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## Exxon's Tillerson on Pipeline Taxes

The right state fiscal regime is essential to the success of a pipeline from Alaska's North Slope to a connection with the North American pipeline grid, Exxon Mobil Chief Executive Rex Tillerson told journalists in Dallas after last week's shareholders meeting (p10).

He didn't disclose the exact terms Exxon and partner TransCanada PipeLines are seeking, but WGI understands the companies would prefer a system that is "back-end loaded," starting with a low rate that would climb over the life of the pipeline, say 40 years.

Such an arrangement would help the two sponsoring companies recover their investment in the early years, while the state of Alaska would have a known revenue stream for the operating life of the project. A gradually rising take from the pipeline tax regime also would help the state offset any decline in royalties from falling gas production.

"Obviously the fiscal arrangement has a lot to do on the overall economics of the project and the competitiveness of that gas," Tillerson said. "We believe the gas can be competitive, but it's going to require all of those elements — as capital efficient a project as we can engineer, and we've got to have fiscal supports."

He pointed out that the biggest cost in getting the Alaska North Slope gas to market will be the transportation system, as the major upstream investments were made years ago along with development of the region's billions of barrels of oil. The price tag of a pipeline from Prudhoe Bay to the British Columbia-Alberta border in Canada has been put in excess of \$40 billion.

Tillerson, as ever, evaded any specific discussion of future gas price assumptions. "We're not in the business of predicting what prices are going to be, so we're going to have to make a decision on this — as we do with all investments — as to whether we think it has the opportunity to perform across a range of pricing environments."

"For the decades it would be supplied to the market, there will be some good years and some bad years, but that's the case for everything we do." With 35 trillion cubic feet of proved reserves and 100 Tcf of probable reserves on the North Slope, "the resource is huge," he said. "The supply would be available for years and years. We don't get too wrapped up in the today and now."