

Presentation to the Fairbanks Chamber of Commerce – Tuesday, November 3, 2009
Commissioner Tom Irwin – Alaska Department of Natural Resources

Thank you for the introduction

It is certainly a privilege to be back at a Greater Fairbanks Chamber of Commerce luncheon. I am proud of the times I have been a member and a board member of this organization. You accomplish great things for the Interior of Alaska and all of Alaska by supporting business and I encourage you to keep up this important work.

Background:

I am sure everyone in the room knows but it is always worth stating, we Alaskans have a very special relationship to our environment. The land is our back yard. We use it for recreation and subsistence. The land has provided our livelihood, for the people and for the state. Alaska is a land of amazing natural beauty, and the resources that underlie that beauty is what sustains our economy. We must and will continue to take care of both!

Responsible development, sustainable yield, and resource stewardship were written into the Constitution and Statutes when Alaska became a state 50 years ago, and have been part of how we have developed our natural resources ever since. When Alaska Statehood was being debated, a major worry of the US government was that the new and sparsely populated state would become a financial burden on the federal government. Instead, the new state moved forward to develop its resources. There

are no better examples than when the production of oil started through the TAPS line in 1977; and when the TAPS line production peaked at 2.1 million barrels of oil a day in 1988. This was approximately 24% of the nation's crude oil production. Because of ageing fields on the North Slope the current rate of production has declined to approximately 700,000 barrels/day, yet Alaska is still producing 14% of the oil production of the United States (this equals 4% of the oil consumption). Historically; royalty, tax, and lease payments from oil and gas production have provided approximately 90% of Alaska's unrestricted state revenue.

Significant work is being accomplished to slow the oil production decline. For example we see this in Conoco's exploration work, BP's Liberty Project and the work that BP is doing on heavy oil, the success of Pioneer with permitting and construction at their offshore Oooguruk field with start up in 2008 and their increase in oil reserves since start up, Eni's permitted offshore development at Nikaitchuq where they are constructing their own processing facilities, and Exxon Mobil's development of two wells at Point Thompson the first since the 1980s. All of these are critical to Alaska's future.

We also see continuing interest in Alaska's North Slope. The Department of Natural resources has maintained a priority on regularly scheduled lease sales around the state. Just last week a North Slope oil and gas lease sale was held and earned over \$8.5 million in bids and leased over 319,000 acres.

OCS

To continue providing oil to sustain TAPS operation,

income for Alaskans and Alaska, and a secure source of energy for the Nation, it is critical to maintain access to the Outer Continental Shelf (OCS) in Alaska. As Governor Parnell has announced, he and his administration will stay in a full-court press for as long as it takes to develop Alaska's OCS. Alaska accounts for a significant percentage of the nation's technically recoverable oil and gas resources. The Alaska OCS alone has an estimated potential of 130 trillion cubic feet of natural gas and 27 billion barrels of oil (by comparison the total oil production from Alaska's North Slope since construction of TAPS totals 15.5 billion barrels). I just recently sent a letter to Mr. John Goll, Regional Director, Minerals Management

Service (MMS), fully supporting Shell's proposed 2010 Outer Continental Shelf Lease Exploration Plan, Camden Bay, Alaska, in the Beaufort Sea. Shell has voluntarily taken actions that significantly reduces planned exploration, spent \$25 million retrofitting its drilling ship with best available technology to reduce air emissions, reduced ocean discharges for drilling operations to one percent of what is currently allowed in the Beaufort Sea, reduced vessels and vessel traffic and committed to stop drilling on August 25, 2010 and would not resume drilling until North Slope whalers meet their harvest quota. Shell has demonstrated its commitment to working with all parties involved. The state is also willing to work with all involved to see a successful drilling program in the OCS. And frankly it is time to go to work. MMS announced Oct 19 that it approved, with conditions, Shell's exploration plan but as a state we must stay on top of this issue. Some will push harder to stop drilling in the OCS. We need to remember that currently the US is importing 58% of its domestic energy needs. Under the most optimistic projections in the US with increasing use of renewable energy sources, oil and gas requirements are still projected to increase and account for nearly 65% of domestic energy consumption in 2025. The question then becomes should we shut down our economy, or should oil and gas production occur where environmental regulatory processes are comprehensive with stringent oversight and where the positive economic impacts are beneficial to Alaskans and the Nation? In answering this question the nation should know that Alaskan producers have decades of experience safely extracting oil and gas from our resource basins throughout the state, including Arctic Alaska. In fact 84 wells have already been successfully drilled in Alaska's OCS. Or the other side of the question, should production come from areas that could have regimes hostile to the US? That answer should be easy.

Gas Line: update

Undeniable progress is being made on the Alaska gasline. It was less than 3-years ago we were nowhere with a gasline project. Today, the projected date for first gas to market is just a little over eight years away. We need this for long term clean economic energy for Alaskans and for our nation, and for the economic well being of Alaska. Earlier this morning I participated in a press event via teleconference with Dr. Mark Myers, AGAI Coordinator, DOR Commissioner Pat Galvin, and Deputy Commissioner Marty Rutherford, who were in Anchorage.

The purpose of this press conference was to discuss the highlights of the AGIA Gasline progress report to the Alaska Legislature released on October 31, 2009. The report provides information on AGIA Reimbursements, Project Status, Alaska Workforce and Business Participation, Market Update and Cost Expectations, and Conclusions (the full report is posted on the AGIA website).

