Stranded Gas Hearings

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Gas Marketing and Composition, Extraction, and Sale or Valuation of Gas Liquids
Richard Guerrant, Vice President for Americas, ExxonMobil Gas & Power;
Martin Massey, Joint Interest Manager for U.S. Operations, ExxonMobil Production, on behalf of BP, ConocoPhillips, and ExxonMobil, September 1, 2004.

RICHARD GUERRANT, Vice President Americas, ExxonMobil Gas & Power Marketing Company, ExxonMobil Corporation, paraphrased from the following written testimony [original punctuation provided]:

North American Supply and Demand

First, I will discuss the gas supply-demand outlook for North America, and how Alaska gas fits into that picture. I will also address the fundamental market forces that influence how gas markets work. Lastly, I will cover the marketing of NGLs.

It is difficult to accurately forecast the supply, demand and price future across North America given all of the potential scenarios. In 2003, the National Petroleum Council (NPC) completed a comprehensive review of the outlook for North America gas supply and demand through 2025. The study had been requested by the US Department of Energy and has received much attention and praise for clearly describing the gas supply/demand challenges facing North America. The NPC study was prepared by a broad cross-section of industry representatives including ExxonMobil that chaired the Supply Committee. An important point for this committee to understand is that the NPC study highlighted that the North American market could accommodate Alaska gas.

Starting with the existing supply picture, in 2003, the US produced about 50 Billion Cubic Feet of gas per Day (BCFD) with Canada contributing 17 BCFD and Liquefied Natural Gas or LNG imports supplying an additional 1 BCFD. This total supply balanced demand of about 62 BCFD in the US and 6 BCFD in Canada. After supplying its local demand, Canada exports about 11 BCFD to the United States.

Looking forward, the North American supply outlook has been described as a treadmill in which new supplies are needed to offset the decline of existing production. Production from existing wells in North America declines at about 16 BCFD each year and requires continued new drilling and exploration to offset this decline. The recent high prices in North America have encouraged substantial drilling activity such that drilling rig counts are now reaching the highest levels in the last decade. Unfortunately, due to the maturity of North American producing fields, both reserves and production rate contribution per new well have declined in recent years. The NPC Study Outlook is that North American production will remain broadly flat to slightly declining over the next two decades. The geographic mix of supply will change somewhat as growth in production from the Rockies and deep water Gulf of Mexico will be offset by declines in the lower 48 states, Gulf of Mexico shallow waters and Western Canada.

Demand for gas in North America has grown from 63 to 68 BCFD over the past 10 years, and the NPC forecasts that demand will grow an additional 20% to 85 BCFD by 2015 driven in part by annual US GDP growth of 3% per annum. Steady demand growth is forecast in commercial, residential and industrial sectors. The residential and commercial sectors accounted for over one-third of the US natural gas consumption in 2002. These sectors are expected to grow by 1% per annum in the NPC study. In part, this is driven by demographic growth with new residential construction heavily weighted to natural gas heating. In recent years, approximately 70% of newly constructed homes installed gas heat. But the main driver of gas demand growth in North America is expected to be gas-fired power generation. Approximately 200,000 megawatts of gas-fired generation are projected to be added by the end of 2005, representing a 31% increase in total generation capacity and a 290% increase in gas-fired generating capacity versus 1998. The

result is that gas demand is being driven higher as North American electricity requirements grow with the economy.

In 2015, as I mentioned, NPC estimates North American demand of 85 BCFD with indigenous supply of 68 BCFD, leaving a gap of 17 BCFD. The NPC expects that this gap will be filled by a combination of new Arctic gas supplies from Alaska and the Mackenzie Delta, in addition to significant increases in imports of LNG and higher cost indigenous production. The NPC study predicts that long-term prices will be driven by the cost of these major new supplies, and constrained by competition from alternative fuels such as oil, coal and nuclear. The clear conclusion from the NPC work is that North America can accommodate significant supply additions from a variety of sources including Alaska gas.

Gas Transportation, Pricing and Marketing

Next, I would like to briefly discuss how Alaska gas would likely enter the North American market. The gas would be transported through a large diameter, high-pressure pipeline across Canada and perhaps continuing on to Chicago. This pipeline would pass through the heart of the Western Canadian Sedimentary Basin which produces about 95% of Canada's gas production. Alaska gas could be consumed in Western Canada or transported to other Canadian and U.S. Markets. Five major pipeline systems currently exist in Alberta and British Columbia to take gas to markets in Canada and the Lower-48. These pipelines feed border crossings with capacity of about 12 BCFD where gas is transferred to Lower-48 pipelines flowing ultimately to markets in the Midwest and on the East and West Coasts. In order to determine which market the Alaska gas will ultimately serve, we need to discuss market pricing and pipeline infrastructure which I will address next.

