

Keynote Address to the 2009 World Gas Conference



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Thank you very much. And I want to thank our hosts here in Buenos Aires for their gracious hospitality. Chevron has worked in partnership with Argentina for almost 90 years. Our business here includes the production of oil and natural gas, as well as marketing and retail operations.

Recently, we opened a Shared Services Center in Buenos Aires. It provides accounting services for many of our businesses in Latin America, the United Kingdom and the United States. Importantly, the Shared Services Center here has provided 175 local jobs, bringing Chevron's Argentina employee base to about 500 people.

Our community involvement in Argentina runs deep, and we are proud to be a major sponsor of the World Gas Conference.

Now, let's imagine a natural gas project that could, over its lifetime, produce enough energy to power a city of 1 million people for the next 800 years — a project of such scale, scope, ingenuity and commitment that it would expand the possibilities of what a natural gas project could be in the 21st century.

Not so long ago, we could have only imagined a project of this breadth and promise. Today, because of growth in market demand, particularly in Asia, it's a reality. It's under construction, and I will tell you more about it in a minute.

The fact is — natural gas has come of age. What was once a second prize to oil is now a premium commodity.

Today, natural gas is almost one-quarter of the world's energy mix. And the importance of this abundant, clean-burning hydrocarbon to the world's future energy needs will only continue to grow.

Chevron believes in natural gas. We have 150 trillion cubic feet of un-risked gas resources located throughout the world. Our holdings in the Asia-Pacific region are the largest in our competitor group. Natural gas will clearly have a larger role in our future.

Today, our industry is gripped by tough, complex challenges: sustaining long-term growth and the supply of new gas to market, while managing investments in the short term. In recent years, the global gas business has achieved strong momentum. We've seen development of a global gas infrastructure through LNG, gas-to-liquids and long-distance pipeline projects.

Now we are confronted by a recession that has weakened many of the world's economies. This is particularly evident in the United States where gas prices are depressed. On an OEG basis, the Henry Hub gas index is trading at approximately 25 percent of West Texas Intermediate oil prices, a drop of almost one-half in one year.

The recession has adversely impacted financing and cash flows. Project development costs remain high. We're not just dealing with the effects of a recession, however. We're confronted by other ongoing challenges, such as geopolitics and the reality of making final investment decisions while in a high-cost environment.

At the same time, the world has a lot of natural gas. Market demand from regions like the Asia-Pacific is strong. And this cleanest-burning of all hydrocarbons is increasingly regarded as a bridge to a lower-carbon future.

Our job is to balance these challenges and opportunities to benefit our companies, our partners, our customers and suppliers, and the countries that have the resources.

The World Gas Conference has a distinguished history of engaging the critical issues facing our industry. So I appreciate the opportunity to offer some ideas on how we can better navigate the current environment.

Let me start by saying that I am confident in Chevron's ability to continue investing for the long term.

Three weeks ago, Chevron and our partners, ExxonMobil and Shell, announced a final investment decision on the Gorgon Project in Australia. The first phase of Gorgon will be an investment of \$43 billion Australian dollars, making it one of the world's largest foundation LNG developments with initially three trains totaling 15 million tons of LNG per annum.

Gorgon is the project that I referred to at the beginning of my remarks — the project with enough energy to power a city of 1 million people for the next 800 years. It's a legacy project, a long-term growth engine with prime access to the entire Asia-Pacific market.

Chevron has signed sales and purchase agreements with Tokyo Gas, Osaka Gas and GS Caltex, and Heads of Agreements with Chubu Electric and Korea Gas Corporation.

Gorgon also will include the largest, most advanced carbon injection and sequestration project in the world. Approximately 120 million tons of CO₂ will be sequestered over the life of the asset. Through the injection and sequestration and the energy efficiency of the project's equipment, Gorgon will be one of the most carbon-efficient LNG projects in the world.

Gorgon is a massive investment — the largest development in Chevron's history — but it's not all we are doing in LNG in Australia.

Next in line is our Wheatstone LNG Project, which includes natural gas from the Wheatstone and Iago fields offshore northwest Australia. Wheatstone will include two LNG processing trains, each with a total capacity of 4.3 million tons per year, and a domestic gas plant supplied by our equity gas from the Wheatstone and Iago fields.

We recently awarded a front-end engineering and design contract for the first phase of this project. It will anchor and facilitate the development of not only the Wheatstone field, but other nearby gas fields as well.

