

Alaska gas pipeline project

What's different this time?

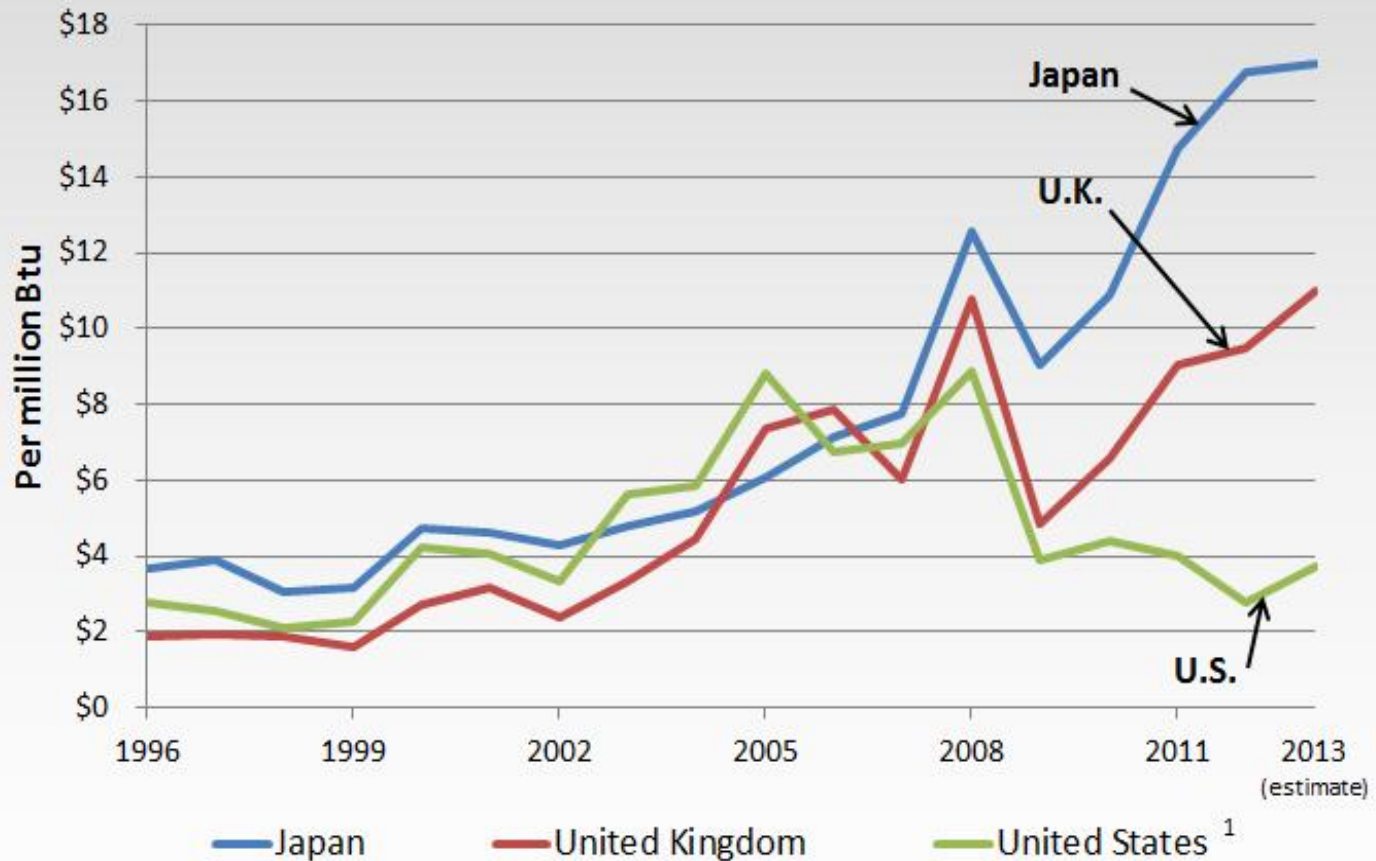


Larry Persily, Federal Coordinator for Alaska Gas Line Projects
Senate Finance Committee – March 10, 2014

The world changed, not us

- o Global LNG trade has quadrupled since 1995
- o Asian LNG demand alone could double by 2025
- o China demand growing double-digit annual rate
- o Europe looking for alternatives to Russian gas
- o Worldwide concerns over coal, nuclear plants
- o Alaska LNG could be the victor of circumstances

