

## **News Analysis, Mackenzie Gas Project May 31, 2007-06-08 UPDATE**

ExxonMobil Corp., the biggest privately-owned oil company in the world, has increased the pressure on the Mackenzie Gas Project (MGP) and the Canadian government even further with an announcement it could postpone the project indefinitely unless significant Canadian taxpayers' assistance is forthcoming.

In our earlier analysis, it was noted that Imperial Oil Ltd., 69 percent-owned by Exxon/Mobil, lead company in the \$16.2 billion project was also pressuring Canada for large subsidies to allow the gas pipeline to go ahead despite the Conservative government's denial that it would put billions of dollars into the MGP, now scheduled to start construction in 2014 but looking increasingly uncertain.

Rex Tillerson, Exxon's chief executive officer, told the company's annual meeting in Dallas on May 30 that the price tag was too high and that the MGP was no longer viable without sizable aid from the federal government.

"We are now at a point where the project is no longer viable at its current costs. It is not at all clear whether Canada will come forward with a suitable package of royalty and tax breaks large enough to provide the project sponsors with a decent rate of return. It may just be that the [MGP] will have to wait for a different cost environment."

With delays in both National Energy Board (NEB) and the Joint Review Panel (JRP) reports, startup costs will undoubtedly balloon further leaving the pipeline's future even more unknown. It is considered by some Canadian and most Northwest Territories politicians to be a critical piece of infrastructure in opening the North to resource development.

Most NWT politicians supported a \$2 billion federal subsidy to keep the MGP from falling off the national agenda by becoming a partner rather than bailing out Imperial Oil and two other oil companies in the MGP consortium. Dennis Bevington, federal (NDP) MP for the Western Arctic, opposes subsidies for big oil companies.

"Instead of handing out corporate welfare to a corporation that just posted the largest profits ever in history, the government of Canada should buy into the MGP as a partner. That way Canadians and northerners would get a return on their investment rather than just handing over more tax and royalty breaks," he told the House of Commons.

Tillerton also told Exxon shareholders that soaring inflation that has plagued tapping huge gas fields in Alaska will also likely put that project on hold. It includes building a pipeline to the North Slope of Alaska.

Reacting to Tillerton's gloomy forecast, a spokesperson for Indian and Northern Affairs Minister Jim Prentice, the cabinet minister in charge of the pipeline, said his boss was not

aware of the Exxon comments but reiterated that the government has no indication Imperial Oil is ready to walk away from the project.

But a top analyst from UBS Securities said in Calgary that he believes the MGP could yield an eight percent rate of concern at current natural gas prices instead of the 25 percent Imperial is rumoured to want. Andrew Potter said Exxon, “is notoriously cautious about conservative gas price estimates for project planning.”

And, he added, Ottawa is ideologically and politically hesitant to be seen subsidizing the world’s most profitable oil company but at the same time is eager to see the project proceed.

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