RDC 26th Annual Conference

Alaska Oil and Gas: On the Verge of Another Boom?

November 16, 2005

Marathon

Except for historical information, the enclosed presentation materials contain forward-looking information. This forward-looking information is subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied from such information. In accordance with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, Marathon Oil Corporation has included in its Annual Report on Form 10-K for the year ended December 31, 2004, and in subsequent Forms 10-Q and 8-K, cautionary language identifying important factors, though not necessarily all such factors, that could cause future outcomes to differ materially from those set forth in the forward-looking statements.

Cook Inlet Oil & Gas in Transition

- **Marathon's Views**
  - Current Cook Inlet Gas Business
  - Transition into a Challenging Future

Marathon Alaska Historical Highlights

- 1954 – The Ohio Oil company (now Marathon) & partners lease the Swanson River area.
- 1957 – Swanson River Field discovery
- 1959 – Kenai gas field discovery
- 1965 – Trading Bay & McArthur River oil field discoveries

Marathon Alaska
Historical Highlights cont…

- 1967 – Beaver Creek gas field and Dolly Varden platform installation
- 1969 – Kenai LNG facility dedication & first LNG cargo delivery to Japan
- 1979 – Cannery Loop gas field discovery
- 1986 – Steelhead platform installation

Marathon Alaska
Historical Highlights cont…

- 2000 – Glacier drilling rig commissioned
- 2002 – Ninilchik gas field discovery
- 2003 – Kenai Kachemak pipeline installation & Ninilchik first gas sales
- 2004 – Kasilof gas field discovery
- 2004 – 50th year on the Last Frontier!

Cook Inlet Natural Gas: Current Status – Reserves and Deliverability

- Cook Inlet Natural Gas Reserves Have Increased
  - 2003 DNR* Estimate 2032.8 BCF
  - 2004 DNR* Estimate 2087.5 BCF
  - But supply/demand balance is tight
- Cook Inlet Deliverability Seems to have stabilized
  - 2005/2005 deliverability estimated at around 700 mmscfd**
  - But legacy field deliverability in decline

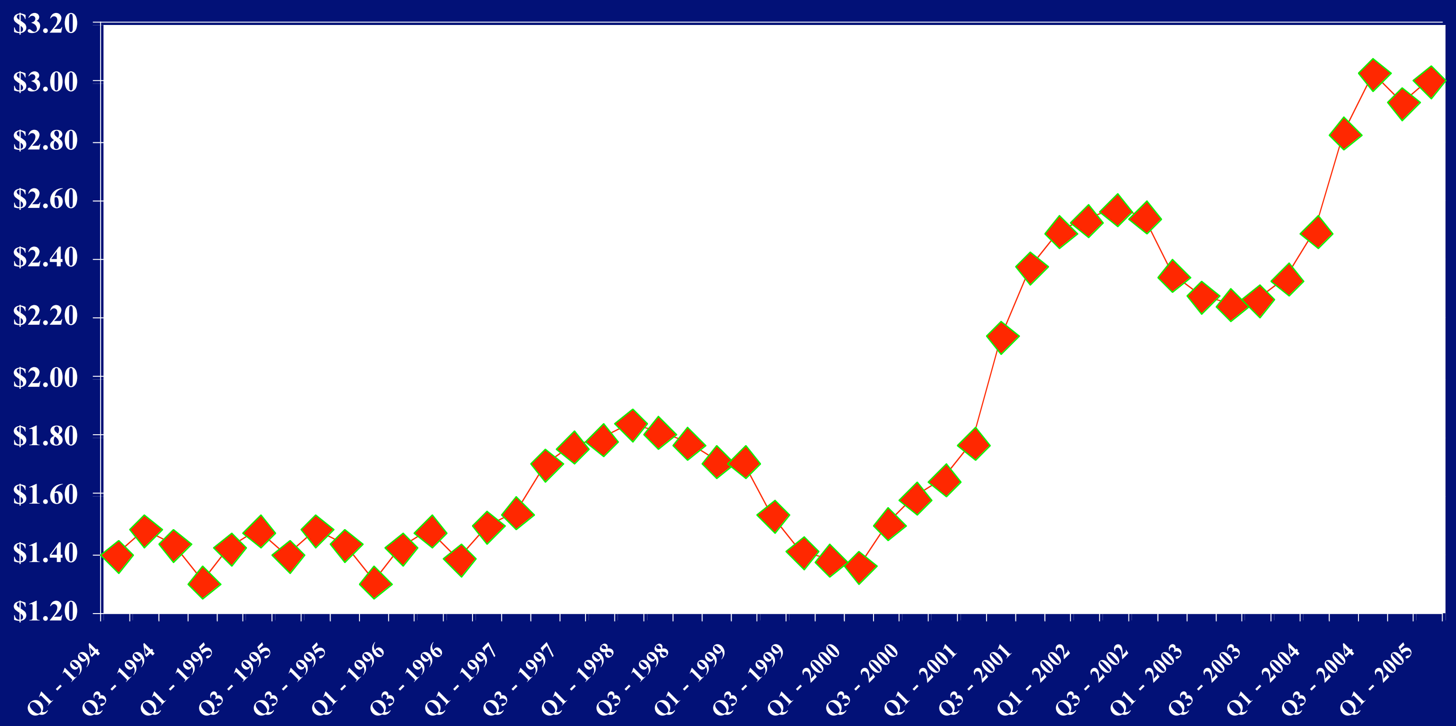
*2004 State of Alaska Department of Natural Resources (Division of Oil and Gas) Annual Report