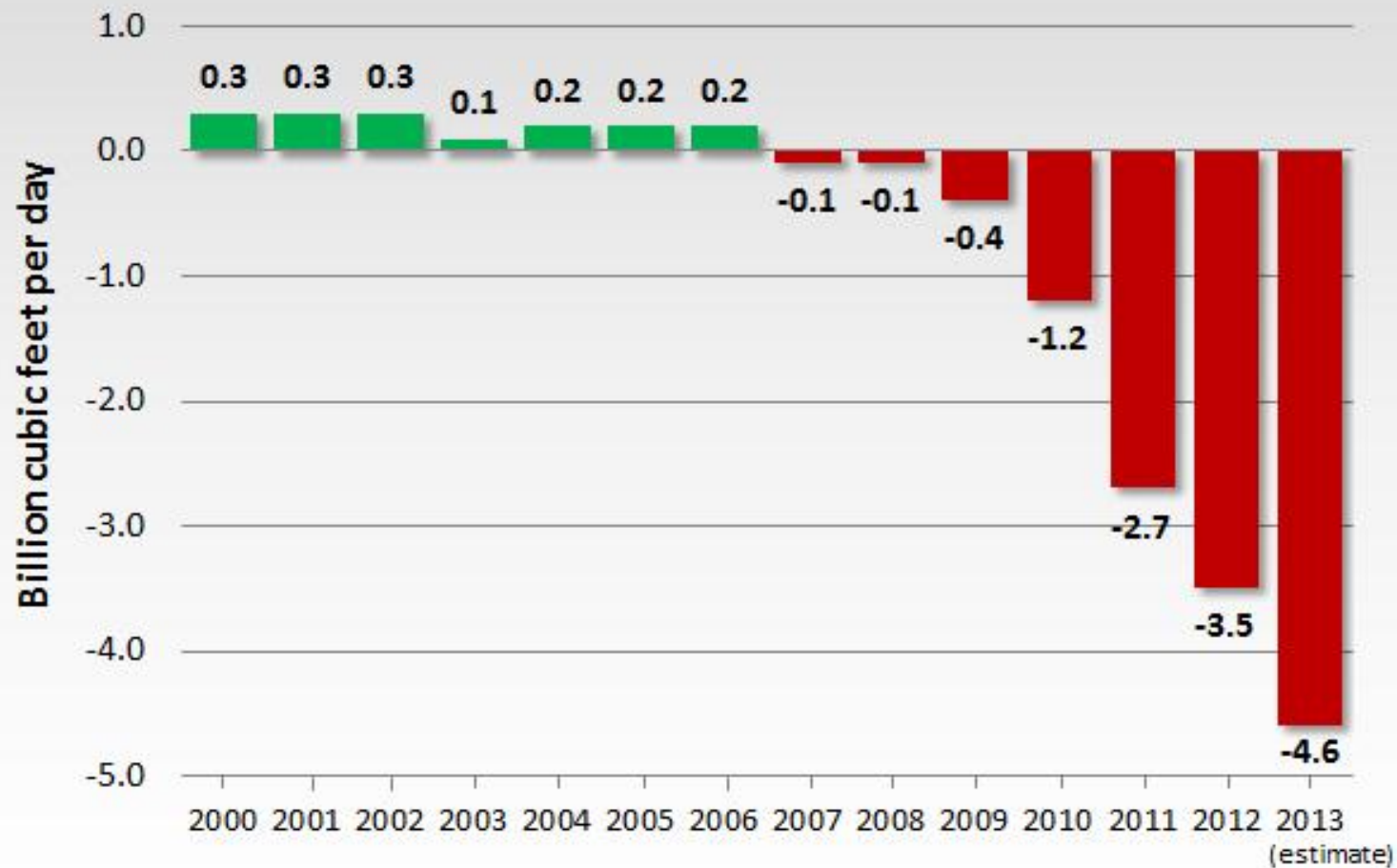
Global gas prices diverge



¹ Henry Hub price

Source: BP Statistical Review of World Energy

China's domestic gas supply deficit



Sources: BP, National Bureau of Statistics China, China SignPost

Price is everything

- o Japan paid \$70-plus billion for LNG in 2013
- o Energy a big reason for \$112 billion trade gap
- o Third year in a row of trade deficit in Japan after more than 30 years of a trade surplus
- o Japan leading the charge for new suppliers, more competition and lower LNG pricing regime
- o Alaska could be price competitive in the market

No project has it easy

- o BG Group says 525-mile natural gas pipeline to Prince Rupert could cost up to \$10 billion
- o LNG tax debate under way in British Columbia
- o Dredging, harbor, berthing costs estimated at \$1.5 billion for Australia's Wheatstone LNG
- o Russian politics out ahead of project economics
- o Buyers hold back, wait to see LNG pricing trend

Alaska has changed, too

- o Prudhoe Bay growing older, economics look better as an oil and gas play rather than oil only
- o Point Thomson under development and would supply 25 percent of the gas for the LNG project
- o Major North Slope producers willing to spend significant money to advance the gas project
- o Alaskans appear willing to consider investing significant state money into the LNG project

Patience is a virtue

- o Patience is a must for state LNG investment
- o Long wait for the first check — but long payback
- o Norway invested billions in oil and gas and then waited years for any return; it took a decade before real investment payback started to roll in
- o If it wants to act like an oil and gas business, Alaska must think like one — and think long term

What's changed since 2002

- o DOR 2002 report looked at pipeline, not LNG
- o Different markets, sales, risks and regulations
- o State is in a better cash position today (\$17 billion in savings) than 2002 (\$2 billion)
- o State equity investment in 2002 might have needed assistance from the Permanent Fund
- o 100% state ownership was on the table in 2002

Some things haven't changed

- o DOR 2002 report recommended the state match pipeline capacity with its share of the gas
- o Report said conflicts as an owner and regulator are real, but state-owned corporation could provide a partial barrier to minimize the conflicts
- o Minority ownership doesn't give state control
- o Report warned: Keep politics out of the business

For more information

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