ASAP

Alaska Stand Alone Gas Pipeline

# Senate Resources Committee

# ASAP Project Update

**January 25, 2013**

# Who? AGDC and What? ASAP

**April 2010:** HB 369 mandated that **A**laska **H**ousing **F**inance **C**orporation (**AHFC**) facilitate development of a plan for an in-state pipeline ***project*.**

**July 2010:** AHFC established the **A**laska **G**asline **D**evelopment **C**orporation (**AGDC**) as a subsidiary corporation to take over ***project*** planning and execution.

**ASAP** is that ***project:*** the **Alaska Stand Alone Pipeline**.
Also known as the in-state pipeline.

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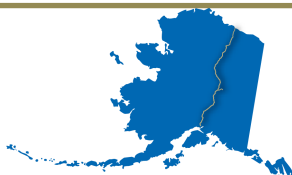
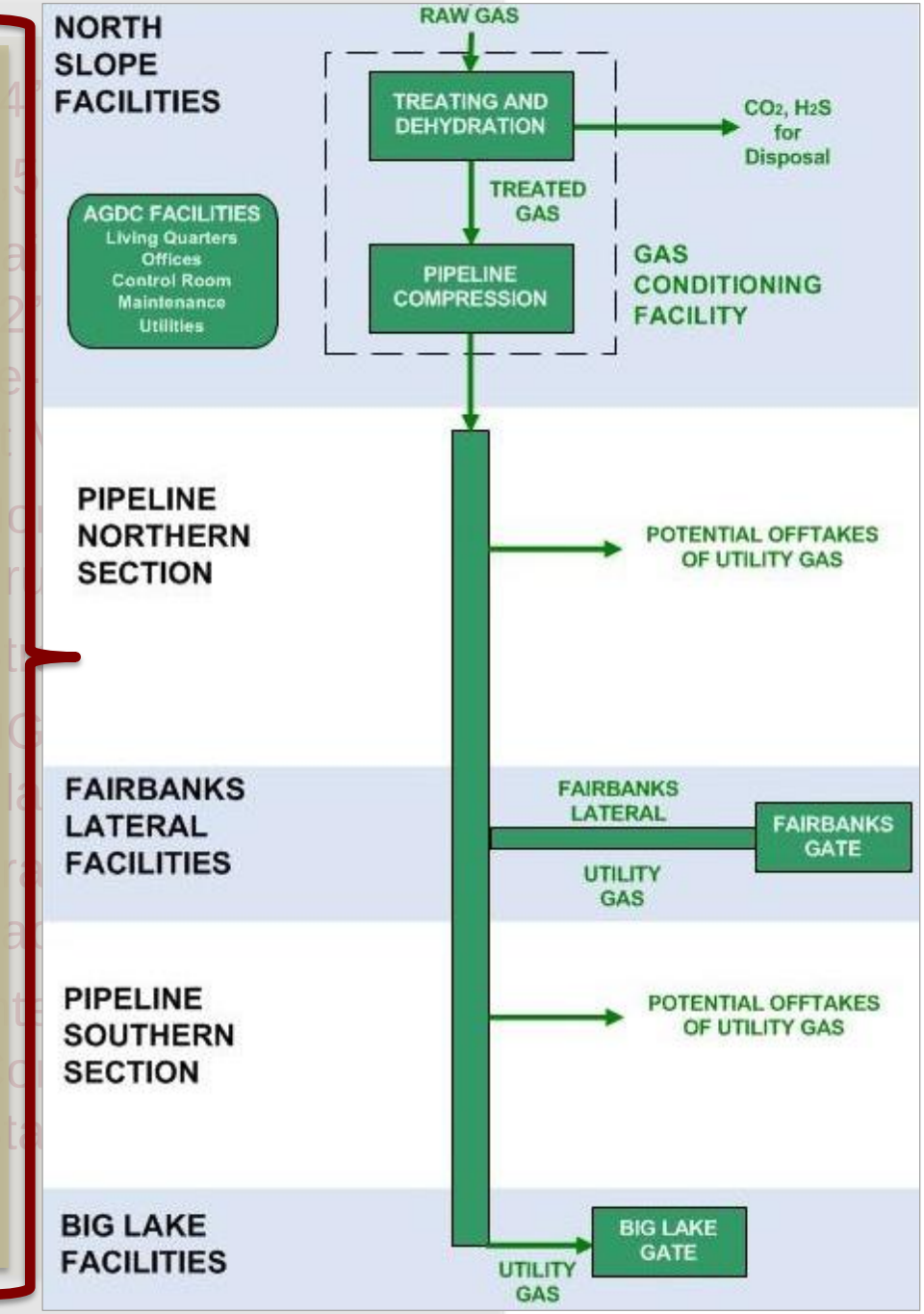


