ALASKA STANDARD GAS APPLICATIONS, 3/31/04

ANNOUNCEMENT

Today in Senate Resources we will hold a hearing on Alaska Stranded Gas Act Applications. The topic will be **the relative benefits to the State of a gas pipeline built by an independent pipeline company versus a pipeline company affiliated with production companies**.

Testimony is by invitation only:

Kirk Morgan / VP & Project Manager
Alaska Gas Transmission Co./MidAmerican Energy Holdings

Joe Marushack – Conoco Phillips representing the Producers

Mark Hanley – Anadarko representing the explorers

All Legislators are invited to attend – meeting will be held in the Senate Finance Committee Room – from 3:30 to 5:30 p.m.

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Testimony of Joseph P. Marushack

Vice-President, ANS Gas Development

ConocoPhillips Alaska, Inc.

Senate Resources, March 31, 2004

"Is it in the State's best interest that an independent pipeline company own the Alaska Pipeline?"

Mr. Chairman and members of the Senate Resources Committee, my name is Joe Marushack with ConocoPhillips. With me on the phone is Ken Konrad of BP. Thank you for allowing me to address this question. I think the response to this question really has four very important components.

First, the only successful project will be the project that provides the lowest cost of service to market. Whether the pipeline company is affiliated or unaffiliated with gas shippers, producers or others is not the critical issue. The critical issue is getting the project developed. In this regard, what matters most is how much it costs to transport gas to market. The lowest-cost solution advances the State's best interests because it will provide the greatest royalty value, the greatest tax base, and the greatest incentive for exploration. From the producers' standpoint, the lowest cost of service project will maximize the value of the resource. And as a major exploration investor, we need a cost of service that is low enough to encourage further exploration.

One needs to consider the question, "Who is most interested in developing the lowest cost transportation system? Who wants to see the lowest possible tolls?" The answer: producers and the State want the lowest costs, because it means higher netbacks and higher revenues. A pipeline company does not necessarily share that incentive, because its profits come solely from the toll and the greater the investment the larger the return. But the impact to the producers and the State is a smaller netback.

Second, it is much too early for any one pipeline project or project sponsor to be committed to on an exclusive basis. The State needs to know which project will maximize the value of the State's resources. This needs to be an informed choice. We can't imagine that after so much interest in developing gas resources that the State would wish to sideline any party from attempting to develop a project.

You may also remember that one of the key factors we continue to pursue in Washington is the enabling legislation. That legislation would provide a clear regulatory process for the pipeline, and care has been taken to craft this legislation so that any project sponsor (not just the producers) could use it as the framework for the pipeline project.

Additionally, we have specifically requested of the State that any pipeline-specific terms negotiated under the SGDA be fully assignable to any party, including independent pipeline companies, to allow the widest possible participation.

The third issue is the extent to which ownership affects access to and management of the pipeline. Again, whether the pipeline company is affiliated or unaffiliated with the gas owners is not the critical issue. This pipeline will be regulated by FERC regardless of who owns the pipeline. FERC will insure that access is fair and that terms and conditions are consistent regardless of sponsor, and that rates of return to the pipeline owners are reasonable. FERC insures that the pipeline owners do not discriminate in providing access or administering expansions. This is an important point, as the producers' pipeline proposal envisions transporting

50 TCF or more over the project's life. Currently, only around 60%, or approximately 35 tcf, has been discovered on the North Slope. Thus,the producers' proposal is dependent on additional gas being discovered and accessing the line.

There would be no procedural difference between a producer-owned pipeline and an independent-owned pipeline. Under either case, the pipeline would be Open Access and regulated by the FERC and NEB. Open Access means that any party can purchase pipeline capacity without discrimination. This may include but is not limited to producers, Local Distribution Companies (LDC's), utilities, gas marketers, explorers, the State or even speculators. All that is needed is creditworthiness and a promise to pay for capacity. The FERC and NEB process for securing this capacity has been in place for many years. Additionally, FERC, in November 2003 issued new regulations which establish a code of conduct governing activities between FERC regulated gas pipelines and all of their energy affiliates. These new regulations require that firewalls be established between pipeline personnel and their other energy affiliates, including their producing affiliates and gas marketing affiliates. These rules recognize that pipeline operators may have affiliates that operate in other segments of the energy industry, and they are designed to ensure that pipelines nevertherless operate impartially.

Any mandate of ownership requirements at this stage does not make the project more likely, rather it threatens project viability. Indeed, FERC encourages competing pipeline proposals. FERC views this as helpful in developing a project that meets their obligation to protect the Nation's best interests. FERC recognizes that limiting project sponsors from competing may result in a poorer project or even no project at all. A recent example is the competing pipeline projects that have been proposed to transport re-gasified LNG from the Bahamas to Florida. FERC has approved both projects, relying on market forces to determine which project proceeds.

