



Global Upstream and Gas

Chevron - Alaska Area Point Thomson Testimony to the Alaska Legislature

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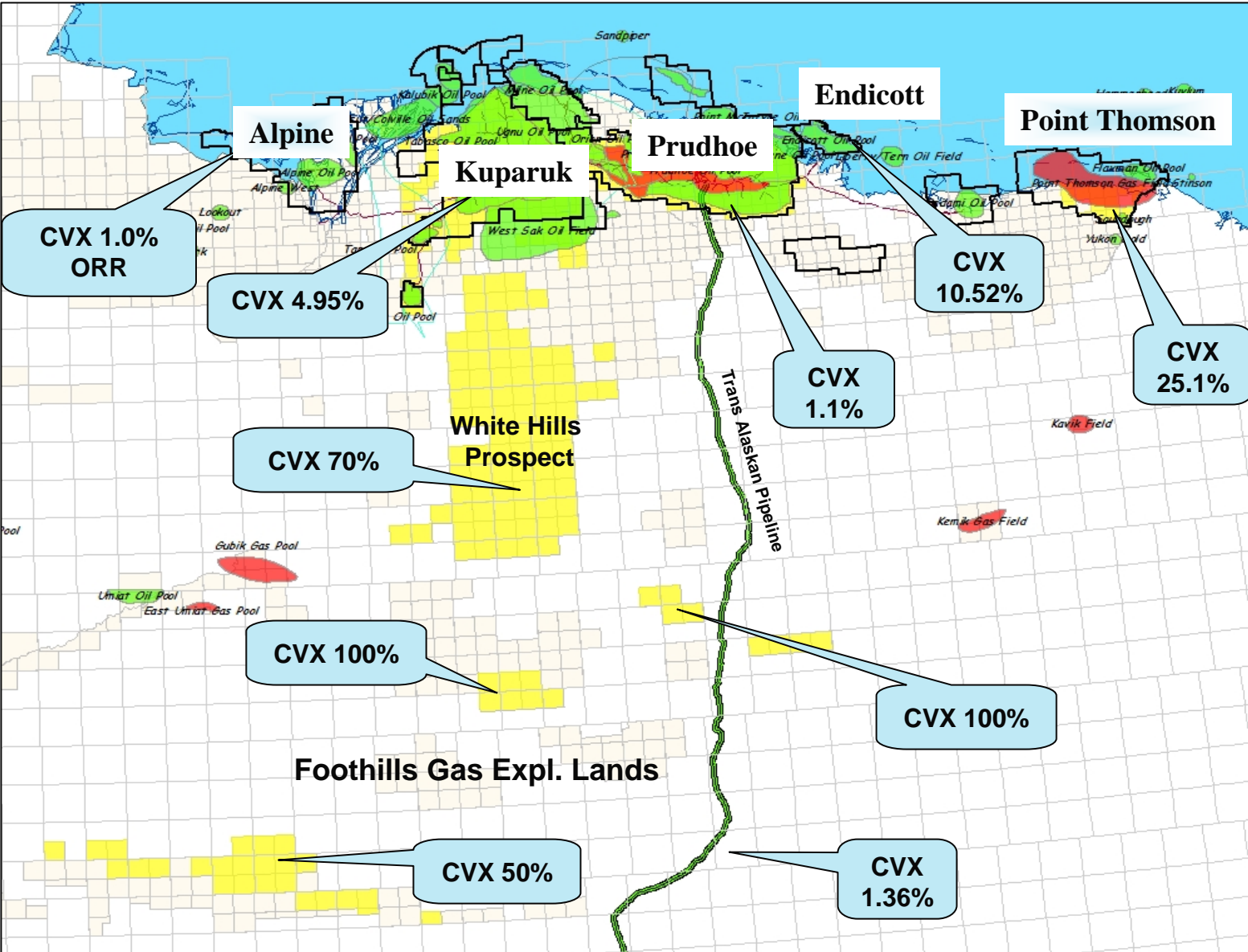
Chevron has standing in the commercialization of North Slope gas