# ASAP Progress Up-date

- 604 miles of State Right-of-Way lease; includes Fairbanks lateral
- Final Environmental Impact Statement (FEIS) completed November 2012
- FEIS Record of Decision expected January 2013
- AGDC team optimized the project plan to Lean Gas
- Up-dated capital costs and tariff models
- Contracted a facility design firm
- Identified enabling legislation required to move ASAP forward
- 2013 Summer field work plan in progress

# 2011 Plan vs. Optimized Project Plan

- 36” diameter pipe
- 1,480 psi max
- Fairbanks Lateral: 12” diameter pipe, tie-in with mainline at MP 458
- North Slope GCF at Prudhoe Bay
- More off-takes possible

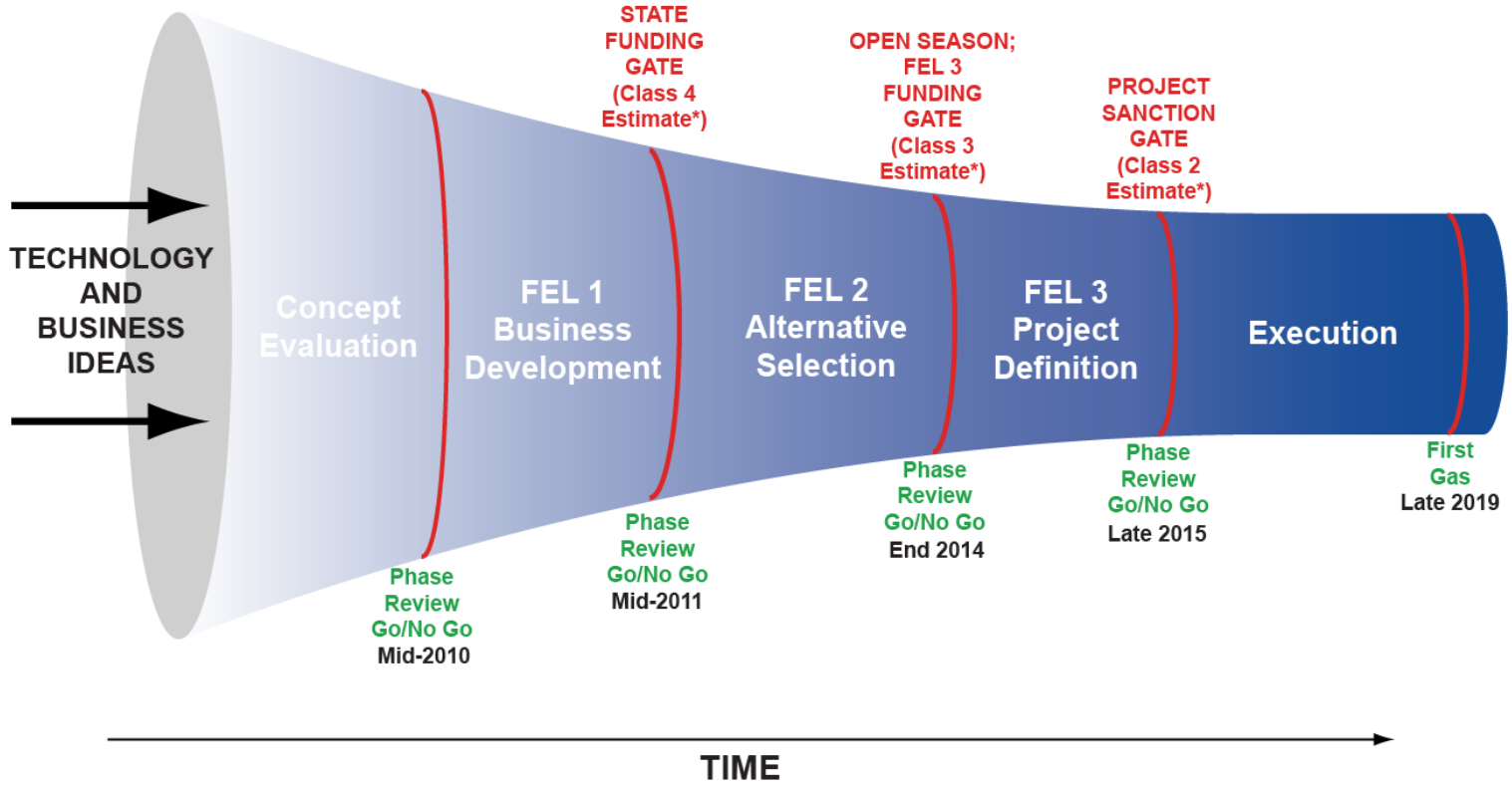


# Optimized Project Plan Benefits

| Issues | Optimized Project Plan (Lean Gas) | July 2011 Project Plan |
|---|---|---|
| **Customers** | ▪ Easier and less expensive connections<br>▪ More off-take points<br>▪ More potential customers and greater access<br>▪ Deliver natural gas to Alaskans by 2019 | ▪ Costly connections<br>▪ Fewer off-take points for Alaskans |