Conclusions from the report:

- 1) TC Alaska remains on schedule for completing the initial open season in July 2010. They are not "late" or "delayed" or "stalled": The project is right on schedule. The one exception is the pre-filing request submitted by TransCanada to the Federal Energy Regulatory Commission. This request was submitted and accepted one year **earlier** than anticipated in the AGIA license schedule. TC Alaska also remains committed to progressing to a FERC Certificate.
- 2) The projects efforts were significantly bolstered when Exxon Mobil entered into an interim project agreement with Trans Canada to develop the Alaska Pipeline Project (APP). This is exactly the type of commercial alignment which AGIA was developed to encourage. The two companies offer tremendous synergies to the APP. TransCanada, in my opinion the best gasline company in North America and arguably in the world for sub-arctic pipeline design and construction, has over 36,000 miles of wholly owned natural gas pipeline on this continent and delivers 20% of the natural gas consumed each day in North America – obviously producers ship on Trans Canada lines. ExxonMobil has world class project management expertise, extensive Gas Treatment Plant experience, and unparalleled financial capacity. The two companies have come together in a seamless fashion. This has allowed APP to accelerate their work resulting in a more refined open season design and cost estimate.

- 3) ExxonMobil brought not only their expertise but also the TAPS owner's information and a 2002 Alaska Gas Producer's Pipeline Team study to APP.
- 4) Engineering and field work continue to advance the project with over 100-full time employees (approximately 50% from TC Alaska and 50% from ExxonMobil).
- 5) The APP commercial team is now regularly engaged with potential shippers.
- 6) The economic downturn has caused a decrease in demand for natural gas at the same time that new supplies of Lower-48 unconventional gas entered the market. This has negatively impacted short term gas prices but not the longer term price forecasts which remain at levels that make the Alaska project very attractive.
- 7) To date TC Alaska has worked with 24 Alaska based companies and remains committed to meet the Alaska business and local hiring provisions of AGIA.
- 8) The AGIA Strategic Training Plan – to increase awareness of and training opportunities in natural resource development careers has identified 113 occupations necessary for gas line construction.

In the next few minutes I would like to discuss some of the misconceptions I hear or read that are being spread about AGIA.

- 1) The AGIA project is not progressing. We just don't hear about the progress. I refer to the Oct 31, 2009 progress report that I just summarized. Because of the project milestones guaranteed by AGIA, TransCanada, and ExxonMobil have been actively engaged in the more technical, less glamorous planning work that is necessary for any infrastructure project of this size. Far from the spotlight, without the expensive glossy advertisements or bells and whistles, the companies are working hard work to prepare for next year's open season. They have not been running expensive ads because that cost increases the tariff.
- 2) The AGIA open and transparent bid process was not successful. From my experience when you go out for bids, and when one or one hundred respond, and the "best qualified company bids and has the best terms and timelines, come on, in any business world that is successful.
- 3) The price of Natural Gas has dropped, unconventional sources of gas are increasing and the project is no longer economic. I have heard the same people expound awhile back that the Mackenzie project is either on and competes or is off so in either case the AGIA line won't work. Hard to deal with that logic. We are on the edge of a new era, where, yet again Alaska can take care of its future income and can be an important part of the solution to the state's and nation's clean energy problems. At a time when the nation is moving towards environmentally preferred energy sources and reliance on American energy, demand is going up, conventional supplies are declining and unconventional gas is expensive with environmental issues. Alaska has tremendous supplies of the right energy at the right time. We are planning gas to market in 2018. Other experts are currently predicting the same demand and price as the ranges used in the AGIA Findings and Determination.
- 4) The state is giving away \$500 million. The state is acting responsibly as a resource owner and is investing in it own resource development. The project is moving forward with firm time lines. It is not dependent on the priorities of others. We are getting provisions that protect Alaskan interests and future – high netback, lower project risk, diversity of exploration and development, as well as competition and fairness. This protects the states needs including an open access basin and an open access pipeline. Additionally the \$500 million will reduce the tariffs. This is one way Alaska's gas competes in a competitive market, low tariffs. The \$500 million is also paid back to us in lower tariffs for shipping Alaska gas. One other comment. I hear the Denali Project is spending \$600 million that the state doesn't have to pay. Again we will pay it in higher tariffs. It doesn't come free and it doesn't help in market competition.

- 5) When TransCanada was recommended for the AGIA license some, especially one of the producers and a couple of legislators, strongly and openly stated that TransCanada's past relationship and financial liabilities with former partners of the Alaskan Northwest Natural Gas Transportation Company would create such a large risk that they couldn't work with Trans Canada on this project. Legal analysis conducted during the AGIA application concluded these concerns to have little merit. TransCanada has resolved any outstanding issues with these withdrawn partners and it is a closed issue.
- 6) I hear we must go back to the LNG route instead of the route through Canada. Please read what is in AGIA and in Governor Palin's AO-242, and in TC Alaska's proposal and progress reports. Both the route through Canada to the US market and to Valdez and the LNG markets are included and are being designed by TC Alaska. The route will be selected on a commercial basis by the energy producers and consumers using a fair commercial process called an Open Season.

I encourage you to read the AGIA findings and Determination on the AGIA web site.

There are other items I would like to discuss today such as: economic energy for Alaskans; there are significant gas resources remaining in Cook Inlet; Pioneer Natural Resources is going back to conduct additional appraisal work on its Cosmopolitan prospect in Cook Inlet; alternative energy sources; the bullet line; employment in Alaska's oil patch remains high over 13,000 average monthly count through September as compared to roughly 12,700 average monthly count in 2008, the Alaska Mineral Industry value was over \$3 billion for the third year in a row, mining claims have increased this year to over 52,000, Red dog received its permits to develop their new ore body, Kensington progress continues, Fort Knox heap leach was permitted and operation has started; the AMA convention is this week in Anchorage and I wish them well, but time doesn't allow for more ---except

Alaskans can achieve anything when we are unified. Alaska has the experience, and the capability to develop its resources. Thank you for having me.