Working interests (WI) in established North Slope fields (PBU, KRU, DIU) and an overriding royalty interest in Alpine

- Active exploration, development and operation of oil and gas assets on the North Slope:
 - Completed the first season of our exploration program in our White Hills Prospect; and
 - Working on exploration of gas prospective leases in the Foothills area.
- Chevron is a 25% WI in the Point Thomson leases. Unique to Chevron, Point Thomson is its major source of North Slope gas.
- We have proposed an aggressive plan to begin production (POD), starting with gas cycling, condensate production and preparation of the field for major gas sales.
 - At a minimum the DNR decision will delay development through loss of 2008-09 drilling season.
 - It currently appears that the DNR is set on preventing development in favor of litigation by terminating the unit.

Chevron North Slope Assets



Point Thomson: Fact or Fiction?

- #1: "Point Thomson is not needed for a gas pipeline."
- #2: "The lessees are warehousing Point Thomson."
- #3: "DNR rejected the plan of development on its merits."
- #4: "The lessees are not doing any work on Point Thomson."
- #5: "Point Thomson is 'wildly economic'."

Point Thomson: Fact or Fiction

#1: "Point Thomson is not needed for a gas pipeline."*

Fact:

- There are insufficient proven reserves available to back a commercially viable 4.5 BCFD gas pipeline without Point Thomson.
- Will anyone commit FT (ship-or-pay) for the 'yet to find' (YTF) resources? Without Point Thomson, this is a significantly bigger number.
- A Prudhoe Bay-only pipeline delivers less value to the State and Producers through higher tariff rates and the loss of oil resulting from blowing down Prudhoe Bay.

* This contradicts the previous administration position.

Point Thomson: Fact or Fiction

#2: "The lessees are warehousing Point Thomson."

Fact:

- At no time has there ever been a way to get the gas to market; it is disingenuous to say it has been warehoused.
- Until the recent ramp up in prices, the condensate resource was clearly uneconomic; it remains challenged.
- The oil resource is problematic due to its depth, range in quality, and potential range of recoverable volumes. It is currently viewed as economically challenged. The proposed POD is designed to resolve these uncertainties.

Point Thomson: Fact or Fiction

#3: "DNR rejected the plan of development on its merits."

Fact:

- The prior plan and amended plan were rejected because they did not "commit to put the unit into production." The current plan commits to put the unit into production as well as delineate all reservoirs.
- In its April 2008 decision, the DNR stated that the current plan is "a technically reasonable first step for developing these lands."
- But instead of considering the plan on its merits, the Commissioner of the DNR has:
 - Taken the unprecedented step of decertifying wells for the purpose of terminating a unit through administrative action.
 - Has ruled that the proposed PODs do not coincide with his preferred development all the while refusing to specifically lay out his preferred development.
 - Moved to expropriate the asset despite acknowledging the plan's merits by claiming a lack of "trust" of the lessees.*
 - Refused to meet with the lessees to outline his expectations.

* For over 27 years, the Commissioners of DNR and the lessees agreed the PODs set out the appropriate course of action for the development of Point Thomson as evidenced by the ongoing DNR approval of the PODs up to August of 2005.

Point Thomson: Fact or Fiction

#4: "The owners are not developing Point Thomson."

Fact:

- Over the last 30 years, the owners have spent over \$800 million on the exploration and development of Point Thomson.
- Despite the State's move to expropriate the leases, the lessees have dedicated significant resources to continue technical work:
 - Reservoir simulation and flow stream modeling;
 - Planning for development;
 - Initiating engineering design for facilities;
 - Making financial commitments for drilling rig and long-lead items; and
 - Progressing permitting applications.

Point Thomson: Fact or Fiction

#5: "Point Thomson is wildly economic."

Fact:

- The complexity and unique nature of this reservoir makes it a very challenging and expensive field to develop.
- While the upstream has been described as delivering a greater than 50% rate of return (ROR), specific to PTU it appears that the Black & Veatch base case depicts the value at a modest 13% ROR
 - Aggressive assumptions on gas price and cost trends
 - Base case of an initial gas blow down (i.e., no gas cycling)

The Future of Point Thomson

The Commissioner's new view of PTU ("validated" by the PetroTel report): PTU needs to cycle gas for as many as 20 years before major gas sales.

