

**REMARKS BY
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THE STATE OF ENERGY SUMMIT: THE NEXT GENERATION OF JOBS IN NORTH DAKOTA

**FARGO, MOORHEAD, WEST FARGO
CHAMBER OF COMMERCE
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Thank you all very much for that warm welcome.

I want to thank Senator Hoeven for his gracious invitation – and the hospitality that he and all of you have shown us. I also want to acknowledge the Senator, Governor Dalrymple and members of the North Dakota Legislature, as well as the many local government officials whose leadership and vision have created the foundation for a bright future for all North Dakotans.

It's always a pleasure to come to North Dakota because of the wonderful people of this state, and because this is home to the Bakken Shale, a critically important part of our business at Marathon – and a major reason North Dakota leads the nation in job growth.

Some of you will recall that Clarence Cazalot, Marathon's chairman, president and CEO, Terry Kovacevich, the head of our North Dakota production operations, and others from Marathon have spoken to many of you about energy security over the past few years.

When the national economy was good, this was a necessary conversation. Rising energy demand was a byproduct of global economic growth. And there was real uncertainty about where we were going to find enough supply to meet this growing demand.

That backdrop set the stage for a somewhat linear conversation about where we were, where we wanted to be and how we would get there.

Those of us in the industry talked about building a diverse supply portfolio in a safe and environmentally sustainable manner, about how technology and innovation could help make this diverse supply possible, while at the same time making energy more affordable and available.

All of that is still valid.

Every day, events around the world reinforce just *how* important this is. But today, rather than thinking on a linear continuum, I'm thinking about an intersection.

Coming from one direction, we have the revolutionary supply developments of the last couple of years. From the other direction, we have the economic downturn. The oil and gas industry sits right at the center of the two events – one of them positive, one of them negative.

And this is a critical moment in time for us.

New supply developments have given us the opportunity to create tens of thousands of new jobs, both within our industry and in a wide range of other industries that support our operations.

We can generate millions in revenue for local, state and national treasuries. And we can provide the kind of economic stimulus the country needs. Importantly, we can do all this responsibly ... *while also* securing a more stable supply of energy.

The revolution in unconventional resource development represents a step-change for our industry and for our economy.

People are now talking about a 100-year natural gas supply in this country, about the United States becoming “the Saudi Arabia” of natural gas, and about us potentially becoming an *exporter* of energy.

The Bakken is a huge part of this revolution.

But the resource potential isn’t limited to natural gas, and the Bakken is a shining example of how this revolution has manifested itself through increased crude oil production.

This is true of other places like the Eagle Ford shale play in south Texas, the Anadarko Woodford in Oklahoma, and the Niobrara in Wyoming and Colorado.

To illustrate this point, oil production in the Eagle Ford has risen from 130,000 barrels in 2008 to 3 million barrels last year. Marathon is completing a \$3.5 billion investment in this very large oil and natural gas shale play and we estimate our production alone from the Eagle Ford will be 100,000 net barrels of oil equivalent per day by 2016.

In total, the magnitude of the overall shale gas and liquids potential in North America is enormous. In my opinion, this is a gift. And it stands in stark contrast to what we thought U.S. energy supplies would be just a few years ago.

It was enabled by a combination of long-term investments in technology ... *and persistence*. But it can be endangered by misinformation and by short-sighted policy choices.

No one is better equipped to tell this story than those of us in the industry. We see where the opportunities lie. We understand how new resource plays can drive economic recovery.

We're sitting at a critical intersection, but we'll only be able to move forward if we give people something they don't have right now. What are those things?

- The trust and understanding that the oil and gas industry can deliver energy and economic security simultaneously;
- that we will continue to do it safely and responsibly; and
- that the benefits will extend far beyond our industry.

I see at least three areas where we can make our case.

The first area has to do with jobs and economic development.

The oil and natural gas industry supports more than 9 million jobs, and many of them are high-paying jobs with salaries well above the national average.

The industry contributes more than \$1 trillion to the U.S. economy and represents more than 7.7 percent of our national GDP.

Millions of Americans with a 401(k), a mutual fund or a pension rely on the income and capital growth of oil and natural gas companies for their retirement.

One recent study looked at the contributions of oil and natural gas companies to major public employee pension plans in 17 states. These are the plans that support the retirements of teachers, firefighters, policemen and others.

The study found that, here in North Dakota for example, the oil and natural gas sector comprises 4.3% of the assets of the state's two-largest public employee retirement plans – the Public School Employees' Retirement System and the State Employees' Retirement System.

More than 43,000 North Dakotans rely on these plans. And from 2005-2009, the 5-year rate of return on the plan's assets in oil and gas was 41%. The return on everything else was 2%.

So clearly, our industry is helping to improve people's retirement security while we enhance our country's energy security.

