

BP AK LNG Testimony to House and Senate Resource Committees

David Van Tuyl, BP

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Madam Chair, members of the committee, for the record my name is David Van Tuyl and I am the Regional Manager for BP here in Alaska. I've been working for BP in Alaska for over 32 years, the last several of which have been dedicated to working to get Alaska's gas to market.

Tremendous Opportunity

BP has always seen gas as a tremendous opportunity, and we still do. Since before the Prudhoe Bay Unit started production in 1977, BP saw a tremendous opportunity in commercializing Prudhoe Bay Unit gas. And we still see a tremendous opportunity today.

For BP, the opportunity represented by North Slope gas is of such a scale that it is unique to anywhere else on the planet. Alaska gas is the single, biggest undeveloped resource in our portfolio. If we can get Alaska's gas to market, BP can sell over one billion barrels of oil equivalent. That is huge to BP. Huge.

And at the right time, in the right way, this tremendous opportunity can become Alaska's reality.

In 1977, the producers and the State all thought that gas from Prudhoe Bay would be sold into the lower-48 market within five years. The peculiarities of that regulated market would allow Alaska gas to be sold at a higher price than lower-48 produced gas. But when the market was deregulated, the gas price collapsed. So the project was put on hold and then later stopped.

Was that a bad thing? No, the timing wasn't right. Are we better off having preserved Prudhoe Bay Unit gas? Absolutely. We were all blessed with a silver lining. As AOGCC Commissioner Cathy Foerster recently testified to this committee during the hearing on the Prudhoe Bay Unit plan of development, if we sold gas in the early 80s, Prudhoe Bay would have produced only eight billion barrels of oil. And as Commissioner Foerster emphatically put it, production from the PBU would be "**Dead.**" Plus she said that other fields like Niakuk, Ooguruk, Alpine and other satellite fields likely wouldn't have been produced at all.

By investing billions of dollars in oil development, that gas has been used to maximize oil recovery. By expanding PBU gas cycling and using the gas for enhanced oil recovery, we have produced to date over 12 billion barrels of oil. That's four billion barrels more oil than what Commissioner Forrester said was originally expected to be produced. And we still have around two billion barrels of oil more to produce.

Plus we still have over 4 billion barrels of oil equivalent in gas resource remaining. This Prudhoe Bay gas, combined with the known gas at the Point Thomson Field, can underpin a successful Alaska LNG project. To date, we have invested billions of dollars at those fields and continue to invest there. These investments will help us make gas available for a project. So that tremendous opportunity to produce gas from the North Slope remains.

Although there have been other attempts to monetize ANS gas since PBU's early stages, this current attempt began in 2011 when gas prices in Asia were over \$15/mmbtu and expected by many to rise. Then-governor Parnell asked BP, ExxonMobil, ConocoPhillips and TransCanada to work with the State to determine the feasibility of a new project we now know as the "AK LNG Project." The plan was to get Alaska gas moving as LNG to Asia in the mid-2020's.

In January 2014, the parties signed a Heads of Agreement and sought enabling legislation from the legislature which was passed as "SB-138." One of the important activities enabled by SB-138 has been confidential, bi-lateral gas marketing conversations between BP and the State. As evidenced through commitments and comments made in December of last year, BP is willing to make our gas available to a project under mutually agreed, commercially reasonable terms.

BP has been focused in many different ways on making the Alaska LNG project a success. In total, BP has spent our share of over \$600 million as the project nears completion of the pre-FEED phase.

As we heard yesterday, the Alaska LNG project continues to make good technical progress. Pre-FEED work is over 90% complete and Pre-FEED deliverables are anticipated by the middle of next month. The project team has made great progress.

The Project is Challenged

But as we also heard yesterday, the Alaska LNG Project as we know it today is commercially challenged. It's no secret that the shale gas revolution in the lower-48 has fundamentally changed the LNG supply picture. We have heard from multiple industry experts, and BP agrees, that the estimated cost to supply Alaska gas to Asian markets is too high to compete with other, cheaper sources, most notably the US lower-48.

