Alternatives North

Media Release
(For Immediate Release)

18 October 2006

Independent report finds Mackenzie Gas Project will be highly profitable and that governments are forgoing billions in potential tax revenue

(*Yellowknife, NWT*) A new financial analysis of the Mackenzie Gas Project (MGP) has determined that the proposed Mackenzie Gas Project is profitable without any public subsidies, and that governments are failing to capture billions of dollars in potential royalties. The report was prepared by Pacific Analytics, an independent resource economics consulting firm.

The report, filed recently with the Joint Review Panel reviewing the MGP, was commissioned by Alternatives North to look into the overall economics of the project.

Alternatives North spokesperson, Kevin O'Reilly, described the purpose of the report. "We wanted to use the same cost figures and production forecasts used by the proponents to get a true picture of both the project's profitability and the fairness of government revenues. The project proponents have stated repeatedly that the economics of the project are 'marginal'. This work shows that the exact opposite is true."

Report author, Jim Johnson, says "The Mackenzie Gas Project is a highly profitable development. My analysis shows that there is no need for any public subsidy to make this project viable. Using the currently available cost figures, the rate of return to the proponent companies is 29% per year for the three anchor gas fields but as high as 41.8% for the Taglu field, owned by Imperial Oil. Even if you assume capital cost increases of 30%, the rate of return still averages 21.5% per year for the full-blown development scenario."

"One of my sensitivity analyses looked at the impact of changes in gas prices," Johnson said. "One can conclude that each 10% increase in gas prices will increase overall rates of return by about 2-3%."

A third critical area that was examined was project sensitivity to a different government taxation and royalty regime using Norway as an example.

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"We picked Norway," Johnson said, "because it has a royalty and tax structure that sees the public sector assuming a significant share of the risk of exploration and development. In return, the government takes a larger share of any windfall profits resulting from energy price increases. The analysis shows that rates of return to the proponents would be reduced only by 2.5% if a Norwegian-style regime were applied to the Mackenzie Gas Project. Revenues going to the government would be $17.2 billion higher over the 20 – 30 year life of the project."

Kevin O'Reilly added, "Norway ranked 12th in the Global Competitiveness Index while Canada was 16th in 2006. Norway captures more of the value of its petroleum resources for its people than Canada. Clearly there is a lot more room for Canadian governments to reap greater benefits of the Mackenzie Gas Project for our citizens."

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Mr. Johnson will summarize his report and findings for interested reporters during a 15 minute presentation to take place Thursday, October 19th at 8:30 a.m. in Yellowknife in Katimavik Room B at the Explorer Hotel, followed by questions and answers.

Telephone links to the briefing can be arranged by calling Ben McDonald at 867-873-8123. Individual interviews can be scheduled following the briefing by calling the same number.

Reporters from outside of Yellowknife interested in participating in the briefing by telephone can dial-in toll free by calling 1-888-337-8477 and using PIN 2009#. If there are no lines available, please call 867-445-6825 for assistance on the morning of the call.

Copies of the PowerPoint slides to which Mr. Johnson will refer during his presentation will be posted on www.alternativesnorth.ca

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BACKGROUNDER ON MACKENZIE GAS PROJECT

The Mackenzie Gas Project would be one of the largest ever energy developments in North America. The Mackenzie Gas Project has four partners:

Imperial Oil Resources Ventures Limited will construct and operate the gathering system and pipeline. Imperial Oil Limited owns the Taglu gas field. ConocoPhillips Canada (North) Limited and ExxonMobil Canada Properties Limited own the Parsons Lake gas field (75% and 25% respectively). Shell Canada Limited owns the Niglintgak gas field.

The Mackenzie Valley Aboriginal Pipeline Limited Partnership (or Aboriginal Pipeline Group) has an agreement to own a 30% interest in the Mackenzie Valley Pipeline.

Natural gas from the three anchor fields will be the first to flow through the Mackenzie Gas Project. Additional resources may be added if they are available. The pipeline will be approximately 1220 km long and has been designed to carry up to 34 million cubic metres per day of natural gas.

Liquids will be stripped from gas at a processing plant in Inuvik and shipped to Norman Wells in a new pipeline where it will enter the existing IPL pipeline for further transport south.

The presently estimated cost of the Project is approximately $7.5 billion for the approximately 20-30 years it may operate. Construction will be finished in three years with peak employment of about 8,700 workers (the population of the Mackenzie Valley is about 12,000 people). About 150 people will be required to operate the entire system.

A Joint Review Panel was appointed on August 18, 2004 to conduct an environmental assessment of the Project. A separate review of the Project is also being carried out by the National Energy Board. Further regulatory approvals will also be required, if and when the Project proceeds.

Fiscal Certainty and Subsidies for the Mackenzie Gas Project

The Deputy Prime Minister sent a letter dated November 16, 2005 to the MGP proponents (see http://www.ainc-inac.gc.ca/nr/prs/s-d2005/dpm_e.html) confirming the proponents' request for $1.2 billion in subsidies to make the project economically viable. The federal government in that letter and a related letter to the NWT government (see http://www.ainc-inac.gc.ca/nr/prs/s-d2005/asl_e.html), committed to the following:

- Considering an equity loan guarantee for the Aboriginal Pipeline Group;
- Maintaining a competitive tax environment;
- No intentions of any project-specific taxes or for the region as a whole;

- Any devolution arrangements with the NWT government or new self-government agreements will be consistent with the federal commitments for the MGP; and
- Opposing any moves by Aboriginal governments to raise tax-like revenues from the MGP.

The NWT government sent a letter dated November 22, 2005 to the MGP proponents (see http://www.ngps.nt.ca/Upload/Interveners/O%20Reilly%20-%20Kevin%20-%20citizen/05-11-22%20Mackenzie%20Gas%20Project%20Fiscal%20Assurances.pdf) committing to the following:

- No intention of introducing or supporting any new, targeted tax, or royalty changes (post-devolution) that would negatively impact the MGP;
- Maintaining the current royalty regime for the three anchor fields;
- No intention of raising property taxes in a manner to capture revenues from the MGP;
- No new fiscal measures or taxes to target the MGP;
- Working with the proponents to determine fair and equitable arrangements for the filing of corporate income taxes for the MGP; and
- Ensuring future devolution agreements are consistent with the above commitments and those made by the federal governments.

The current federal government has indicated that it does not support any further public subsidies for the MGP. The idea of a government equity stake in the MGP was recently floated by the chief federal negotiator for the MGP, but Imperial Oil has not supported this concept now or in the past.

Further negotiations on public subsidies are expected this fall after Imperial Oil releases revised cost estimates for the MGP.

Profitability of the Oil and Gas Sector in Canada

Last year the oil and gas industry in Canada made profits of $31.3 billion. Imperial Oil had record profits of $3.1 billion over the last 12 months, an increase of 53% over the same period the previous year. This is the fifth highest corporate profit rate for any Canadian company last year. Shell Canada made a profit of $1.99 billion over the last year.

The federal government provided subsidies to the oil and gas sector that totaled more than $1.4 billion last year according to a recent petition filed by the Pembina Institute with Canada's Auditor General (http://www.pembina.org/pdf/news/AG-Petition.pdf).