The key participants in the gas market include suppliers, transporters, and obviously buyers. Suppliers include hundreds of producers and marketers, and buyers include thousands of industrial consumers, power generators, and local distribution companies. With the large number of market participants, and the significant number of sales transactions, North America is the largest and most liquid market in the world, and has proven very efficient at matching available supplies to market demand. These participants primarily buy and sell gas on a month-to-month basis, with a small portion of longer-term arrangements, and some daily trading to manage short-term production and demand variations.

There is a benchmark gas price - the 'Henry Hub' price, which is similar in nature to the crude oil benchmark prices like West Texas Intermediate. Like West Texas Intermediate, gas is traded on a futures market, the NYMEX, and also trades on physical markets at specific trading points throughout North America. Near the end of each month, deals are arranged between buyers and sellers and these trades help set the price for the following month's gas deliveries. The very large number of transactions and multiple participants provide an efficient market, which yields a competitive market price for the product.

An important attribute of an efficient and competitive North American gas market is the high degree of price transparency. For more than a decade, industry trade publications have published price indices for physically traded gas on a daily and monthly basis, and have recently expanded their reporting to include details on number of trades and volumes. These published indices represent actual sales transactions at about 100 locations across North America.

Prices at these locations vary by region. The difference between the regional prices reflects the market's valuation of transporting gas between the regions to meet demand. In regions with excess transport capacity, the price difference may be less than the actual cost of transportation. In regions where capacity is tight, the price difference may exceed the actual cost of transportation. These pipeline balances can be further impacted by seasonal demand fluctuations.

Since deregulation beginning in the mid '80s, the North American gas market has evolved into a mature, liquid and transparent market. Consequently, we have well established market mechanisms, which allow suppliers to sell all their production at a market price, similar to other commodities.

Natural Gas Liquids

An additional consideration in marketing Alaska gas is the salability of the gas in meeting downstream pipeline and market quality specifications. Field gas production can contain water, CO2, Sulphur, and other compounds. For Alaska gas, it is expected that most of these impurities would be removed on the North Slope.

In addition to methane - the primary component of natural gas - field gas production also includes varying amounts of ethane, propane, butane and pentane. Currently, the majority of butanes and heavier NGLs are removed on the North Slope, added to TAPS, and moved with the crude through the pipeline system. As a result, the gas to be moved on the Alaska Gas Pipeline will contain a light mixture of NGLs, primarily ethane and propane, which will still need to be extracted so that the remaining natural gas can meet gas pipeline and market quality specifications.

NGLs are removed by gas processing plants, with the saleable natural gas moved onto market via pipeline. The extracted NGLs are then transported to an NGL fractionator where they are separated into their components -- ethane, propane, butane and pentane. The North American NGL market currently consumes about 3.3 million barrels a day of these products.

The ethane is primarily used as a feedstock to chemical plants, which convert it to ethylene for further use in making plastic products like plastic bags, milk bottles, toys, etc. The pricing of ethane is primarily linked to natural gas. The propane feedstock has multiple uses: first, as a feedstock to chemical plants to make propylene, a building block for plastics used in the production of food packaging, auto parts and carpeting, and second as a residential and commercial heating fuel principally in rural areas not supported by a natural gas pipeline infrastructure. Butanes are typically blended into motor gasoline to enhance the fuels performance characteristics. Pentanes are also used as chemical plant feed or in the production of motor gasoline. The prices for propane and heavier NGLs are linked to crude and other oil products.

In addition to the facilities required to remove the NGLs from the natural gas stream to meet pipeline specifications, substantial markets and petrochemical infrastructure, including pipelines, fractionators, chemical plants, storage and complex refineries are required to consume the NGLs. As with natural gas, the infrastructure and demand for these products is primarily available starting in Alberta and markets further south. Western Canada and Chicago have about 15 billion cubic feet per day of existing gas processing capacity. Current Alberta chemical plants have the ability to consume about 270 thousand barrels a day of ethane with the resulting ethylene and polyethylene production primarily sold into the Great Lakes region. In addition, western Canada also provides pipeline infrastructure to move excess NGLs to Lower-48 markets.

