

Gas Fiscal 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 almost 32 years, the last several of which have been dedicated to working to get Alaska's gas to market.

Now I have the privilege of working in my current roles on the joint fiscal team, and on the Management Committee of the Alaska LNG project effort.

I am very pleased to be here along with my colleagues to provide an update on the progress of the Alaska LNG project. The success of Alaska LNG is critical to BP's business here in Alaska, and it's also critical to the future of the State of Alaska and to so many Alaskans who will benefit, both directly and indirectly, from a successful project.

The scale of the Alaska LNG opportunity is unique for BP anywhere on the planet. BP would also very much like to see Alaska LNG move to market in the 2020's.

When I was before you at our last update in January, I commented that, given the economic environment, 2016 looks to be a challenging year for all of us. We are all certainly living that reality.

In the current low energy price environment there are over a trillion dollars of projects worldwide that have been shelved. It's tough out there! The Alaska LNG Project is challenged. It's worth remembering that it is not unusual for LNG projects to go through a period of evolution as they mature. The Alaska LNG project is no different. The good news for Alaska LNG is that it has NOT been shelved. We are continuing to work together.

As I said in January, we at BP, and we as Alaskans, know what it means to face challenges. Challenges are nothing new to us. The best way we have found is to face challenges together. That is the path that was envisioned in the January 2014 Heads of Agreement, it is the path that was forged by this Legislature with the passage of SB-138, and BP remains committed to progressing in an aligned way forward on Alaska LNG.

As we all just heard from Alaska LNG Project Manager, Steve Butt, we are currently completing the pre-FEED phase. We will have spent some \$600 million gross to advance Alaska LNG. We estimate that the next phase, FEED, will be over twice that amount, maybe as much as three times. That kind of a commitment deserves a careful evaluation and a thoughtful decision before we commit our company resources, or before the State commits Alaska's resources.

We have found that Cost of Supply is the most meaningful benchmark for measuring how well an LNG project competes relative to other projects. Simply put, it is the cost at which a project can sell product to a buyer, typically quoted on a discounted basis. A lower cost is more attractive to a buyer, so the lowest cost projects are more likely to go ahead, while the higher cost projects will struggle to find willing buyers. In fact, BP has commissioned a study by Wood Mackenzie to evaluate the competitiveness of Alaska LNG, and have invited our co-venturers to participate. We expect to have the results of that study late next month.

At last month's Alaska Oil and Gas Association conference, energy consultant IHS provided their view of the global LNG market. IHS, with vice Chairman Daniel Yergin, is an industry authority on the world energy markets. IHS reminded us that the world LNG market has changed dramatically. IHS sees a tremendous supply of LNG that can now be made available from the Gulf of Mexico. That US lower 48 supply is well more than 10 times the volume of known ANS gas. That is the reality against which Alaska LNG must compete, and we are not there yet.

We understand and appreciate the State's desire to move this project ahead in a timely manner. BP understands the State's fiscal need for a new revenue source in the mid-2020's. The State is a vitally important co-venturer for us, and we would like to see that objective be met. But we don't want to move quickly at all costs. We don't want to rush into the largest energy project in North America that only ends up losing lots of money for all of us.

The Alaska LNG project must successfully compete in the global marketplace. LNG is a commodity. Buyers have many choices as to where they purchase their LNG. Understandably, they want to pay as little as possible to satisfy their needs. We want to attract those buyers, and so we want to be able to make a competitive offer.

Before we make an affirmative decision to enter FEED, BP will want to make sure of a few things.

- We want to make sure the AK LNG cost of supply is competitive, so that we have a commercially viable opportunity
- The Project will need to continue following project management best practices, with the parties being technically and financially capable
- Once we have ensured our project is competitive, we will need to have fiscal and commercial terms sufficiently defined that we feel confident in their endorsement by all parties
- The terms that will govern our FEED activities will need to be finalized, including continuation of FERC Section 3 regulation of the Alaska LNG project, as outlined in the HoA
- Finally, all participating co-venturers will also need to commit to fund their share of FEED costs

BP envisions that any resulting agreements that have a term in excess of two years would be made available to the Legislature for approval as provided in SB-138, recognizing that the nature of certain terms will require confidential treatment.

Once we confirm that Alaska LNG can be delivered at a competitive cost of supply, BP will also want to move forward quickly. We will all be highly motivated to minimize the time we have capital tied up that is not generating cash.

Some genuinely good news is that the Alaska LNG combined venture continues to offer many significant advantages:

- The Prudhoe Bay field is one of the world's most prolific basins. In 37 years Prudhoe Bay has produced over 12 billion barrels of oil. Today we expect we have at least another 2 billion barrels to produce, along with a massive gas resource of over 4 billion barrels of oil equivalent. That's a lot to play for.
- The Point Thomson gas condensate field has been placed in production. It contains a gas resource of another 1 billion barrels of oil equivalent. That's even more to play for.
- The companies sitting before you have world class experience in mega-project development, having overseen the construction of our North Slope facilities and having successfully built mega LNG projects around the globe.
- We also have financial and technical capability, both of which are essential to a successful Alaska LNG project. And we have a host government that is also highly motivated to get our Alaska gas resource to market.

And importantly, we are aligned on our need to continue to look for opportunities to reduce the cost of supply for Alaska LNG.

We are actively discussing alternative ways to continue to advance the project which will allow project development, progressing regulatory efforts and working cooperatively to further reduce the cost of supply.

BP needs the Alaska LNG project to be successful. It defines the future of our company in Alaska.

A successful Alaska LNG 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.

A successful Alaska LNG project will mean a stable revenue source for BP and for Alaska for decades to come. And it will provide a means to make a long-term, reliable source of gas to Alaskans. That is a lot to play for. That is worth continuing to work hard to achieve. And that is the future for Alaska that BP is committed to working for.

Thank you.