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*Perspectives and Challenges to Arctic Development*

The topic for today's panel is too easy.

The world knows the Arctic has billions of barrels of oil and trillions of cubic feet of natural gas. But the investors we want to attract — and our competitors for those investment dollars — also know those reserves are far, far away from potential customers. They know what we really lack, what we really want, is a pipeline to move our vast natural gas resources to market.

The oil and gas industry and our political leaders know there are significant hurdles to overcome before we can fulfill our dreams and create economic prosperity for the Arctic region. The environmental concerns are real; the technical challenges are real; the rights and values of indigenous peoples are real; the economic risks of investing in oil and gas development in the Arctic are real — especially when the decision is whether to invest billions of dollars today in the hope that your project comes in on time and on budget, and that natural gas prices will be high enough to cover the costs when that first Btu flows through the pipeline maybe a decade later.

And the industry knows the regulatory process can be longer than an Arctic winter.

All of that is what the oil and gas industry considers when it picks a project for its next investment, and those are our challenges.

All of which also means our competitors, our detractors, and even some of our friends in our own countries find it far too easy to dismiss our potential. Specifically, too many of them believe the Arctic gas pipelines are dreams, not reality.

We need to prove them wrong.

If the people of the Arctic want development to happen, we must be realistic. Many in the oil and gas industry look north and believe we are not always unified in our effort to bring responsible development to the Arctic. They believe government policies are inconsistent at times.

They worry that the region expects too much from industry, that we add too much risk to already risky ventures. We must remember to count the indirect benefits just as we count the tax dollars.

We need to understand the economic risks of Arctic oil and gas development. We have high costs, short work seasons, extreme winters and some of the most environmentally sensitive ground (and waters) on the planet. All of that — and our distance to market, a market

oversupplied with natural gas at the moment — is why many are betting against the Arctic gas lines.

Those are the challenges we face, but I believe the federal, territorial, provincial and state governments of the North American Arctic are up to the task.

We are in this together. This is not a race between the Alaska and Mackenzie gas line projects, but rather a test against those who believe the costs and hurdles of Arctic development are insurmountable. The Mackenzie and Alaska projects are partners in studying and passing that test.

The first test is market demand.

Assuming the world can get out of the economic hole we've dug for ourselves, I expect we will see an increase in North American demand for natural gas. Shale gas, while presenting a formidable competitor in the market, actually could help build demand for gas by removing the fear of price spikes. Utilities cannot live with the worry that gas could jump to \$14 again, as it did two summers ago. Stable pricing could lead to higher demand if power generators select gas as their fuel of choice.

Assuming the world begins to deal more forcefully with greenhouse gases, we will need more natural gas to power our homes and businesses and factories with clean-burning energy. Investors will be more willing to put their money into Arctic natural gas pipelines if they see significant, long-term growth prospects in North American gas markets. That demand growth is essential if Arctic gas is to ever come out of the ground and into a pipe.

Northwest Territories Industry Minister Robert McLeod had it right when he spoke last week at the American Gas Association's Natural Gas Roundtable. Demand growth will drive investment decisions. "We will require supplies from all potential sources to meet growing energy demand. In this way, Arctic gas could play an important transitional role in moving us toward a greener economy."

In addition to counting on demand growth to sell our gas, we also need to encourage the use of natural gas to save ourselves in the Arctic.

The effects of climate change are felt by the people in the Arctic every day. The Anchorage Daily News reported last week on the effect of global warming on the Inupiat way of life. The people of the North Slope have long relied on the permafrost as a natural freezer for their muktuk. Now, the ground is warming and they can't count on it to keep their food frozen year-round.

President Obama gets it. He wants Congress to get with it too by passing comprehensive energy legislation to reduce greenhouse gas emissions. He knows natural gas is part of the solution, a cleaner-burning solution. And he fully understands the value of Arctic gas to meeting North America's economic and energy needs.

I am relatively new to the Obama administration. I was confirmed in March of this year. Although the title of my office is long and convoluted, the mission is not. The Office of Federal Coordinator for Alaska Natural Gas Transportation Projects is responsible for expediting and coordinated U.S. federal permitting for an Alaska natural gas pipeline, stretching 1,700 miles from Alaska's North Slope to Alberta and stretching investors' wallets at an estimated \$35 billion.

The government can't control the risks of steel prices, labor costs, weather delays or market prices for the gas, but the job of the federal coordinator's office is to work with federal agencies to ensure government doesn't do anything to add to the risks.

Our offices in Washington and Anchorage are working with more than two dozen federal agencies (and state and Canadian authorities too) to identify issues early and to resolve them before they have a chance to delay the project.

No one can talk about the regulatory process today without acknowledging that the world changed two months ago when a blowout at the Deepwater Horizon platform in the Gulf of Mexico killed 11 workers. The platform caught fire and sank, ripping away its riser pipe from a high-pressure well on the ocean floor and sending millions of gallons of oil a day into the water.

Regardless what it may take to win investment dollars for Arctic projects, we should never compromise on environmental protection. We should never accept the irresponsibility that we are seeing wash up on the shores in the Gulf of Mexico.

Our governments – federal, state, provincial and territorial – and our people will need to see proof that this can never happen in the Arctic before we can fully tap our resources for the common good.

The president was of the same thought when he ordered a moratorium on new deepwater drilling permits after the Gulf disaster and a halt to existing deepwater drilling operations. The future of offshore exploration and production is forever changed. New rules will be imposed on the industry in U.S. waters for backup plans, environmental protections and financial liability. There will be new expectations of government and its oversight role.

And regardless what happens with the court challenge to the administration's moratorium on deepwater drilling, Interior Secretary Ken Salazar yesterday reaffirmed his decision that there will be no offshore Arctic drilling permits until 2011.

U.S. politics being what they are in an election year, life is tough, very tough for the oil and gas industry that generally doesn't like headlines. This will improve in time, but it will take time.

The Arctic is on the minds of many in Washington. The federal government is taking a serious look at its Arctic policy, the oil and gas industry's spill-response capabilities, the need for a permanent U.S. Coast Guard station in the Arctic, climate and energy policy legislation, and critical wildlife habitat.

The Obama administration last year reaffirmed the nation's Arctic policy, including seven issues for agencies to follow as they make decisions: national security and homeland security; international governance; extended continental shelf and boundary issues; promoting international scientific cooperation; maritime transportation; environmental protection and conservation of natural resources; and, yes, energy.

I will close with the reminder that the best management is cooperative management between nations, local governments and indigenous peoples. We must manage the Arctic ecosystem to preserve traditional ways of life. That's a challenge we must honor as we find answers to all of the other challenges we face.

Thank you.