The need to adequately process Alaska gas to meet market and pipeline specifications is a key part of the project, and there are adequate markets and infrastructure in Canada and the Lower 48 to handle the volumes of NGLs in the Alaska gas.

Summary

I'd like to now summarize my remarks regarding the North American natural gas and NGL markets:

- First, as detailed by the NPC Study, the supply / demand balance in North America signals the room for additional supplies, such as Arctic gas, LNG, and higher cost indigenous production in the next decade.

- Second, the North American gas market is a mature, liquid market with well established mechanisms to ensure suppliers can sell all their product at a transparent and competitive market price.

- Third, the NGLs will need to be removed to achieve downstream pipeline specifications, and the best approach is to take advantage of existing infrastructure close to available market for the products.

Before closing, I would like to point out that it will take a combination of factors for an Alaska gas pipeline project to be commercially viable. Those factors include a fiscal contract with the State of Alaska, U.S. federal enabling legislation, a clear and predictable regulatory process in Canada, a significant reduction in project costs, and a market outlook that is sufficiently encouraging over the projected life of the project.

CHAIR SAMUELS asked if ExxonMobil's competitors, when it sells the liquids or the gas itself, are BP, ConocoPhillips Alaska, Inc., Texaco, and Chevron. He further asked if ExxonMobil sells [the liquids or the gas itself] to a broker or is in a situation in which the company is "vertically integrated" and in charge throughout the process. Chair Samuels posed a situation in which the State of Alaska owns a lot of gas, and asked if the state would be competing with some of the largest corporations around on something that [such companies] have done throughout their entire existence.

MR. GUERRANT reiterated his earlier testimony with regard to the fact that there are many, many participants in buying and selling gas. There are buyers who want to purchase gas directly from the producer or owner of the gas. There are also marketers who want to purchase gas from other producers and resell it. Furthermore, there are producers who sell their product; there are also producers who buy and sell. Mr. Guerrant explained that ExxonMobil Corporation has a diversified slate in which most gas is sold on short-term contracts, which range from daily to monthly to yearly. ExxonMobil Corporation has very few long-term contracts because today's customers in the marketplace aren't willing to sign up for long-term contracts. With regard to the type of customers to which ExxonMobil Corporation sells, Mr. Guerrant specified that it sells to a portfolio of customers, including local distribution companies (LDCs), industrials, and marketers. Mr. Guerrant posed a situation in which each of the producers and the state is taking its gas in Chicago. In such a situation there will be plenty of opportunity to sell. He noted that the mechanisms regarding how the market works are well established, although the key to that is the governance. "The buyers need the gas; ... they will be wanting to buy the gas from you," he added.

MR. MASSEY relayed that the state has the option to determine how it wants to handle the sale of its gas. The state could develop such expertise internally and sell the gas itself, or the state could contract out that responsibility. He echoed Mr. Guerrant's comment that in the current market, there are plenty of buyers for gas and well-established indices upon which to sell it.

MR. GUERRANT said that the state will develop its own expertise at some level, depending upon how far downstream the state goes.

SENATOR ELTON remarked that ExxonMobil Corporation's testimony was fairly dismissive of any discussion regarding advantages to the state's owning or not owning a portion of the pipeline. He asked if the ExxonMobil Corporation representatives could provide the committees with even a hint on that matter.

MR. MASSEY apologized and reiterated that ExxonMobil Corporation is in negotiations with the state on this topic. From a broad viewpoint, though, the advantage is that if the state takes ownership in the

pipeline, the state and the sponsor group would be aligned. Furthermore, if the state elects to take the gas in-kind, it can use it as it sees fit, such as meeting in-state demand. Moreover, if the state elects to invest in the pipeline, the state will receive the revenues from that investment. The reason the discussion isn't occurring in a more detailed fashion is that it would depend upon the deal made with the state. Mr. Massey informed the committees that ExxonMobil Corporation is encouraged with the discussions it's having with the state now.

SENATOR ELTON pointed out that a deal with the state would have to be consummated with the legislature. At some point, there will have to be a discussion with regard to the advantages and disadvantages of state participation in this pipeline. Senator Elton said that it would be helpful to hear that there are clear advantages or disadvantages related to state participation.

