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Testimony of
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I want to thank the Committee for the opportunity to discuss Exxon's Alaska activities. I know you have heard from Arco and BP, and we are involved in many of the near-term activities they have highlighted.

I want to focus on the investment climate and a couple of future opportunities, but first let me provide a brief background of Exxon in Alaska. While some of you on the Committee have heard me describe this before, I hope it will be useful for new members.

Exxon has had a long-term presence in Alaska, beginning about 45 years ago with the initiation of fieldwork and a comprehensive study of the territory's oil and gas potential. In September of 1964, we entered into the Arctic Slope Agreement with Arco's predecessor, the Richfield Oil Corporation, forming a close joint venture that continues to this day. Exxon and Arco jointly participated in lease sales and exploration drilling, culminating in the Arco-Exxon Prudhoe Bay State #1, the January 1968 discovery well.

Since then, there have been many success stories in Alaskan North Slope development and Exxon has been an active participant in most of them. Through the years, we have drawn on our worldwide development and operations experience, research and technical resources, and strong financial position to help meet the various technical, environmental, and other challenges of petroleum development in Alaska.

A few of you may not be aware of Exxon's overall interests on the North Slope. Similar to Arco, we have a 22% working interest in the Prudhoe Bay oil rim and 43% in the gas cap, as well as 40% in Lisburne. We are the largest interest holder in Pt. McIntyre at almost 38%. At Endicott, we hold a 21% interest. Through our co-ownership of leases with Arco, we also have a significant interest in the Niakuk Field and the satellite opportunities around Prudhoe Bay. In addition, Exxon Pipeline Company owns a 20% share of the Trans Alaska Pipeline System.

Our share of the North Slope production is about 225,000 barrels per day, providing about 40% of our total U.S. liquids rate. Commercializing Alaska gas is of great interest to Exxon, as it represents about 1/2 of our total U.S. natural gas resource. I know you are also interested in our gas commercialization activities and I plan to highlight them in a moment.

Over the years, we have participated in the exploration of most of the major plays here in Alaska. During the past 45 years, we have invested over \$9.5 billion on our Alaska business.

There are a wide range of views as to how long the current crude prices will remain, and to what level they will return. Obviously, no one can be certain. Two years ago, who foresaw these current prices? Ours is a capital intensive business in which we must manage risk. For an operation to be viable, it is imperative that one pursue quality investment opportunities. By that, I mean the lowest cost, highest productivity opportunities, that have a reward commensurate with the risk. Risk includes technical and fiscal risk. Your efforts to balance the budget and maintain a stable fiscal environment are important in reducing part of the risk.

In this environment, it is clear that only the highest quality opportunities will be viable enough to pursue. We are committed to working on those things within our control to reduce technical risk and cost.

We are looking at the same portfolio of near-term opportunities as the operators. Like them, spending in 1999 will include the completion of the larger projects. Spending on drilling will no doubt be down as economic opportunities are more difficult to identify in this low price environment. We will continue to work closely with Arco and BP to maintain the profitability of our existing assets through efficiency improvements and capturing those opportunities that are economic.

Except for Point Thomson, we do not operate properties here in Alaska, and consequently have a comparatively small statewide presence of around 25 employees based with me in Anchorage, filling a unique role. Through our network of employees dedicated to Alaska, both here and in Houston, we tap our worldwide upstream experience and research capabilities to make major contributions to the viability and success of the North Slope fields. Through the various unit forums and technical teams as well as the occasional placement of senior Exxon engineers and geologists within operators' organizations, we work closely with Arco and BP.

Let me now move on to one of our future opportunities, Point Thomson.

Point Thomson is primarily a large, deep, high-pressure gas/condensate reservoir located about 60 miles to the east of Prudhoe Bay and adjacent to ANWR. Since its discovery, Exxon alone has invested some \$400 million at Point Thomson, with most going for leases and drilling. We have investigated various development options, including gas cycling, which would allow for the production of the condensate, with the gas remaining available for a potential future sale.

Although obvious when we think about it, it is also important to remember when discussing this field, that unlike Prudhoe Bay and the other producing fields on the North Slope, there is no infrastructure in place at Point Thomson. Gas sales economics, for instance, would have to support not only the cost of a pipeline and facilities to get the gas to market, but also the significant upstream investment in wells and other facilities. In combination with the various technical issues associated with such a deep, high-pressure reservoir, this has made Point Thomson a very risky and economically challenging development opportunity.

The Unit team, led by Exxon as operator, continues to further define development options. Building on the consensus reservoir modeling done a couple of years ago, the Unit has shared some additional proprietary information that each of us has held separately.

Additional reservoir studies are underway in an effort to better understand the technical challenges associated with cycling this high-pressure gas resource. In order to make this development attractive, we must also get the costs down through drilling fewer, longer reach, but higher rate wells.

We are also in the second phase of a significant effort to optimize and redesign the necessary facilities for Point Thomson.

The Unit team is also developing a consensus view of the shallow oil potential in the Point Thomson area. While not offering as significant potential as the gas reservoir, we want to capture any co-development synergies that might exist.

While the current state of world oil and gas prices make Point Thomson even tougher to develop, we are continuing our search for an economically viable solution.