** Marathon Estimate

Cook Inlet Natural Gas: Current Status – Natural Gas Prices

- Price of Cook Inlet gas price going up

Cook Inlet Prevailing Value
First Quarter 1994 – First Quarter 2005



Cook Inlet Natural Gas: Current Status - Pipelines

- As of 1 November, 4 major pipelines which are operated by Marathon are in regulated service
  - Kenai Kachemak Pipeline (KKPL)
    - Most costly RCA process.
  - Kenai Nikiski Pipeline (KNPL)
    - Final RCA settlement negotiations underway
  - Cook Inlet Gas Gathering System (CIGGS)
    - Lengthy, comples settlement submitted to RCA in September
    - About 4 mmscfd of non-affiliated gas affected
  - Beluga Pipeline (BPL)
    - Petitioned RCA to allow bidirectional service
    - Requested new $0.25 “postage stamp” tariff, reduction from $0.33

Cook Inlet Natural Gas: Transition – Cook Inlet Recipe for Success……

- Ingredients
  - Resource Potential
    - DOE report shows resource potential
  - Available long-term markets
  - Competitive Price signals which attract capital
  - Open pipeline infrastructure
  - Good access to leases
  - State of Alaska incentives

Cook Inlet Natural Gas: Transition – Cook Inlet Recipe for Success……

- What's missing
  - **Multi-year industrial contracts (LNG, fertilizer, refining, etc.)**
  - Seasonal gas pricing
    - Utility contract opportunities
    - LNG extension
    - Multi year industrial consumer contracts
  - Pipeline link to other markets or gas sources
  - Gas storage facilities to handle wide swings in seasonal gas demand (legacy fields no longer have spare deliverability)

The Top 3 Non-Market Challenges to Exploration and Development

- Permitting

Permitting Challenge – Drill Wells

Permits/Permissions/Plans/Reports Required

	Native Exploration	Native Develop.	State Exploration	State Develop.	Federal Exploration	Federal Develop.
Federal	19	11	7	4	17	10
Alaska	8	8	8	8	8	8
AOGCC	14	14	14	14	14	14
DNR	6	3	6	3	6	3
Ak Misc.	3	3	3	3	3	3
City & Borough	7	7	7	7	7	7
TOTAL	57	44	45	39	55	45

Source: Marathon Oil Company

The Top 3 Challenges to Exploration and Development

- Permitting
- Pipeline Regulatory Environment

Pipeline Regulatory Environment

- Permitting and Regulatory Hurdles
  - RCA “CPN” certificate needed before ROW can be obtained
  - Litigation and regulatory costs are very high for a small pipe
  - Intervention rights can be abused
  - Above leads to lengthy delays and uncertaintities
- This is a disincentive to other pipeline investments, which will be needed as new gas fields are discovered. But…
  - Recent Regulatory Commission of Alaska efforts and initiatives are encouraging.

The Top 3 Challenges to Exploration and Development

- Permitting
- Pipeline Regulatory Environment
- Services and Infrastructure

Services and Infrastructure

- Cook Inlet Service Industry Distressed
  - The qualified contract labor pool (companies and people) is declining and/or exiting the market
  - Material suppliers and fabricators are more dependent upon outside (Canadian and Lower 48) than when the local demand was greater
  - All costs are going up in relation to worldwide trends, creating further disadvantages for the Cook Inlet
- But….
  - A stronger overall oil and gas industry in the Cook Inlet should allow for a stronger service industry.

Take Home Messages

- Cook Inlet natural Gas Industry
  - On the verge of something. Boom or bust?
  - Outcome will be determined by how challenges are met
    - By Industry
    - By regulatory and permitting bodies
    - By consumers
    - By outside forces


MARATHON
Thank You!