Fourth, and by no means least, is the whole question of allocation of risk. As explained, the producers are aligned with the State in ensuring the most efficient and lowest cost of service. Independent pipeline owners who do not have a stake in other parts of the value chain earn profits derived solely from the toll. Will these investors assume cost risk or simply pass that risk through to the State and the producers? There is potential for a lack of alignment that can further jeopardize the project. This is because neither the

State nor the shippers would be in a position to manage or limit cost overruns,yet we would remain liable for the overruns through the pipeline's rates. While there might be an opportunity to challenge the prudence of the pipeline's actions, the burden of proof would be on the challenger. This issue must be considered in the overall context of developing a viable pipeline project.

So in short, we believe that it is in the best interest of the State, the producers, and natural gas consumers that the process for developing a pipeline project be allowed to run its course under the terms of the Stranded Gas Development Act, without any grant of exclusive rights. As legislators looking out for Alaska's interests, we suggest that the key considerations are, which project:

- Has the lowest cost to market
- Ensures open access
- Includes risk sharing that supports project viability.

In the interest of time I will stop and look forward to responding to any questions you may have.

Alaska Gas Transmission Company

MidAmerican Energy Holdings Company	CIRI	Pacific Star Energy

Alaska's Natural Gas Pipeline

MidAmerican Energy Holdings Company and its subsidiary, Alaska Gas Transmission Company, have joined forces with an Alaska qualified sponsor group to facilitate the transportation of stranded natural gas from Alaska's North Slope to lower 48 and Canadian energy markets.

> Alaska Gas is pursuing project development in anticipation of a December 31, 2010, in-service date.

MidAmerican Energy Holdings Company, one of the country's largest interstate natural gas pipeline operators, is leading the project. MidAmerican is a Berkshire Hathaway affiliate. Two Alaska-owned companies, CIRI and Pacific Star Energy, LLC, are the other members of the project sponsor group. CIRI and Pacific Star Energy, LLC, would each hold up to 9.95 percent interest in the project. Consequently, up to 19.9 percent of all pipeline profits would stay in Alaska and flow through Alaska's economy.

In January 2004, the Alaska Department of Revenue accepted the Alaska Gas application to negotiate tax and financial terms with the state of Alaska under the Alaska Stranded Gas Development Act for authority to transport stranded North Slope natural gas to markets. Alaska Gas proposes to build a 48-inch high-pressure natural gas pipeline from the North Slope area near Alaska's Prudhoe Bay along the Trans-Alaska (oil) Pipeline System route and the Alaska Highway to the Alaska-Yukon border near Beaver Creek.

The proposed Alaska gas pipeline would connect at the border with a new, companion pipeline in Canada. This pipeline would be built by TransCanada's Foothills Pipe Lines Ltd. subsidiary and/or others. It could either be an extension of the existing Foothills pipeline or developed by other entities. Either way, the Canadian facilities would allow Alaska natural gas to move through multiple existing downstream pipeline systems to virtually every market center in the lower 48 states and Canada. It could also allow future development of hub distribution centers and gas lines to transport North Slope gas to Alaska.

"We have taken the first step toward getting stranded Alaska gas to Canada and the lower 48 United States. We look forward to working with the state of Alaska and continue to strongly encourage Congress to pass national energy legislation that will facilitate this project."

Bob Sluder
Preside t
Alaska Gas Transmission Company

"This agreement is the direct result of our long-held philosophy of cultivating relationships with outstanding business partners who are capable of executing complex transactions. This is an outstanding pipeline deal that will benefit all of Alaska."

Carl Marrs
President & CEO
CIRI

"Commercializing North Slope gas has been a dream that we Alaskans have had for more than three decades. This is an extremely exciting project that could generate significant value for the state of Alaska and all Alaskans."

Ken Thompson
President & CEO
Pacific Star Energy, LLC

MidAmerican Energy Holdings Company

MidAmerican Energy Holdings Company, an affiliate of Berkshire Hathaway, is based in Des Moines, Iowa, and is a privately owned global provider of energy services. Through its energy-related business platforms – CalEnergy Generation, Kern River Gas Transmission Company, Northern Natural Gas Company, MidAmerican Energy Company and CE Electric UK – MidAmerican provides electric and natural gas service to 5 million customers worldwide. Diversification and a vision for growth have forged an enterprise with some $19 billion in assets and $6.3 billion in annual revenues. MidAmerican employs 11,500 worldwide.

MidAmerican's interstate pipeline subsidiaries, Kern River and Northern Natural, own and operate more than 18,000 miles of pipeline facilities, making MidAmerican the second-largest interstate natural gas transmission company in the United States. MidAmerican continues to expand its investment in the energy industry through a combination of sensible and methodical acquisitions, growth of existing operations and development of new projects, such as the proposed Alaska gas pipeline.