One of our most significant future development opportunities in Alaska is North Slope gas. We have looked at options involving a pipeline to the lower 48, a potential LNG project targeting the Far East market, and more recently the application of our proprietary Gas to Liquids conversion technology.

Despite our significant efforts and investment over many years, we have yet to find an economic gas commercialization option. Exxon, alone, has spent over \$110 million on this effort.

As most of you know, over the last few years, the most commonly discussed option is a 14 million metric tons per year LNG project with an 800-mile long pipeline to Valdez. Through our studies, we were able to narrow the estimated cost to \$12-15 billion. In Exxon's view, even at the lower end of this range, an Alaskan LNG project following this scenario would not be economic and competitive in the market place.

We are not alone in our views. The state's fiscal consultant, Dr. Pedro Van Meurs, said that, "In order to make the Alaska North Slope LNG project economic, three objectives have to be achieved: 1) the costs of the project have to be reduced substantially; 2) the profitability of the project has to be improved through a fiscal package in which federal, state, and local governments cooperate; 3) the risks of the project have to be considerably reduced." The risks he addressed include such things as gas price, cost overruns, fiscal stability, and market access.

As you are aware, having buyers for the LNG is critical to being able to proceed with a project. As stated recently in the Gas Matters publication (August 1998): "The realities are stark. People are pushing back the hoped for start-dates for their projects because it has become abundantly clear that the present market climate is not right for the signing of new long-term contracts. Today's markets are long on LNG, short on buyers, and the near future looks to be one of ultra-low prices." We have even seen low-cost expansion projects such as Northwest Shelf and MLNG3 delayed, as those projects have been unable to secure buyers. Once market conditions do improve, there are 13 potential LNG projects with 90 million metric tons per year of capacity competing for that market. Just like any consumer, those buyers will be looking for the best price, whether it be for LNG or for other fuels they can use to generate electricity.

Let me wrap up today with a few remarks on Exxon's Gas to Liquids technology and the work we have underway to evaluate its potential application in Alaska. Gas to Liquids technology, or GTL, as it is commonly called, is one of the most active areas of research throughout the industry.

Exxon alone has spent over \$300 million in research to drive down GTL plant costs. Since 1987, the manufacturing cost for a GTL plant using our proprietary process has been reduced by 50%.

Exxon's GTL process is technically ready for commercial application. We now have 400 U.S. and 1,500 international patents on our technology. Even though Exxon's process is ready for commercial application, we are continually improving the process with a research effort of \$40-50 million per year.

One reason for considering GTL for Alaska is that the GTL products would have a larger market than LNG. GTL is sold into the worldwide liquids market and therefore not limited to the site-specific LNG end-users where long-term take-or-pay agreements are required. The challenges of marketing LNG – where it would represent 25% of the current market – are much more formidable than marketing GTL products.

Another reason for considering GTL for Alaska is the economic value that a GTL project could provide. Although the process is less thermally efficient than LNG, the product can be upgraded for sale into the higher value transportation markets and is shipped on conventional tankers rather than high-cost, specifically designed LNG tankers. We, as well as the State of Alaska, could realize similar revenue at Valdez with GTL or LNG.

While our continuing research is underway for worldwide application, Exxon has also initiated an Alaska site-specific study looking at issues such as gas composition, arctic environment, module layout, use of the TAPS line to ship the GTL product, and infrastructure sharing. As with LNG, the economics of an Alaskan application of our GTL technology is very much site-specific. Of course an important factor in the economics is the state's fiscal system, both the level of government take and the certainty of those terms. While fiscal stability is important to near term business, it is imperative for long-term gas commercialization projects.

Exxon plans to continue to consider both LNG and Gas to Liquids options. As a result of many years of study, the LNG option for Alaska is more thoroughly understood than Gas to Liquids. Therefore, quite frankly, Exxon will direct more of its near-term focus to better defining a GTL scenario for Alaska.

While you may hear a lot about GTL research, which may lead you to believe that a full-scale plant is several decades away, that is not the case. Exxon's GTL process is demonstrated technology if the economics can be made to work. While we do not yet see an Alaskan GTL project as economic, it is only prudent that Exxon investigate all potential options for Alaska gas commercialization. We hope that Alaska will keep its options open as continued progress is made on all fronts of technology development.

I did not take the time today to go through the details of Exxon's process, since I know many of you have heard that description and some have actually seen our demonstration plant in Baton Rouge, Louisiana.

In conclusion, while I have focused on our future development opportunities, I do not mean for that to send a signal that we are not concerned about the near-term. I knew Arco and BP, who actually operate the fields, would focus on many of the near-term issues. We fully support their efforts to reduce costs and make their operations as efficient as possible. While that is always important, it is especially critical in difficult times like these.

As you heard at the Economic Forum, most of the resource industries in Alaska are facing difficult times. You and your colleagues in the rest of the House and the Senate have a critical task ahead of you in finding the optimum balance between providing the necessary and fundamental services and how to pay for those services. Effectively dealing with the budget gap will send an important positive signal to the business community. Stability and certainty of the State's tax structure is also an important consideration for all investments. I appreciate the comments made by members of this committee, others in the Legislature, and the Administration, that you recognize this as well.

Thank you for your time today and I will be glad to try to answer any questions you have.