SENATOR FRENCH expressed concern with regard to the state obtaining a fair deal for its resources. Therefore, he questioned where the liquids would be taken out. Currently, the heavy liquids are being taken out at the North Slope. He related his understanding that the "somewhat wet gas" will be shipped to Alberta and the remaining liquids would be taken out in the Alberta gas processing facilities.

MR. GUERRANT confirmed that the aforementioned is the base plan because there is existing infrastructure [in Alberta] that is close to the market and will provide the best value for the gas.

SENATOR FRENCH interjected that there are existing transportation infrastructures to move the separated products to market from that point on. He then questioned whether there is a price difference between the somewhat wet gas that would be shipped to Alberta and the separated components. In other words, which is more valuable, the wet gas or the separated components, he asked.

MR. GUERRANT pointed out that some of "it" has to be taken out in order to meet the pipeline specifications. There is another level of extraction, which is primarily the ethane extraction, that is based on market conditions. After the pipeline specifications have been satisfied, the amount of ethane extraction can be expanded or contracted based on the economics of extraction under the current market prices for ethane. Therefore, an economic optimization has to be performed in the marketplace. Mr. Guerrant specified that secondary extraction, that occurring after the pipeline specifications have been satisfied, occurs in order to obtain more value for the product stream than it would have if left in. The aforementioned, he explained, is why he mentioned the gas processing capacity in Alberta that could be utilized. That economic optimization will ensure that the maximum value for the product is obtained. In further response to Senator French, Mr. Guerrant specified that all involved will have such decisions to make. The first decision will be in ensuring the gas meets the pipeline specifications, then the question is regarding how deep of a cut does one make to obtain the best value for all the players. The aforementioned is usually done on an individual-entity basis, although each individual involved will optimize the stream based on the marketplace.

REPRESENTATIVE HAWKER echoed the concerns expressed by Senator Elton and then turned to Mr. Guerrant's closing comments regarding the factors necessary to have a commercially viable project. He recalled that Mr. Guerrant's testimony relayed the need to have "a clear and predictable regulatory process in Canada" and asked if that statement implies that such a process doesn't already exist in Canada. Conversely, is that statement acknowledging that Alaska has a clear and predictable regulatory process? He also recalled that Mr. Guerrant's testimony suggested that "those factors include a significant reduction in project costs". Does this mean that under the current anticipated cost structure by the sponsor group, this isn't a feasible project? he asked.

MR. GUERRANT confirmed that predictable processes are necessary for permitting, in both the US and Canada. The US federal enabling legislation allows that predictable process. Although there is knowledge with regard to how the National Energy Board (NEB) does its pipeline permitting, fitting this all together must come to fruition in an orderly fashion in that specified cost estimates are met as well as the desired economic benefits and value for the gas are obtained. Mr. Guerrant said that more of an understanding of the Canadian side of the project has to occur.

MR. MASSEY opined that the sponsor group has been clear that today, the project isn't commercially viable. One of the things within the control [of the sponsor group] is to try to be able to drive down the costs of the project, and much effort amongst the sponsor group is being expended to that effect. For example, both BP and ExxonMobil Corporation have spent a great deal of money and effort to commercialize a higher strength steel, which would allow the [sponsor group] to not have to purchase as much steel in the pipe to make this project occur. Much progress has been made in that effort as test lines have been put in place in one of TransCanada's systems in order to test this high-strength steel technology. Mr. Massey reminded the committees that this is a huge, complex project that no one has done. Furthermore, as the situation moves closer to building such a project, the costs increase, and therefore the cost reduction items have to be in place in order to offset the increases.

REPRESENTATIVE ROKEBERG recalled Mr. Guerrant's testimony regarding well-established mechanisms, price transparency, and a high degree of confidence in those. He asked if, in the negotiations between the sponsor group and the administration, it will be necessary to adopt/use any of the benchmark pricing in dealing with a contractual agreement with the state.

MR. MASSEY specified that it would depend upon the structure of the project. If the project is a royalty in-value structure in which the sponsor group pays the state cash, the sponsor group will have to determine the value of the gas. The value of the gas can be determined in a variety of ways, including benchmarks or actual revenues based on the sale of the gas. If the project is under an ownership structure and the state basically sells the gas, then some of the need to determine the value of the gas will be eliminated. The aforementioned is the topic of the current discussions with the state.

