✓ Northern Route creates tax revenues while other route must be subsidized

1. Alaskan Producer Study
2. NEB Filing – ArctiGas Resources Corp for Northern Route Gas Pipeline Corporation
3. Alaskan Producers just raised their estimates from \$6.8 billion to \$10.8 billion.

Arctic Gas Pipeline

What in Heaven's Name is Going On?

1. Most important energy project in North America: +160 Tcf.
2. Misinformation on project at high levels.

State of Alaska, major oil companies, gas pipeline companies primary sources

3. Alaskan Route against interests of ALL taxpayers, natural gas consumers, Canada, and other oil & gas companies. Alaska is essentially alone in trying to force a bad answer.

2002 Status

1. Alaskan Route Mandate - \$15 to \$45 Billion floor Price / Tax subsidy was considered in Energy Bill
2. Administration against both mandate and subsidy
3. Canada strongly objecting to Alaskan effort
4. Many group's (tax, consumer, media, political) openly against Alaskan effort

Pipeline Facts

1. Probably only source left for growth in natural gas supplies
2. One Northern pipeline that is $\frac{1}{2}$ the distance and $\frac{1}{2}$ the cost of Alaska's two uneconomic pipeline approach is obviously the best answer – "Look at the Map"
3. Everyone (including Alaska) gains from the one efficient pipeline answer

Alaskan Position

1. Want Alaskan Route – construction jobs, gas to Fairbanks, state pride
2. Uneconomic – Eager for U.S. taxpayers to foot the bill. May never get built
3. $\frac{2}{3}$ rd's of Alaskan line goes through Canada – but Alaskan actions sharply against Canadian interests
4. More State revenue, more exploration comes from lower cost Northern pipeline

Major Reserve Holders Not Supporting Northern Route

Alaska: 35 Tcf (ExxonMobil, BP, ConocoPhillips)

1. 2 of 3 prefer U.S. taxpayers paying for Alaskan answer. Don't want to buck Alaska
2. 25 years ago, Majors wanted Northern Route
3. Engineering study – 52-inch pipe - must spend \$19 to \$20 Billion, Alaska Southern Route versus the Northern Route about same toll need subsidies.

“ARC” - project is economic w/o subsidies, +50¢ Northern Route differential at the wellhead, Majors only need to spend \$3 Billion not \$20 Billion

Canada: 6 Tcf (Imperial Oil, ExxonMobil, ConocoPhillips, Shell)

1. Pushing Mackenzie Valley standalone pipeline – questionable economics w/o Alaskan reserves

“ARC” – bad strategy – encourages Alaska, hurts Canada if Alaska successful, 2 out of 3 majors want to go Alaskan way now

Why the Northern Route is Economic Now

	<u>Major Producer View</u>		<u>ARC View</u>		<u>Comments</u>
	Investment (\$ B)	Toll \$/Mcf	Investment (\$ B)	Toll* \$/Mcf	
Gas Treatment Plant	2.6	0.41	2.6	**	
Alaska – Alberta	10.8	1.28	--	0.80-0.90	100% Debt***
Alberta – Market	4.6	0.62	--	0.65	Open Season
NGL Extraction Facilities	0.6	-	0.6**	--	
Alaska Project Total	<u>18.6</u>	<u>2.31</u>	<u>3.6</u>	<u>1.45 – 1.55</u>	

Summary:

Majors view: \$2.31/mcf with \$18.6 billion investment – not a 15% return

ARC view: \$1.55/mcf with \$3.6 billion investment – well over a 15% return

* Investment Toll provided by Alaska Producer Group

** Producer Investment – doesn't belong in tariff

*** Cost of NGPP project \$7.8 billion



Gas Pipeline Companies

Not Supporting Northern Route because:

- Economic value left in old Alaskan pipeline effort
- Pipeliners will always prefer 2 pipelines over one – if taxpayers will subsidize
- Don't want to buck the Alaskan's or Major reserve holders

Canadian Aboriginals

Key to Getting the Pipeline Built

- 1. APG working with Canadian majors for Mackenzie Valley standalone pipeline**
 - Some parties signed non binding MOU
 - MOU requires C\$70 million up front costs. Total will be C\$1 Billion plus gas to gain 1/3 interest – little gas available, poor economics
 - MOU not applicable if Alaskan gas included
 - Apparently Canadian Government not approving financial guarantees to APG
- 2. Northern Route Gas Pipeline Corporation formed – 100% Canadian Aboriginal owned**
 - No investment required – significant Land Sponsor Fees
 - High likelihood of line eventually being built
 - Strong interest: terms & deal structure under review
 - Expect strong Aboriginal support, it is their chance to become self sufficient

Potential Problems with Northern Route

Offshore: Permits / Environment

- Sen. Murkowski – Northern project “better, but how can you get permits?” - Alaska creating most road blocks
- Alaska already approved Beaufort Sea pipeline construction - BP’s Northstar offshore oil and gas pipelines
- Major companies say Northern Route can be built safely, Enbridge agrees – no show stoppers
- Canadian regulatory procedures in place for offshore. MMS ready in U.S.
- Winter construction, (near shore) is cost efficient and eliminates whale issues
- Pipeline outside ANWR and Northern Yukon boundaries

Onshore:

- Berger Commission – 1977 – no environmental obstacles to a pipeline running through the Mackenzie Valley, provided that it is done responsibly



How can Win / Win Apply Economic, Environmental, Homeland Security

1. Pipeline Legislation not passed
2. Canada and the U.S. do a study to determine:
 - a. Most economic route
 - b. Best environmental route
 - c. Quickest to build
 - d. Route that doesn't cause conflict between countries
3. If Northern Route selected, Alaska will eventually join in order to monetize reserves. There will be a Political Consensus
4. High cost mandated projects never work. Lowest cost option always the best.