| **EIS/Permits** | ▪ Supplemental environmental document required with minimal impact to schedule<br>▪ Smaller footprint and reduced carbon impacts | ▪ Risk of carbon tax<br>▪ More permits; greater complexity/impact<br>▪ FEIS complete (November 2012) |
| **Complexity** | ▪ Less risk — One facility (GCF) with standard pressure & equipment<br>▪ Design process less costly<br>▪ Propane extraction still available for in-state demand | ▪ 5 + facilities with high pressure pipeline and specialized materials and equipment required |
| **Tariff** | ▪ Lower tariff | ▪ Higher tariff |
| **Cost** | ▪ $7.7B (+/- 30%) in $2012<br>▪ Lower construction risk<br>▪ Lower O&M costs | ▪ $7.5B (+/- 30% )in $2011 ($7.7B in $2012)<br>▪ Higher construction risk<br>▪ Higher O&M costs |
| **Political / External** | ▪ Improved economics for Interior users<br>▪ Increased customer base with ease of connections<br>▪ Requires enabling legislation to more effectively and efficiently advance the project and schedule<br>▪ NOT viewed as competition to AGIA | ▪ Petrochemical plant ambitions<br>▪ Lack of market for by-products<br>▪ Efficiencies not realized<br>▪ NOT viewed as competition to AGIA |