REPRESENTATIVE ROKEBERG expressed concern with regard to the presentation from Mr. Massey and Mr. Guerrant in relation to the [sponsor group's] high degree of confidence in the transparency of gas pricing in the US. He inquired as to whether the FERC study on the matter of transparency has been completed. He noted that as a member of the Energy Council, he has been privy to studies that have indicated there are substantial problems with the published prices, plats, and other publications.

MR. GUERRANT opined that over the past two to three years, there have been questions with regard to price transparency that have primarily been related to entities that have financial problems and have had players that have inaccurately reported things into indexes. Work was done with the FERC, which performed an extensive investigation along with the Commodity Futures Trading Commission (CFTC) and other jurisdictions. He offered his belief that improvements made to the indices, particularly revolving around the number and volume of trades for each sale, have provided the industry more confidence that the indices work. A survey was performed and reported to the FERC, and this survey rated the confidence in the indices at 7-8 on a scale of 1-10. However, he acknowledged that some indices are more liquid than others; for example, one of the most liquid transparent indices in North America is the Alberta index. The Henry Hub index is a physical trading point as well as a NYMEX regulated trading point. He characterized the Henry Hub index as a very valid index. In summary, Mr. Guerrant shared his belief that the difficulties with regard to price transparency are past and everyone feels good with regard to the indices. He surmised that sending the signal to the industry that those misreporting will pay the price has made a major improvement with regard to governance procedures. Still, the FERC and the industry continue to monitor this issue.

REPRESENTATIVE GARA noted that many in the legislature want to access gas for in-state uses such as for the spur line to Valdez. Therefore, he inquired as to [the sponsor group's] thoughts on such access. He recalled testimony that [the sponsor group] doesn't believe this project is commercially viable at this point. However, he noted, the governor says that he will make an announcement with regard to a preliminary deal in September. Therefore, he requested follow up on this project's commercial viability. Representative Gara also inquired as to whether [the sponsor group] has any hesitance in selling its gas [on the North Slope] to an entity that believes the project is commercially viable.

MR. GUERRANT began by pointing out that "we all want to try to monetize and sell this gas".

Furthermore, he said, [the sponsor group] recognizes that the in-state demand issue has to be addressed.

MR. GUERRANT then turned to Representative Gara's question regarding [the sponsor group's] propensity to sell gas to an entity that believes this project is commercially viable. He said that [the sponsor group] would entertain any realistic proposal. However, realistically, those who own the reserves, the state and the project sponsors holding the lease, are those who can take the risk to get the gas to the first liquid market point. After the first liquid market point, it's a different matter. Mr. Guerrant opined:

> I think we'll all listen ... to any proposal ... any party brings to the table. And if they add value and they're durable [and] ... they can [actually] deliver what they say they can deliver ... and [it] doesn't [put] undue risk on all of us ..., we'll consider that. But ... I haven't really seen those kinds of opportunities in all of the projects that I've worked on, that ensure that you get the right value. Those are things that you've got to be careful in ... considering because they may not be durable. ... In other words, ... someone coming in and [saying] that they [will] build and [then] buy your gas ..., that's a difficult issue to consider because you don't know what the value [is]. If you're down in the marketplace, you know what the cost [is]. We can ... build the pipeline to the first market point to where we know that there's a very liquid transparent market there. We know what the value of that is, and that's what you want to make sure that you're getting full value for.

MR. MASSEY turned to the question regarding whether the project is commercially viable. He reiterated that since the sponsor group has completed its study, it has held the position that the project isn't commercially viable. "It doesn't mean we're not trying to make it commercially viable - we are," he relayed. Trying to make it commercially viable is the subject of the negotiations occurring with the administration. Furthermore, he said he is encouraged by the governor's comment that there will be something in September. However, there's a lot of work to do to reach that point. Mr. Massey mentioned that it's probably within the [sponsor group's] control to make this project commercially viable. He also mentioned that the sponsor group would like to reduce the cost, and so much work is going on in that vein. Mr. Massey concluded with the following:

> Just because we say it's not commercially viable doesn't mean we're not trying. We've got a lot of gas resource up there. We've got indications from the market that it can accommodate Alaska gas if we can get the cost down at the right level, ... make it get into the market at a good economic rate. So, the conditions are right to try to make it happen, and a large part of it hinges on the negotiations we have right now with the state.

SENATOR DYSON asked about in-state sales.

