COOK INLET- 2008 & BEYOND

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Marathon

Forward Looking Statement

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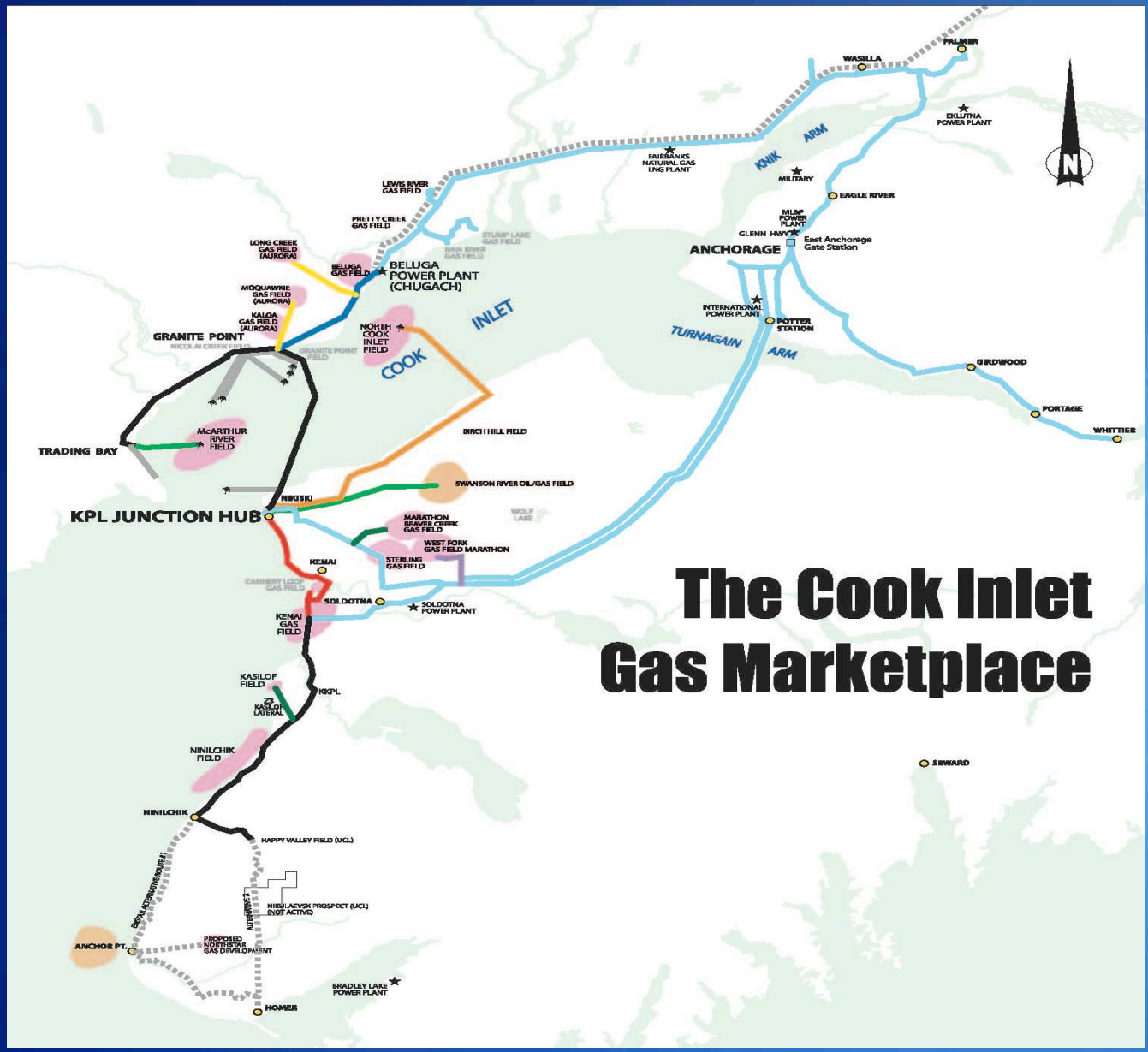
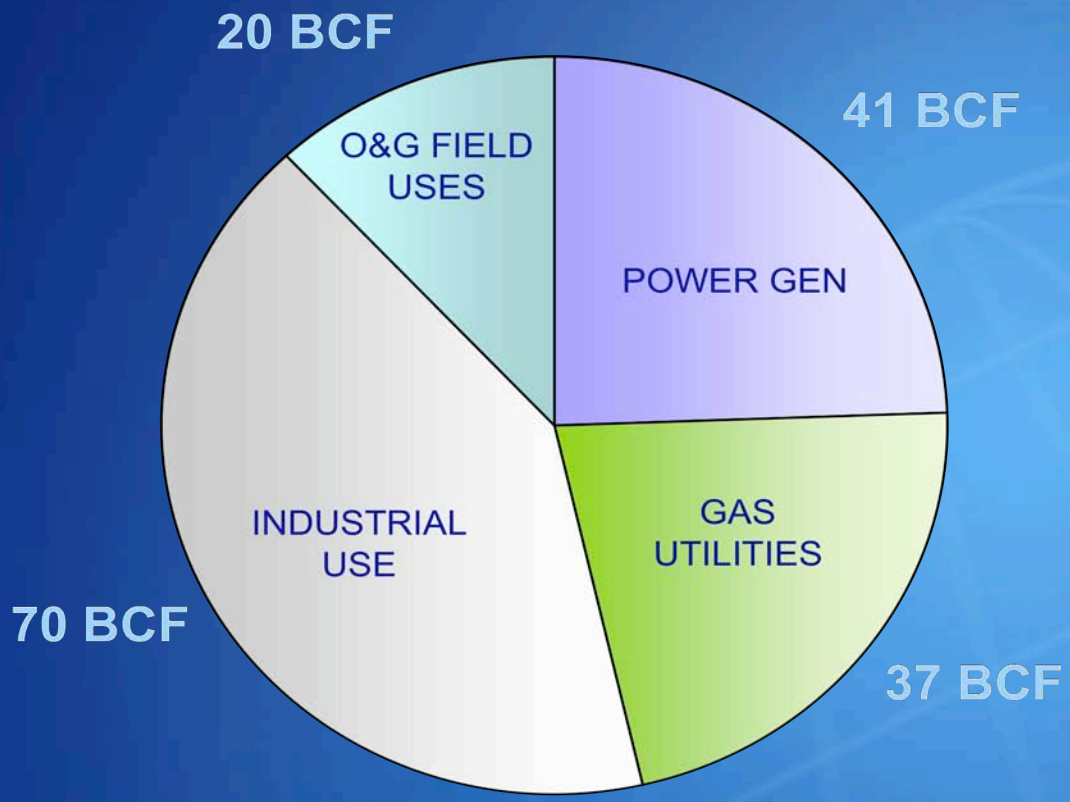
Cook Inlet Gas Supply : Today