Those are big numbers. But let me share a few more:

Right now, about 190 rigs are in operation in North Dakota. Each one is connected to about 120 direct and indirect jobs – nearly 23,000 jobs in total.

As I mentioned a moment ago, in 2010, this state was the No. 1 job market in the country, with by far the lowest unemployment rate of any of the 50 states. And at 7 percent, you also led the nation in GDP growth.

Last year, the state collected \$750 million in taxes, \$85 million in royalty payments and \$295 million in lease bonuses, thanks to the Bakken.

And it only gets better. According to the North Dakota Department of Mineral Resources, oil production in this state is projected to reach about 750,000 barrels of oil per day by 2015. This is greater than the current level of imports from oil-rich nations like Russia, Angola and Kuwait – *combined*.

The investments to support this level of production could increase to over \$50 billion annually by 2020, creating 16,000 more jobs in the state in the process.

At a time when we're looking to put people back to work, generate revenue for state and federal treasuries, and secure large capital investments, we have a model in North Dakota.

You're right at the intersection I've described ... only you're the lead car.

Now I recognize that with this substantial growth come challenges, particularly with regard to infrastructure issues like road use, traffic and housing. Notwithstanding the overall positive economic benefits to the state, these are important issues and Marathon remains committed to working with state and local officials to help address these challenges over the long term.

For our part at Marathon, we consider the Bakken Shale play to be one of the centerpieces of our unconventional resource portfolio. It's a top priority for us.

We've only been in the Bakken since 2005; but by 2010 it accounted for 17 percent of our total U.S. liquid hydrocarbon sales.

In 2011, we plan to drill 55 operated wells and 70 to 90 outside-operated wells in the Bakken. By 2016, we estimate our net production from the Bakken will be approximately 33,000 barrels of oil equivalent per day, up from about 20,000 by the end of this year.

This is the kind of sustained investment that will continue to pay dividends – both for us and for the communities in which we operate.

Of course, our ability to deliver this kind of economic progress depends on our ability to operate. And in many ways, that depends on getting the right public policies in place.

“Right” means providing certainty of the rules and paving the way for new investments and technologies that will propel our nation's recovery forward.

This is the second thing I want to talk with you about this morning.

Without question, technology has had an overwhelmingly positive impact on our business over the last several years. Seismic imaging, horizontal drilling and ultra-deepwater drilling technologies have all been enablers of our exploration and production operations.

But nothing has had an impact on our industry like the advances in hydraulic fracturing, or fracking.

Before I go any further, I would like to thank the North Dakota legislature for their recognition of how important hydraulic fracturing is to the Bakken by passing House Bill 1216 during this year's session, which recognized this as an acceptable recovery process in North Dakota.

For those of you who aren't familiar with fracking, the process increases the rate at which oil and natural gas are released from reservoir rock.

The process involves pumping frack fluid -- 99.5 percent of which is composed of sand and water, and one-half percent chemical additives -- through perforations in production casing deep within the wellbore at high pressures.

The high pressure of the process creates fractures in the rock formation. Sand wedged into these cracks keeps them open so hydrocarbons can be released into the wellbore and then brought up to the surface.

We've been safely using this technology for more than 60 years in more than one million wells. But recent advancements allow us to free oil and gas locked in very tight shale rock formations like the Bakken.

We now use imaging technologies to identify where to do it. We employ different drilling plans and equipment that determine how we do it. And, where possible, we're able to clean and reuse a portion of the water from our frack jobs.

We believe we're just starting to go up the bell curve when it comes to the development of new technologies. We are just identifying new leads. And these developments are – of course – good for our business.

But the rapid growth that fracking has enabled has also drawn attention to the process in a media environment where information – *and, sadly, misinformation* – travels fast and where mistakes are on display in an instant.

I may be swimming upstream here, but I believe these challenges are opportunities for our industry, and that the increased scrutiny is *actually good* for our business.

Why? Because it forces us to be even better than we are. And it provides us with the opportunity to tell our story and educate people in the process.

At Marathon, we work closely with our employees, partners, suppliers and contractors. They help ensure that our fracture treatments are as efficient and as environmentally friendly as possible.

Here in North Dakota, we're using state-of-the-art automated rigs in the Bakken to achieve best-in-class drilling performance. Over the last five years we have reduced the time it takes to drill our wells in North Dakota and we've improved safety and energy efficiency. We also have started publicly disclosing frack fluid constituents in specific wells.

Hydraulic fracturing is poised to turn shale gas and oil into a global resource. But only if we do fracking right; and if we do it in partnership, not in conflict, with the regulatory bodies that may share some of the public's concern.

When we work this way with government, we're helping them to understand what we do. We're giving them a front row seat to the next-generation innovations that are making our operations better and better all the time.

But unfortunately, we continue to see policies that threaten the opportunity before us – not just for oil and natural gas but for other resources as well. And not just in this country.

