

**FERC Technical Conference**  
**Open Season Regulations for Alaska Gas Pipeline Capacity**  
**December 3, 2004**  
**ExxonMobil Prepared Comments**  
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**I. Introduction**

Good morning, Honorable Governor Murkowski, Senator Murkowski, Chairman Wood and other distinguished participants [assumes all are still present] . I would like to thank you for this opportunity to speak here today. My name is Richard Guerrant and I am ExxonMobil's Vice President of Gas Marketing for the Americas and look forward to one day including the marketing of Alaska gas to my portfolio of responsibilities.

First I would like to say that I am happy to see that progress is being made towards making the commercialization of Alaska gas a reality. The recent enabling legislation, the progress being made on a fiscal contract and the work on these Open Season regulations are all positives for the project. I commend the State of Alaska officials, the U.S. Congress and the Commission for their initiative in getting us to where we are today. The recent NPC study made it clear that North America can accommodate Alaska gas -- with demand projected to grow and traditional domestic supplies continuing to decline. It is good to see a concerted effort by everyone involved to work together to get Alaska gas flowing.

In my time today I will cover the following four topics: -- first, the commercial viability of the project, -- second, our support of the proposed regulations, -- third, the importance of allowing some flexibility in the open

season regulations, and lastly some comments regarding competition among producers.

We will file written comments by December 17th that will provide more details on our positions concerning the questions posed in the NOPR as well as commenting on specific aspects of the proposed regulations.

## **II. What it takes for a Commercially Viable Project**

As you know, finding a way to develop North Slope gas has been a major challenge. Since the mid to late 1970s, many projects have been evaluated and proposed, yet for one reason or another, have not materialized. The project before us now has great potential, but challenges still exist. As we have said in the past, it will take a combination of factors for an Alaska gas pipeline project to be commercially viable. This includes the passage and implementation of U.S. Federal enabling legislation, a fiscal contract with the State of Alaska, a clear and predictable regulatory process in Canada, a reduction in project costs and a market outlook that is sufficiently encouraging over the life of the project. We are encouraged by the progress, particularly with the passage of the enabling legislation. However, it is critical that the legislation be implemented in a way that is consistent with the overall statutory goal of advancing an Alaska gas pipeline. In particular, the open season regulations must be clear, predictable and appropriate.

## **III. Support for Proposed Regulations**

ExxonMobil believes the Commission is on target with the proposed regulations and the proposed rule, if implemented, would fully comply with the requirements of the Alaska Natural Gas Pipeline Act. The regulations as proposed will assure a non-discriminatory allocation of pipeline capacity. For the most part, the proposed regulations are not overly burdensome and allows a pipeline sponsor some flexibility in designing its open season. The notice and duration periods are reasonable for a project of this magnitude. Also, the bidding guidelines are adequate to allow potential shippers to make bidding decisions. The proposed regulations are consistent with the Commission's rulings in previous open season orders, and this, in our view, is important. These orders have established precedent, accepted by all parties, that have provided certainty to pipeline sponsors and shippers alike. These open season policies have worked well in the lower 48 – providing a non-discriminatory way for interested parties to access pipeline capacity. We discourage adding overly prescriptive provisions that may result in added cost and unnecessary project delays. Specifically, the NOPR includes a proposed broad and open ended information disclosure requirement provision covering "all other information that may be relevant ...". This catch all provision is problematic and unnecessary; the other provisions of the proposed rule are adequate to cover the informational needs of potential shippers. In addition, there are other parties seeking to construct and operate an Alaska pipeline, thus this information could be proprietary.

[§ 157.34(b)(17)]

#### **IV. Flexibility**

It's critical that the final regulations strike the right balance between assuring non-discriminatory access to capacity for shippers, and assuring those investing in the pipeline that a viable project exists. Overly prescriptive rules could result in lengthy delays, or worse, a project that never gets off the ground. It is important that a project sponsor retain flexibility in determining the appropriate time to commence an open season as well as when to conduct the Alaska in-state needs study that is required by the new legislation.

An example of being over prescriptive would be eliminating the anchor shipper concept. The NOPR seeks comments on whether the anchor shipper concept should be specifically prohibited in the final regulations. Although we are not necessarily convinced that some version of an anchor shipper concept is essential for this pipeline, excluding this option by writing it into the regulations would be short sighted if having anchor shippers is the only viable way to move the project forward.

## **V. Competition**

I have a few comments on competition among producers -- the recently passed legislation states that, among other things, the new regulations "shall promote competition in the exploration, development and production of Alaska natural gas". We believe the best way to ensure continuing competition for Alaska gas developments is to get this pipeline built and operating. Getting the initial natural gas pipeline infrastructure in place will encourage competing producers to explore and develop leases. This has been demonstrated time and time again. Once the initial infrastructure is in place, the ability to expand the capacity will provide opportunities for new

volumes. We believe existing industry practices for expansions are adequate.

What's more, the enabling legislation for this project also provides further assurance of access to expanded capacity by providing the Commission the authority to require expansions -- a unique provision that doesn't exist in the lower 48.

Personally, I don't believe we will ever need this, because the pipeline owners will want to expand if a viable opportunity exists. But it's there as a safety net -- if needed.

## **VI. Conclusion**

A guiding theme of the enabling legislation is the expeditious resolution of issues impacting an Alaska pipeline project. This is in recognition of the huge financial implications caused by delays when such large investments are involved. The potential for delays have a significant economic risk for a project. Following this logic, it is important that the open season regulations not contain provisions that might add cost or unnecessarily delay the project. Let me sum up my key points -- First, the proposed regulations are on target. Second, it is important that this pipeline operate under established, time tested open access principles, and ExxonMobil is committed to these principles. Third, having an expandable open access pipeline in place will support competition in the exploration, development and production of Alaska gas. And finally, the regulations for the Alaska open season is a critical piece of the puzzle and must be properly crafted to ensure a commercially viable project -- on time - on budget --.

As I stated earlier, we will be submitting written comments that will provide more specifics on the proposed regulations.

This concludes my remarks.