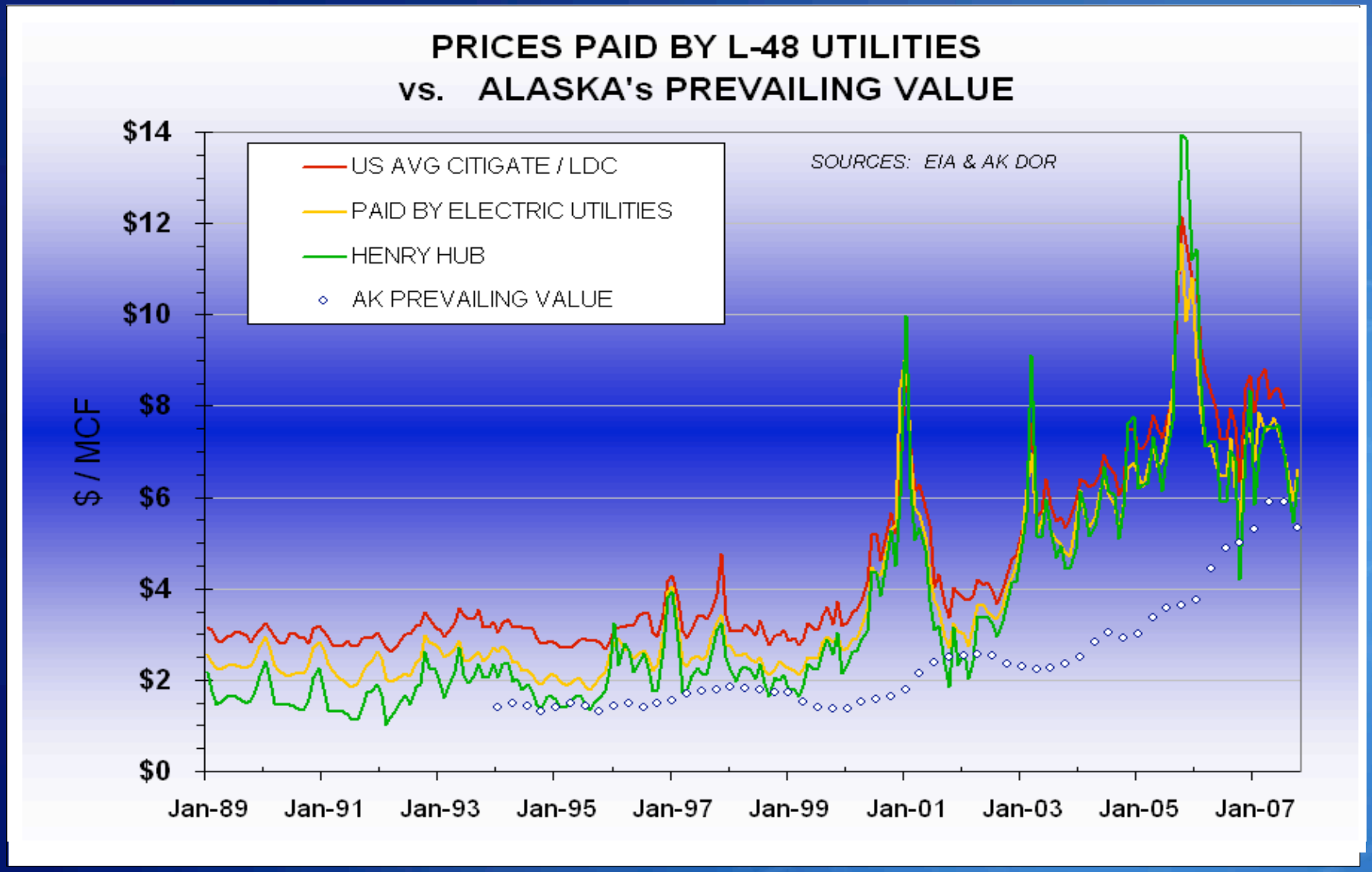


Cook Inlet Gas Market Components

2008 Estimated Consumption (Total 168 BCF)



Cook Inlet Market Fundamentals



Present Day Practices

- To date, Enstar has required its key suppliers to meet its "full requirements";
  - No price discrimination between baseload and peak deliveries
- With well cycling no longer an option in most cases, some producers have integrated moderate gas storage capabilities into existing operations to help facilitate these requirements.
- Producers also attempt to structure flexible sales contracts with other buyers (e.g. allowing temporary interruptions to non-critical load), to ensure peak utility demands are met on the coldest winter days.
  - The Kenai LNG plant has provided this service for several years.
  - The plant remains a critical component of supply security for South Central Alaska's residential and commercial customers.

Cook Inlet : Looking to the Future

- **Significant Remaining Resource Potential**
  - **In existing fields**
    - 1,650 BCF Proven reserves remaining
      (ADNR Feb. 2007)
    - 515 BCF Probable
      (N.S.A.I. January, 2007)
    - 1,000 to 3,000 BCF reserve growth
      (D.O.E. 1999)
  - **And/Or New Field Discoveries**
    - 1,005 BCF to 6,550 BCF Undiscovered Resource
      (Potential Gas Committee – 2003)
    - 13,000 to 17,000 BCF of additional recoverable gas potential
      (D.O.E. 2004 – South Central Alaska Natural Gas Study)

Challenges to providing future Gas Supply from the Cook Inlet

- South Central Alaska gas prices, although improving, remain well below benchmark U.S. Markets
- Operations are remote, the environment is harsh, and activity levels are low
  - Higher development and operating costs are incurred
- Regulatory Practices are burdensome, expensive and very time consuming
- The Net result……
  - The Cook Inlet is a relatively small market and is competitively disadvantaged given the current conditions

Challenge can lead to Opportunity

- In the *long term*……
  North Slope Gas is likely to play a significant role
- *Until then*……