Chevron Comments on PetroTel report:

- PetroTel's work is theoretical; they clearly indicate they did not consider physical, environmental, safety, and economic factors; as a result of this and other optimistic assumptions, it significantly overstates resources in place and the amount that is recoverable.
- PetroTel claims that the field has "as much as 500MMSTB" of incremental recoverable liquids if cycled for 20 years. Even assuming cycling is possible and economic, the incremental liquid volumes are likely to be less than 150MMSTB and would likely result in an acceleration of PBU blow down **resulting in less oil produced on the North Slope not more.**

The Future of Point Thomson

Chevron's View



- There is great uncertainty and therefore great risk in a gas cycling condensate project; it may or may not work.
 - Point Thomson has unique, challenging reservoir issues – it is like no other field, anywhere in the world.
 - Cutting edge technology is required for facilities and drilling.
 - Wide range of potential outcomes; most likely is failure
- Successful “oil rim” development is not certain.
 - Characteristics of the oil rim; oil quality, oil distribution across the field, oil reservoir quality, aquifer impact, etc. increase risk
 - Economics will be particularly challenged given potential recoveries and costs per well.
- One point of agreement by all: a phased approach is required (consistent, again, with the proposed POD).
 - In its April 2008 decision, the DNR stated that the plan is “a technically reasonable first step for developing these lands”

Developing Point Thomson Correctly

The right progression for PTU will be:

- Proceed with the proposed POD to bring PTU into production:
 - With timely approval, delineation drilling to begin this winter further testing extent and quality of reservoir
 - Gas cycling project progressed to test viability
 - Prepare for Major Gas sales in parallel with development work
 - Results from production in 2015 – 2018 timeframe
- If cycling doesn't work, adjust to PTU gas blowdown and preserve gas at Prudhoe Bay, and therefore, maximize overall oil production on the North Slope

Consequence of delay in proposal to produce PTU

- Under sizing of the initial pipeline 4 – 4.5 bcf/d to 3.5 bcf/d, thereby crippling economics and slashing over all revenues
- Premature termination of cycling at PBU and loss of oil (\$120 wellhead/boe for oil vs \$24 wellhead/boe for gas)
- Lower value of entire gas project to State and Producers



Chevron desires to market North Slope gas

- Chevron is currently not a participant in any of the proposed gas lines
- Chevron will participate in future North Slope gas sales:
 - We will commit FT for our known gas reserves to a pipeline that we are confident provides reasonable upstream economics and terms
- Our drivers are predictable economics and risk sharing:

- | <u>Key Variable</u> | <u>Controllable?</u> |
|----------------------------|----------------------|
| ▶ Point Thomson resolution | Yes |
| ▶ Future Gas prices | No |
| ▶ Construction cost | Partially |
| ▶ Cost risk allocation | Yes |
| ▶ Certainty of state taxes | Yes |
- Many of these elements are aligned with the State
 - ▶ Encouraging the development of infrastructure to realize the value of gas assets on the North Slope
 - ▶ Doing projects in the most economic way; especially true given the nature of the ACES tax approach

Summary

- PTU is critical to any major gas pipeline.
- PTU development should begin as soon as possible; the proposed POD is the right plan.
- The DNR should have approved the proposed PTU plan on its merits. Why didn't it . . . ?
- The current lessees can and will (if allowed) develop Point Thomson better and faster than anyone else.
- Chevron is being forced to litigate to protect its rights.
- Chevron wants to sell its North Slope oil and gas.

So . . . Where are we?

- Protracted litigation; No settlement discussions
- Point Thomson is out of the gas pipeline
- Everyone agrees on the substance of the proposed POD
- Chevron stands ready to perform the proposed plan
- Owners remain ready to drill in 2008-09

And . . . What can be done?

- An independent, objective review of the pipeline analysis should be undertaken
- In an open and honest government, the parties to the Point Thomson litigation would sit down and talk through their differences