

Speeches



Address by R.J. Ottenbreit Mackenzie Gas Project, Imperial Oil Resources, to Resource Expo 2002, Aboriginal Energy & Resource Development

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INTRODUCTION

- Good afternoon. On behalf of the Mackenzie Gas Project, I want to thank the Native Investment and Trade Association for the opportunity to provide you with an update on our progress and some perspectives on what lies ahead in the months to come.
- I assume that most of you are familiar to some extent with the Mackenzie Gas Project, but just to ensure that we're all on the same page, let me start with a brief history of this initiative.
- As many of you know, development of the large gas reserves in the Mackenzie Delta region of Canada's Far North has been the subject of much discussion since the early 1970s, when the largest on-shore gas reserves were discovered.
- The three largest on-shore discoveries are Taglu, Parsons Lake and Niglintgak.
 - Taglu, with recoverable reserves of 3 TCF (trillion cubic feet), was discovered by Imperial in 1971. Taglu is 100 percent owned and operated by Imperial, and accounts for 50 percent of the onshore discovered gas. For reference, Taglu is also equivalent to twice Imperial's current proved gas reserves.
 - Parsons Lake - 1.8 TCF -- discovered by Gulf in 1972. 75 percent owned by ConocoPhillips Canada, and 25 percent by ExxonMobil Canada.
 - Niglintgak - 1 TCF -- discovered by Shell in 1973. 100 percent owned by Shell.
- The best way to provide some perspective on how far we have come is to start at the beginning.

FEASIBILITY STUDY HISTORY

- Almost three years ago, in February of 2000, Imperial along with ConocoPhillips, Shell and ExxonMobil Canada publicly announced a joint study of the feasibility of developing Mackenzie Delta gas.
- economic, socio-economic and regulatory matters.
- "non-technical" and external to our companies. We assessed four specific areas:
 - First, support from northern parties for such a development, including expectations regarding the benefits to be derived from such a development. These benefits address training, education, employment and business opportunities.
 - Second, regulatory and environmental approval requirements, including the process and timing associated with obtaining the necessary approvals.
 - Next, fiscal terms (royalties and taxes) that would apply.
 - And finally, pipeline ownership and financing with the objective of achieving a cost-efficient, transportation system in a timely manner to support development and future expansions.

- In conducting the feasibility study we had discussions with more than the north.
- producer-owned pipeline connecting the three onshore anchor fields to northern Alberta gas transmission systems. The concept assumed use of proven technology and a commitment to minimizing the environmental footprint.

MACKENZIE GAS PROJECT MILESTONES

- we are today.
- In the summer of 2000, Aboriginal groups in the Northwest Territories in a Mackenzie Valley pipeline with a unanimous mandate from Aboriginal leaders to maximize ownership and benefits.
- assess plans and proposals for a Mackenzie Valley Pipeline. In December 2000, the APG indicated their selection was to work directly with the Mackenzie Delta gas producers group.
- During this same timeframe, exploration interest gained considerable momentum, as explorer companies made work commitments totaling almost \$900 million on licenses in the Mackenzie Delta and central Mackenzie areas.
- Also during 2000, we assessed the information requirements needed to pursue regulatory approvals. A draft regulatory "roadmap" was prepared, and environmental information requirements were defined. We concluded that we will need something on the order of 500 to 600 approvals, permits and agreements.
- In June 2001, after lengthy negotiations between the APG and the Producer Group, a Memorandum of Understanding was tabled with the 35 Aboriginal leaders of the Northwest Territories in Hay River. Some parties asked for more time to further their understanding of the MOU.
- On October 15, 2001, in the N'Dilo school gymnasium near Yellowknife the Mackenzie Delta producers signed a memorandum of understanding with the Mackenzie Valley Aboriginal Pipeline Corporation. This comprehensive MOU defined principles under which a Mackenzie Valley Pipeline could move forward, including unprecedented rights for the APG through the project definition and construction phases of the project.
- The MOU is supported by aboriginal leaders representing approximately 75 percent of the Aboriginal peoples of the north. This was a significant milestone, as we consider the support of the development.
- agreement that is widely supported across the North took almost two years.
- This year has been a very rewarding period, as project momentum builds with increasing alignment.
- on a way forward while awaiting APG funding, we jointly announced our decision to proceed with the preparation of regulatory applications.
- The announcement to prepare applications is not a decision to build a pipeline. That decision can only be made at the end of the regulatory process.
- On an encouraging note, a number of regulatory agencies and authorities are working together to develop procedures to coordinate the regulatory process. In January 2002, a draft Cooperation Plan providing a roadmap for the coordination of the environmental impact assessment and regulatory review of a Northern gas pipeline project was published by regulatory agencies.
- The agencies asked for public feedback, and we submitted a number of suggestions. The final Cooperation Plan was made public in June of 2002. We are pleased with the improvements incorporated.
- As we have indicated from the outset, we encourage an efficient and coordinated process, but we will not take short-cuts, because we want

permits with legal integrity.