  Suppliers, Buyers, and State Agencies must build the "Bridge" using "Cook Inlet Iron"
  - Let market forces work
  - Streamline Regulatory processes
  - Preserve market access for producers
  - Provide Incentives for risk takers
    - Exploration and/or Technology
  - Development of a portfolio of gas storage services
    - dictated by market driven fundamentals

The many roles of Gas Storage

- Seasonal swing *(depleted underground reservoirs)*-
  - Banks summer supplies to meet winter "baseload" needs;
  - Improves year round load factor of future pipeline, reducing end user costs my improving capital efficiency
- Winter peak shaving *(LNG peak shaver)*-
    - Provides "needle peak' supplies while allowing gas producing wells to flow at constant, more efficient rates;
- Reliability enhancement *(LNG peak shaver)*-
  - Increases the reliability of gas delivery systems by moving gas closer to markets, & downstream of potential pipeline constraints.

In Summary: C.I. 2008 & Beyond

- Substantial resources (perhaps as much as 17 TCF) remain to be discovered and developed in the Cook Inlet given an appropriate investment climate.
- The State of Alaska and Regulatory Agencies must streamline existing policy, and develop new policy that encourages growth and investment in Cook Inlet gas.
- The Kenai LNG plant, while in operation, will continue to provide "virtual" storage
  - A vital service, at least until other alternatives are developed.
- Development of additional "peak shaving" capability is critical for South Central Alaska's consumers to "bridge" the gap to North Slope gas;
- Seasonal storage projects are also likely to play a key role.
  - When a "Spur" from the North is eventually built, its gas could refill Cook Inlet storage in the summer, & serve base-loads in the winter;
  - Using a "spur" pipeline year-round, —at a high load factor, —would improve capital efficiency, & thus reduce end user costs for South Central Alaska consumers.

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On the web at: "www.marathon.com"

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Gas Reservoir Dynamics