That is the reality against which Alaska LNG must compete. As Wood Mackenzie showed yesterday, in its current form, our project doesn't compete. But as we also heard yesterday from Wood Mackenzie, there are game-changing opportunities for Alaska LNG. Opportunities worth pursuing.

Our project must successfully compete in the global marketplace. LNG is a commodity. Buyers have many choices for purchasing their LNG. Understandably, they want to pay as little as possible. We want to attract buyers. So we want to be able to make a competitive offer.

We understand the State's desire to move the project ahead. We understand the State's fiscal need for a new revenue source in the mid-2020's. And the State should understand that we want to move the project forward, too.

But the next phase, FEED, will likely cost over one billion dollars, maybe more. That kind of a commitment deserves a careful evaluation and a thoughtful decision before we commit our company resources. We don't want to rush into the largest energy project in North America only to end up losing lots of money for all of us. So right now is not the time to make that commitment.

A New Approach

BP is not giving up on the project. Instead, we need to change gears and figure out how to reduce the cost of supply so that the project can be competitive. We believe that the best way to make that happen is with a State-led project and we support the State's efforts. We are determined to find a way to lower the cost of supply and make Alaska LNG competitive in the global marketplace.

One way to do that is to come up with a different, more commercially efficient structure.

It is not unusual for large projects like this one to go through a period of restructuring as they mature. And we think a State project with State ownership could be the best structure to make the project more competitive. Why?

We heard yesterday from Wood Mackenzie that if the Alaska LNG project were restructured with a utility-like toll, it would represent a major step-change in cost of supply. State ownership could provide this structure. That step alone, converting the up-front capital into a toll over time, could allow the project to compete globally. Clearly the details matter and there are many that still remain to be worked out.

Further, State ownership could significantly lower federal taxes, another part of cost of supply. As a tax exempt entity, the State may be uniquely positioned to deliver an important cost of supply reduction to further improve this project's global competitiveness.

As we just heard, details matter. This State-led approach enables the State to shape its policy choices in a way to help improve the competitiveness of the Alaska LNG project.

Because we think the State-owned structure can improve the project's competitiveness, we have been working collaboratively with the other parties to achieve a number of things:

- transitioning the project to AGDC;
- finding alternative commercial structure options and concepts that have been successfully used in global LNG projects to reduce the project's cost of supply;
- timely transferring information, data and work product; and
- providing access to necessary assets for AGDC to help the filing of a successful FERC application.

BP supports the State-led project structure. Two things that will remain critically important to us in this transition are:

- that the project can attract the necessary financing; and
- that the project will be advanced and delivered efficiently, at or below its estimated cost.

Because we believe this path forward can succeed, we support AGDC in these efforts. We are discussing internally and with AGDC just what form that support might take. We want the project to seamlessly continue and maintain momentum.

We are working to define a project with a competitive cost of supply that is also financeable and technically deliverable. We want the project to be a success so that we can fulfil the tremendous opportunity to monetize our gas.

Continued Commitment

I want to conclude by emphasizing that BP is committed to making this project a success. I can't say enough that this project's success is critical to:

- BP's Alaska business;
- the State's future; and
- the welfare of so many Alaskans who will benefit from a successful project.

Amid this transition we need to remember that the core facts remain unchanged.

- Prudhoe Bay remains one of the world's most prolific basins, with a known gas resource of over 4 billion barrels of oil equivalent. That's a lot to play for.
- The Point Thomson gas condensate field is producing now and contains a gas resource of another 1 billion barrels of oil equivalent. That's even more to play for.
- A successful project would provide a major step towards commercializing both the known and as yet unknown oil and gas resources on the slope and around the State. Still more to play for.
- The companies sitting before you are motivated to monetize that gas resource.
- The government is also highly motivated to get that Alaska gas resource to market.

All of that is important as we define the way forward. It is a future worth continuing to work hard to achieve. Importantly, we are aligned on our need to continue to look for opportunities to reduce the cost of supply for Alaska LNG to provide a solid future for BP Alaska and the State.

And that remains the future for Alaska that BP is committed to working for.

Thank you.