MR. MASSEY said that one of the advantages of the state taking an ownership position in taking its gas is that it will have gas available to meet in-state demand and divert [the gas] to wherever it wants, and that will depend upon where the best value for the gas lies.

MR. GUERRANT concurred and suggested starting at a baseline in which there is review of getting value from the marketplace and then backing up to review what things can be added to the project in order to create more value for the various parties. The study is complete and there is a plan, and therefore he suggested that now is the time, through these discussions and negotiations, to improve on the plan.

SENATOR LINCOLN shared her frustration regarding the points stated in the last paragraph of Mr. Guerrant's written testimony. She questioned what a "significant reduction in project costs" would entail. The example of using high strength steel as something that could reduce costs isn't under the control of the state. She asked what [the sponsor group] wants the state to do that would significantly reduce the project costs and is something over which the state has control. She then turned to extracted NGLs and commented that the best value certainly isn't going to be in-state in Alaska. She surmised that when [the sponsor group's] testimony refers to rural, it's probably referring to rural America rather that rural Alaska, and therefore she didn't think in-state uses would meet the "bottom line" for the sponsor group. Senator Lincoln recalled the following testimony: "In a market outlook that is significantly encouraging over the projected life of the project." She inquired as to the "projected life" that the sponsor group would envision.

MR. GUERRANT said that the NPC study was one of the most comprehensive studies that has been

done. That study provided the sponsor group and the entire industry with a much more encouraging view about the need for the future supply. Furthermore, the study extended into 2025, and has provided the sponsor group with the encouragement to start this process. With regard to in-state demand, Mr. Guerrant said that the sponsor group recognizes that that is something which has to be discussed and addressed in order to develop an acceptable package. When there is a full view of the project, there will be a discussion regarding how to make the project actually happen.

MR. MASSEY said that he is as frustrated as Senator Lincoln is in regard to the continuing need for these items to be discussed. He stressed that for three years it has been his job "to try to check one of these off the list." However, that hasn't been achieved yet. Mr. Massey said that there needs to be a catalyst to get this project going. The one thing that is within the control of the sponsor group is the negotiation of the fiscal contract with the state. If the aforementioned can be negotiated and an agreement that the project is commercially viable can be achieved, it will provide great momentum for the project. So with regard to what Alaska can do, Mr. Massey suggested negotiating a fiscal contract.

SENATOR SEEKINS recalled that the sponsor group has said that there is room for additional supplies of Arctic gas, LNG, or "higher cost" indigenous production. However, Arctic gas isn't economically viable, he opined, and so he questions what the sponsor group is planning.

MR. GUERRANT said that the market side is starting to look encouraging, such that the [process should move to the next level], that being the fiscal contract. But first many issues need to be sorted out in order to determine whether the project is commercially viable. Once the fiscal contract is in place, the regulatory issues could be tackled. In further response to Senator Seekins, Mr. Guerrant confirmed that [the sponsor group] is looking into other areas as a contingency. He noted that [ExxonMobil Corporation] has major land holdings and leases in Canada and the US, and drilling is taking place on the good prospects. Furthermore, [ExxonMobil Corporation] is involved in the LNG business and is looking to expand it in the right markets. [ExxonMobil Corporation] is also pushing ahead with Arctic gas. Mr. Guerrant highlighted that the NPC study specified the need to push ahead on all fronts, which is what [the sponsor group] is doing. The pieces of work for these projects have to be prioritized, which is what's occurring now.

CHAIR SAMUELS recalled the [Qatar] example and posed a similar situation in a Western democracy in which the [producer] partners with the regulatory agency. He inquired as to [the sponsor group's] experience in other governmental partnerships.

MR. GUERRANT said that in the early days, ExxonMobil Corporation, Shell, and the Dutch government came together in a joint venture to monetize the large field in the Netherlands. In this venture, the parties own [it] throughout the chain, and this venture has been successful. Recently, ExxonMobil Corporation and Qatar are expanding the largest natural gas field in the world, which is the North Field in the Middle East. He noted that the country of Qatar is investing throughout the [project]. Mr. Guerrant said that in the relationship with Qatar, there are more advantages to the joint venture because the groups have to be aligned as the process proceeds. Furthermore, all the parties know the value of the product in the marketplace. And although the aforementioned approach is difficult, it builds trust. Such an approach is being utilized with the producers in West Africa. Being aligned with a government partner is overall a good thing because it allows the [producers] to know what's going on throughout the life of the project.