# Stage Gate Approach

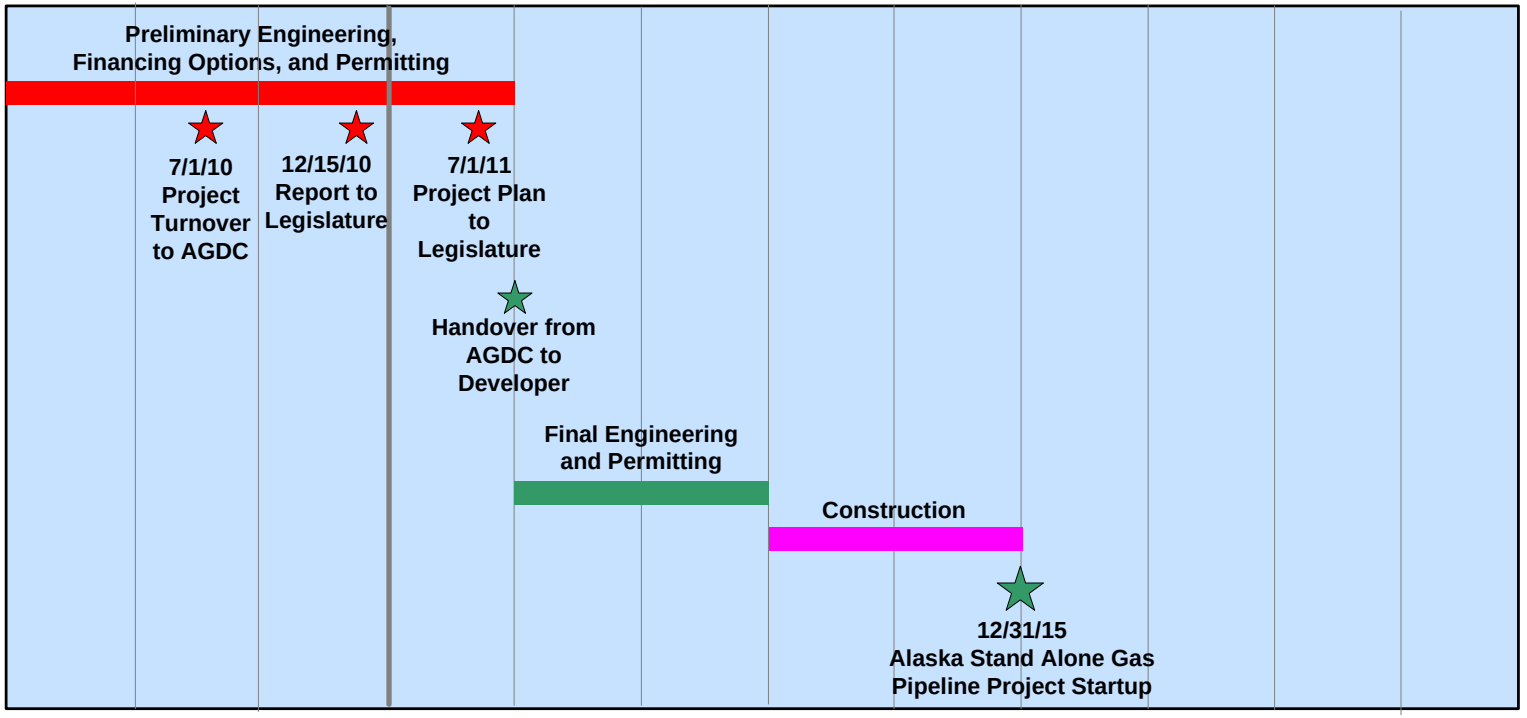
## *Front-End Development Progressively Narrows Uncertainty of Cost and Schedule*



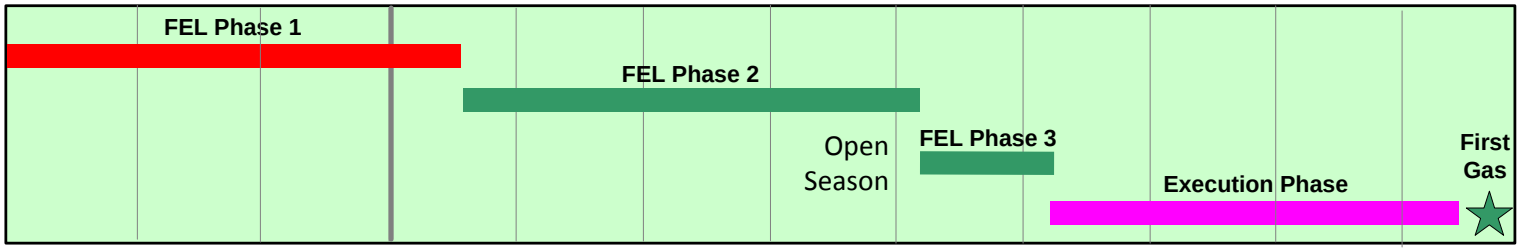

*Refers to AACE cost estimate classes (Association for the Advancement of Cost Engineering). The lower the class number, the higher the confidence in the accuracy of the estimate.