After the tsunami in Japan, people have new questions about nuclear power. Germany has pulled out of it altogether.

France has banned fracking – protecting its nuclear industry from encroachment by natural gas.

And here in the U.S., we saw the offshore drilling moratorium after the Deepwater Horizon accident. The moratorium itself lasted only a period of months, but more than five rigs left the Gulf for friendlier waters during that time.

Nearly as bad as the moratorium is the “permit-orium” we're experiencing right now. Though the Gulf is technically open for exploration and production, there is a tremendous backlog of permit requests that regulatory authorities have been slow to approve.

Together with the economic downturn, the moratorium and the permit slow-down have contributed to an estimated 10 percent year-to-year decline in total spending and 33 percent decline in capital spending in the Gulf from 2009-2010, according to one recent study.

In an environment where unemployment hovers around 9 percent and dismal jobs reports continue month after month, these deepwater developments are the kind of large-scale, job-creating projects everyone wants to see.

The same study also found that correcting the permit backlog would create 187,000 new jobs nationwide and would stimulate a \$9 billion increase in capital expenditures by 2013.

In total, the permit slowdown will likely affect production – and employment – in the Gulf through 2018.

By contrast, North Dakota's regulatory and streamlined permitting process for our industry is a model that other states and our federal government should follow. In addition to the benefits to our industry in terms of our ability to operate, it has also helped to support the large economic growth you're seeing in this state.

So clearly, policymaking on the basis of fear and uncertainty does no one any favors. Neither does the temptation to over-study, over-analyze and over-regulate.

Here in this state, for example, new EPA air regulations are threatening two coal-fired power plants – plants that provide power to more than one million homes.

This is unacceptable. And it's happening nationwide.

A thoughtful, appropriate, collaborative policy environment will drive recovery, spur innovation and promote sustained, responsible development. This is not just the goal, it's the imperative.

This brings me to the third thing I want to talk to you about today -- corporate citizenship.

While this state serves as a model for economic success, I hope you would agree that another model exists here in North Dakota.

I'm talking about the way corporations should view themselves as not just part of communities, but *guests* in communities.

It's your roads, your water, your infrastructure. Without these things, we couldn't operate. We know that. Your consent is our license to operate.

We also know that our being here has an impact on your communities. That impact comes in the form of jobs, taxes and revenue, as I mentioned earlier.

But it also comes in the form of growth that takes place perhaps quicker than you'd expect it. And that has an effect on everything from traffic to housing markets to local wildlife.

We do all that we can to minimize these disruptions and to make the places where we operate safer, cleaner and better.

As an example, for the past four years, our team in the Bakken has orchestrated a back-to-school safety campaign to remind drivers to slow down for school buses.

We place signage on school bus routes and attach large bumper stickers on trucks. Each year, the program has expanded, and today it's up and running in areas as far as 100 miles from our operations.

We have remained committed to providing very active support to the North Dakota Petroleum Council's safe driving campaigns as activity levels increased.

We also recognize that protecting wildlife is part of what it means to be a good neighbor and a responsible operator. We educate our employees and contractors about their role in preventing harm to birds, and we take proactive measures to keep birds and other wildlife safe in the areas we operate.

In fact, we were one of the first operators to eliminate reserve pits – which present hazards for birds – from our operations.

Additionally, when migratory birds appear in the Bakken, our operations can come to a standstill.

In 2010, two fracture simulation operations were delayed because migratory birds had nested on-site. Recently, two production wells were shut-in because active bird nests were on the pumping units. We kept them shut-in until the birds left the nest.

In addition, in the Bakken and elsewhere, we have implemented proactive environmental practices in sensitive areas.

And after this spring's floods in Bismarck, Medora and Minot, our employees volunteered, and our company donated supplies and financial support.

We hope the way we've handled ourselves in North Dakota leaves you with a positive impression of our company ... and with a very clear and distinct idea of the value we place on your support and of our ability to count ourselves as members of the North Dakota community.

There is tremendous activity in the Bakken right now ... and some tremendous work being done here.

We want our commitment to the people of this state to be equally tremendous. And I can tell you that it will.

The way we see it, North Dakota is a microcosm of the United States' potential – in job creation, in technology and innovation and in encouraging responsible corporate citizenship.

The opportunity before us is to take that model, show that it works and replicate it elsewhere. And a core component of that is building a deeper public understanding of the value that our industry brings to communities and to people's lives.

We are facing tough challenges right now. And while challenges are often related, or exacerbated by each other's existence, it's *not* often that big challenges intersect so clearly.

It's also not often that one industry finds itself so squarely positioned at that intersection ... and so ably equipped to overcome these big challenges.

North Dakota has provided the model; we're ready to sustain the progress here and bring it elsewhere.

Our shared prosperity and our national recovery depend on it.

Thank you very much.