- In May of this year, we announced the awarding of the conceptual and preliminary engineering contract for the Mackenzie Gas Project to a joint venture of COLT/KBR. This engineering work will assist us in optimizing the commercial viability of the Mackenzie Gas Project and support the development of regulatory applications.
- In June, the producer group issued an open season call for shipping nominations on the proposed Mackenzie Valley Pipeline. We were pleased with the response -- we received responses representing 20 companies.
- We met with each of the respondents, seeking clarification of the non-binding expressions of interest they submitted. Based on the results of this process, we have decided to base our engineering and

anchor fields.

- This capacity could then be increased up to 1.9 BCFD by adding compression. We will also do additional work to evaluate a separate

case, in the event the non-binding expressions of interest do not translate into firm shipping commitments.

- progressively seeking greater detail, tighter resource definition and firmer shipping commitments. We will continue to do this through regular meetings with potential shippers.
- In September and October, Imperial, on behalf of the producer group and the Aboriginal Pipeline Group, opened regional offices for the Mackenzie Gas Project in the communities of Norman Wells, Fort Simpson and Inuvik. These three offices are an important step towards maintaining and strengthening the relationships we have with the people of the North, and building new ones as we move forward.
- A major challenge in the Northwest Territories is the ability to

help facilitate this.

- 14 other communities to provide a means for communication in areas most of these people in December.
- Also in October, we completed a Preliminary Information Package, or PIP. The purpose of the PIP is to allow the regulatory agencies to clearly identify the project components, their scale, location, and potential environmental issues as they prepare to receive the main

2003.

- We have taken the position that the release and submission of the PIP needs the support of all the signators of the MOU. As many of you are PIP to satisfactory progress on resolving their request for funding assistance.
- Subsequent to the APG letter, the ministers of Natural Resources and Indian and Northern Affairs appointed Roland Priddle, former chairman of the National Energy Board, as the government representative to pursue options to resolve this issue.

MACKENZIE GAS PROJECT - FORWARD PLANS

- reiterate some of the reasons we believe the Mackenzie Gas Project is the best approach for Canadian Arctic gas development.
- It's an approach that allows us to proceed in parallel with new exploration, avoids any linkages with the uncertainties of Alaska gas development, and provides the opportunity to get Canadian Arctic gas to market first.
- -- we believe development will not and cannot happen without the support of these two constituencies.
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the Mackenzie Gas Project. In our discussions with the APG they linked

definition phase, subject to securing financing and agreeing to commercial terms. This is an unprecedented type of arrangement.

- We have concluded the feasibility study and are proceeding with Phase

field work, and extensive public communications and consultation. During this phase, regulatory applications will be prepared and filed.

and decided upon.

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the time necessary to do it right.

- Part of doing the job right is aligning the interests of a number of parties. Our project is being designed to accommodate onshore Canadian gas, with flexibility for volumes from existing significant discovery licenses and future discoveries.
- Through mechanisms including a staged open-season process for shipper nominations; and, National Energy Board regulated tolls to ensure pipeline access to all shippers at the same rates for similar

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authorities, are anticipated to take 3 to 4 years to complete and to involve expenditures of approximately 250 million dollars.

- Phase 3 would involve detailed design and construction, including the

installation. We estimate three to four years for this phase.

- Phase 4 is, of course, operation and gas sales.
- In reality, there's a fifth phase -- abandonment and restoration. Our work isn't done until this happens.

SUMMARY

- In summary, let me state that we have made tremendous progress over the past nearly three years in moving this initiative forward.

- A Mackenzie Gas Project is a complex undertaking that requires the

progress we've made and the momentum we've gained.

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interested parties -- including Aboriginal leaders, communities, governments, regulators, explorers, pipeline companies -- and this process will continue.

- We knew this business opportunity was not going to be easy and we

disappointment. We should expect delays because this is a new process and we are breaking new ground.

- However, when the parties all agree and want to make progress, things can move quickly.
- That concludes my formal remarks. Thank you.

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