# ASAP Optimized Project Schedule

**SCHEDULE MANDATED BY HOUSE BILL 369**




**OPTIMIZED SCHEDULE**
(Front-end loaded)




Rev. 9/24/12

# ASAP Project Milestones

- Open season late 2014
  - ✓ Determine commercial interest
- Project sanction late 2015
- Procure pipe and long lead items 2016
- Construction 2017 - 2019
  - ✓ 2+ years (772 miles of pipeline including lateral)
- First gas in late 2019
- Full gas transmission 2020

# Optimized Project Tariff Update

- Longer term: 30-year levelized vs. original 20-year
- Updated capital cost estimates with more appropriate contingency
  - ✓ Pipeline now 10% vs. 5% (facilities 30%)
- Equity share and return on equity adjusted
  - ✓ Debt/equity split now 75/25 vs. 70/30
  - ✓ ROE 11% vs. 12%
- Year delay ($2011 -> $2012)
- 2.5% inflation per year

# Tariff Comparison

| 2012 Tariff Comparison<br>Original Project Plan vs. Optimized Project Plan | | |
|---|---|---|
| | ASAP 2011 Project Plan $/MMBtu | Optimization Update $/MMBtu |
| $ Levelized at Project Startup (Uninflated/Constant) | $2011 | $2012 |
| Fairbanks | $6.45 | $4.25 to $6.00 |
| Big Lake | $5.63 | $5.00 to $7.25 |
| $Levelized at Project Startup (Inflated/Nominal) | | |
| Fairbanks | $8.99 | $4.75 to $6.50 |
| Big Lake | $7.75 | $5.75 to $8.00 |
| **Cost Drivers** | | **Tariff Impact** |
| Capital cost : +/- $1 Billion for pipeline | Fairbanks | +/- $.50/MMBtu |
| | Big Lake | +/- $.80/MMBtu |
| State of Alaska Contribution : +$1 Billion | | - $.45/MMBtu |
| Rate of return on equity (ROE): +/- 1% | | +/- $0.20/MMBtu |
| Useful life (bond length): + 10 years | | - $0.75/MMBtu |
| Cost of 1 Yr. Delay to Entire Construction Schedule | | +$0.20/MMBtu |

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# ASAP Costs

- **Cost to Alaskans**: $400M up-front cost to be recovered through gas royalty and taxes
- **Cost Benefit**: Long term natural gas supply for Alaskans
- **Project Cost**: $7.7 Billion* in 2012 dollars, +/- 30%
- **Cost of Gas to Consumers** (burner tip)

## Anchorage

- Optimized $ 9 - 11.25/MMBtu in 2012 dollars
- Base case $ 9.63/MMBtu in 2011 dollars

## Fairbanks

- Optimized $ 8.25 - 10/MMBtu in 2012 dollars
- Base Case $ 10.45/MMBtu in 2011 dollars

*Each year the project is delayed, 2.5% inflation is added to the cost of the project

# Funding Required to Advance

- Achieving legislative objectives to advance an in-state natural gas pipeline for Alaskans is **contingent on legislative funding**
- Full funding will keep project on schedule
  - ✓ Advance facilities and pipeline engineering
  - ✓ Regulatory permitting activities and agency engagement
  - ✓ Engineering field investigations
- Partial funding will cause schedule delays
  - ✓ Limited pipeline and facilities engineering
  - ✓ Limited field investigation

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# ASAP Requires Enabling Legislation

**Critical legislation components:**

- Ability to enter into confidential agreements
- Contract carrier status is needed to allow AGDC to enter into long-term contracts
- Authority to determine ASAP ownership structure is key to attracting shippers/buyers; financing; and pipeline tariffs
- Enabling legislation will significantly advance meeting the purpose of the original legislation: “. . . deliver natural gas to as many communities as practicable along the route ..”

# Thank You

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