I mention both Gorgon and Wheatstone because they reaffirm a point that's important to all of us. And that point is this: Going forward, natural gas will become a larger part of the world's energy equation.

The International Energy Agency forecasts that global demand for natural gas will increase roughly 50 percent by 2030. To satisfy that demand, the IEA estimates that a cumulative investment of \$5.5 trillion dollars, or \$227 billion dollars per year, will be required over the next 20 years to satisfy long-term global demand for natural gas.

I believe there are three fundamental things that must happen to meet this demand growth.

First, development costs must continue to come down. Second, our industry must continue to invest for the long-term. And third, we must focus relentlessly on superior project execution.

These three drivers are always important, but now they are critically important. Let's briefly talk about each one, starting with cost. All of us recognize that rising costs in recent years have put pressure on the economic returns of our investments.

There are modest signs that cost pressures are beginning to ease. So far in 2009, the CERA upstream capital cost index has shown only a 12 percent reduction in costs. For projects to be developed economically, there needs to be further cost reductions.

The second fundamental area we need to focus on is investing for the long term, to ensure there's sufficient energy available to grow the world's economies.

Investing for the long term is a requirement for our industry. Without continued investment, natural gas will simply not be available to meet demand and drive economic growth.

Investing in long-term projects must always be guided by transparency, predictability and discipline. Stable, predictable and reasonable terms are needed to ensure that investment continues to flow. Taxes, fiscal regimes, sound regulatory structures and sanctity of contracts must be in place and fit together.

The Angola LNG project is a good example of this. Angola LNG, with Sonangol and Chevron as the largest shareholders, is currently under construction, and it's one of the biggest projects under way in Africa. It's a multi-billion dollar development with multiple joint ventures supplying gas to a liquefaction facility with five partners.

Angola LNG will monetize associated gas from a series of both deepwater and shallow water blocks located offshore Angola. It will produce about 5.2 million metric tons per year of LNG, or approximately 750 million cubic feet of gas per day for export to the U.S., Europe and Asia.

We anticipate it will start up in 2012. When it does, Angola LNG will facilitate offshore oil development, provide domestic supply, reduce flaring and create a new industry for Angola.

Angola LNG is an excellent project, an excellent investment, and an excellent example of why our industry needs to stay the course.

The third fundamental area we need to focus on is superior project execution. We must efficiently and cost-effectively deliver on projects that fulfill our commitments to host governments and buyers. That means building projects in a safe, reliable, economic and environmentally responsible manner.

To be successful, our industry must be proficient at managing large, complex projects with multiple partners in challenging environments. Last year, Chevron brought online nine major oil and gas projects around the world. Three of the largest that we operate — Agbami in Nigeria, the Tengiz Expansion in Kazakhstan and Blind Faith in the U.S. Gulf of Mexico — are complex, multi-billion dollar projects.

This year, we will follow up with another seven startups, including three multi-billion dollar Chevron-operated projects: Tahiti in the U.S. Gulf of Mexico, Frade in Brazil, and Tombua-Landana in Angola.

Our experience, expertise and track record gives us confidence in our ability to execute Gorgon with excellence.

Managing costs, investing for the long term and superior project execution — going forward, those who get these fundamentals right will be successful in the natural gas business.

There is another important aspect in successful execution of natural gas projects. Our investments create opportunities for local communities. Chevron's approach to community engagement is strategic. We target key areas such as job creation, health care, and education and training. All of these contribute to building human capacity and a healthy, growing society.

In countries where we have major investments, the first value that we provide, other than a revenue stream, is jobs. Our Angola LNG project, for example, will employ approximately 3,500 to 4,500 Angolans during the construction phase. And, we have targeted spending over \$1 billion in local goods and services for the project.

We also make a variety of investments into the social health of the communities where we operate — areas such as education, malaria prevention, HIV/AIDS training, and local economic development. My point is that the investments in the communities where we operate are an important part of the way we do business.

The development of energy should benefit everybody who is involved: our shareholders, our employees, customers and suppliers, our partners, and the countries and communities where the resources are found.

In closing, I want to state my confidence in the future of natural gas. I am confident that the importance of natural gas to the world's energy portfolio will continue to grow. I am confident that the global gas business that we are building will sustain its momentum. And I am confident that natural gas will redefine the world's energy equation in the 21st century.

Thank you.