Additional information about MidAmerican Energy Holdings Company and its businesses is available at www.midamerican.com.

CIRI

CIRI is one of 12 Alaska-based regional corporations established by Congress under the Alaska Native Claims Settlement Act of 1971. It has some 7,200 Alaska Native shareholders of Athabascan, Inupiat, Alutiiq, Aleut, Yup'ik and Tlingit/Haida/Tsimshian descent. CIRI is routinely counted among Alaska's most successful companies and has a diverse business portfolio including tourism and resorts, construction services, oilfield support, telecommunications, real estate and resource development projects.

CIRI has some $775 million in assets and average annual revenues of more than $246 million during the past five years. The diversified company's businesses include:

- Joint venture interests in **Alaska Interstate Construction, LLC**, and **Peak Oilfield Service Co.**, which provide construction and mining services, equipment maintenance and oilfield services primarily in Alaska.
- **Alaska Heritage Tours**, which features destinations that embody the vast wilderness and cultural spirit of the "Great Land." CIRI tourism products include lodging, transportation, sightseeing and adventure activities, as well as tour packages featuring Prince William Sound, Denali National Park and Kenai Fjords National Park.
- Outside of Alaska, CIRI is an investment partner in the **Hyatt Regency Lake Las Vegas Resort**, **The Ritz-Carlton, Lake Las Vegas** and **The Westin Kierland Resort & Spa** in Scottsdale, Arizona. CIRI also owns and operates the **Casino MonteLago** at MonteLago Village, Lake Las Vegas.

- CIRI has been a national success story for minority participation in radio and television broadcasting as well as in wireless and wireline telecommunications. CIRI's extraordinary success in wireless telephone investments began as a series of partnerships with **BellSouth Corp.** and **VoiceStream Wireless Corp.** These ventures, which operate digital wireless telephone networks in markets across the country, were based on strong partner relationships.
- CIRI is the largest private landowner in Alaska's Cook Inlet area, with holdings that include productive oil and gas acreage.

Additional information about CIRI and its businesses is available at www.ciri.com.

Pacific Star Energy LLC

Pacific Star Energy, or the "Alaska Natural Gas Consortium," is an Alaska company that was created to help develop Alaska natural gas projects. It is headed by former ARCO Alaska president Ken Thompson and jointly owned by top Alaska companies that today include:

- The Aleut Corporation
- Arctic Slope Regional Corporation
- Bering Straits Native Corporation
- Bristol Bay Native Corporation
- Calista Corporation
- Chugach Alaska Corporation
- CIRI
- Doyon, Limited
- Koniag, Inc.
- NANA Development Corporation
- Pacific Rim Leadership Development LLC
- Sealaska Corporation
- The 13th Regional Corporation

Pacific Star's mission is to pool resources from Alaska investors so that it is financially able to develop Alaska natural gas projects that will benefit Alaskans. The company's corporate vision is to reinvest profits from its gas projects to develop additional Alaska natural gas infrastructure. It plans to:

- Invest in North Slope gas development and marketing
- Assist gas project development in obtaining pipeline permits across Native and other lands
- Assist gas projects in government and other stakeholder relations
- Keep significant Alaska natural gas project profits in the state
- Foster Alaska natural gas distribution and use
- Develop Alaska natural gas value-added processing
- Enhance Alaska-hire employment opportunities

Project Facts

- Alaska's North Slope has more than 35 trillion cubic feet of proven natural gas reserves and more than 100 trillion cubic feet of potential reserves.

- Alaska natural gas development has been hampered by the difficulty and expense of transporting gas from remote North Slope wells to major Outside markets.

- North American natural gas supplies are declining more steeply than expected, and demand is steadily increasing. Natural gas is now used for cooking and heating in 70 percent of U.S. homes. It also supplies 40 percent of U.S. industrial energy needs and is the most popular energy source for new and existing electricity generation plants.

- The proposed Alaska Gas pipeline would follow the 745-mile "Alaska Highway" route approved by Congress in the Alaska Natural Gas Transportation Act of 1976.

- The pipeline would initially be designed to carry 4.5 Bcf/d of natural gas at an operating pressure of 2,500 psig.

- The current system design includes six compressor stations that would use gas turbine compressors rated collectively at 256,000 ISO horsepower.

- The proposed Alaska gas pipeline is estimated to involve direct costs of $6.3 billion (2002 dollars).

- The overall project is dependent upon local, state, federal and Canadian regulatory approvals.

Alaska Gas is pursuing project development in anticipation of a December 31, 2010, in-service date.

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