

2/22/11
Presentation:
Getting
Alaskans' Gas
to Alaskans
by David
Gottstein

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Economic Development, Trade & Tourism Committee

**Presentation By David Gottstein
February 22, 2011**

Alaska is headed towards long-term fiscal decay

- Non-oil and gas based economy is insufficient to sustain government
- Get Alaskan's gas to Alaskans in 6-8 years while maximizing the potential for export volumes
- Capable of delivering lower cost economies-of-scale energy to Alaskans, while providing resources to sustain government and to fill Permanent Fund

Context

- The business of Big Oil
- Requirements for a Fill-It Then Build-It pipeline
- Only path to low cost energy for Alaskans is to piggyback onto an efficient export project
- SOA doesn't need tariffs
- Risks of doing nothing versus risks of doing something
- Marginal costs versus marginal returns

Four Options:

1. **Do nothing and import LNG**
2. **North Slope Bullet Line (A path to poverty)**
3. **Wait until energy pricing & economies of scale align (Fill & Then Build)**
4. **Build It, Then Fill It**

Do Nothing and Import LNG

- a. **High transportation costs**
- b. **Subject to market price spikes**
- c. **The right thing to do until a good long-term solution is in place**

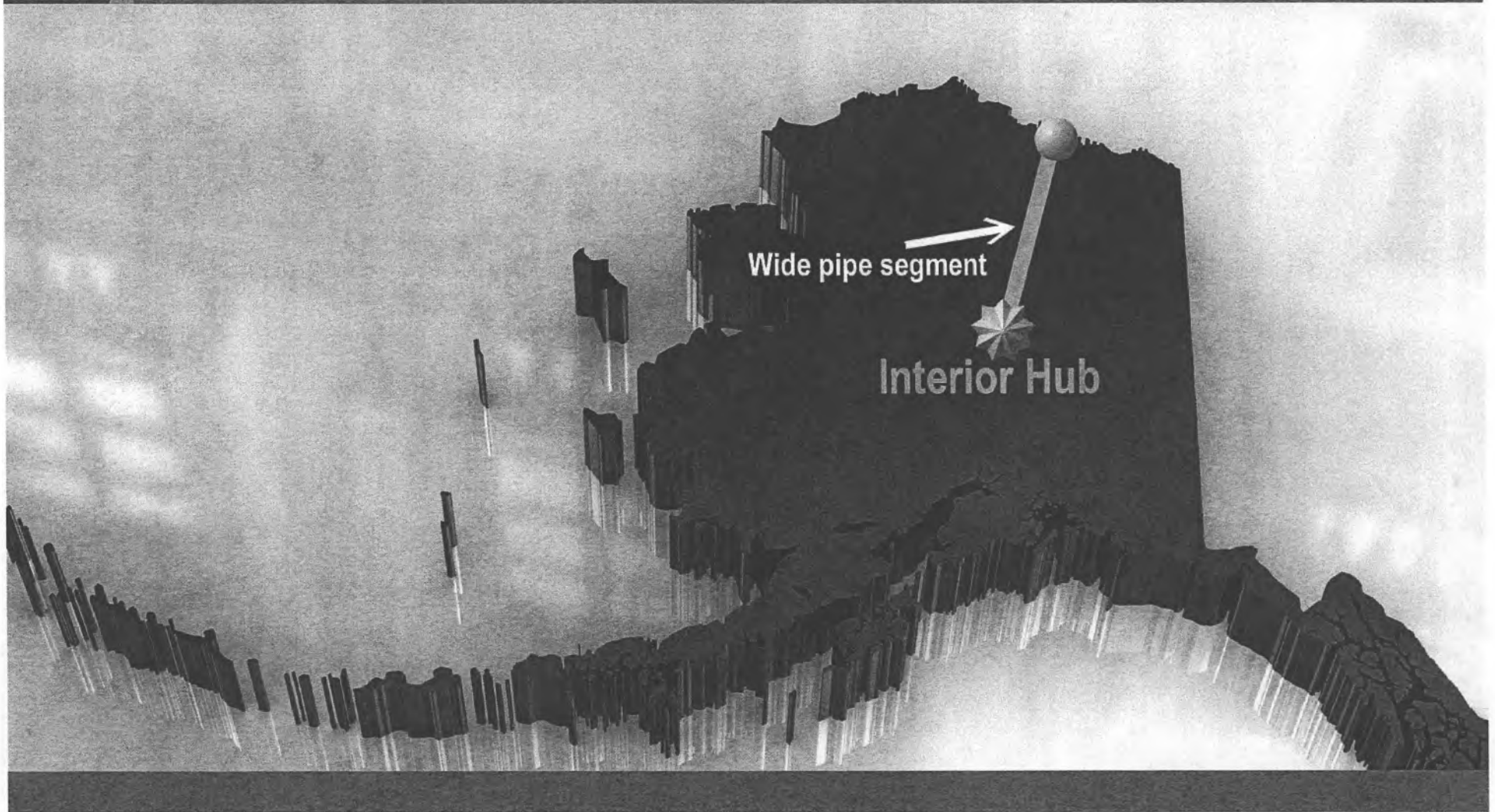
Bullet Line Path to Poverty

- a. **Very high energy costs locked in for decades due to inefficient pipe**
- b. **Makes an export project less economic**

Wait Until Energy Pricing & Economies of Scale Align (Fill & Then Build It)

- a. **Even optimistic price forecasts will defer decision for many years**
- b. **Waiting will indefinitely extend time necessary to import LNG**

Build It & Then Fill It Model Changes Everything



How Do We Do It? Step One.

- **Administration renegotiates AGIA license with TC for Alaska to co-sponsor an export capacity gasline from the North Slope to an Interior Hub.**
- **Building to a logistical sweet spot capable of linking to In-State utilities concurrently, and export & value-added market opportunities as they develop. (Plug and Play)**
- **Because AK makes its gross margin on selling the resource, it can justify a build-then fill approach. It cannot afford not to.**

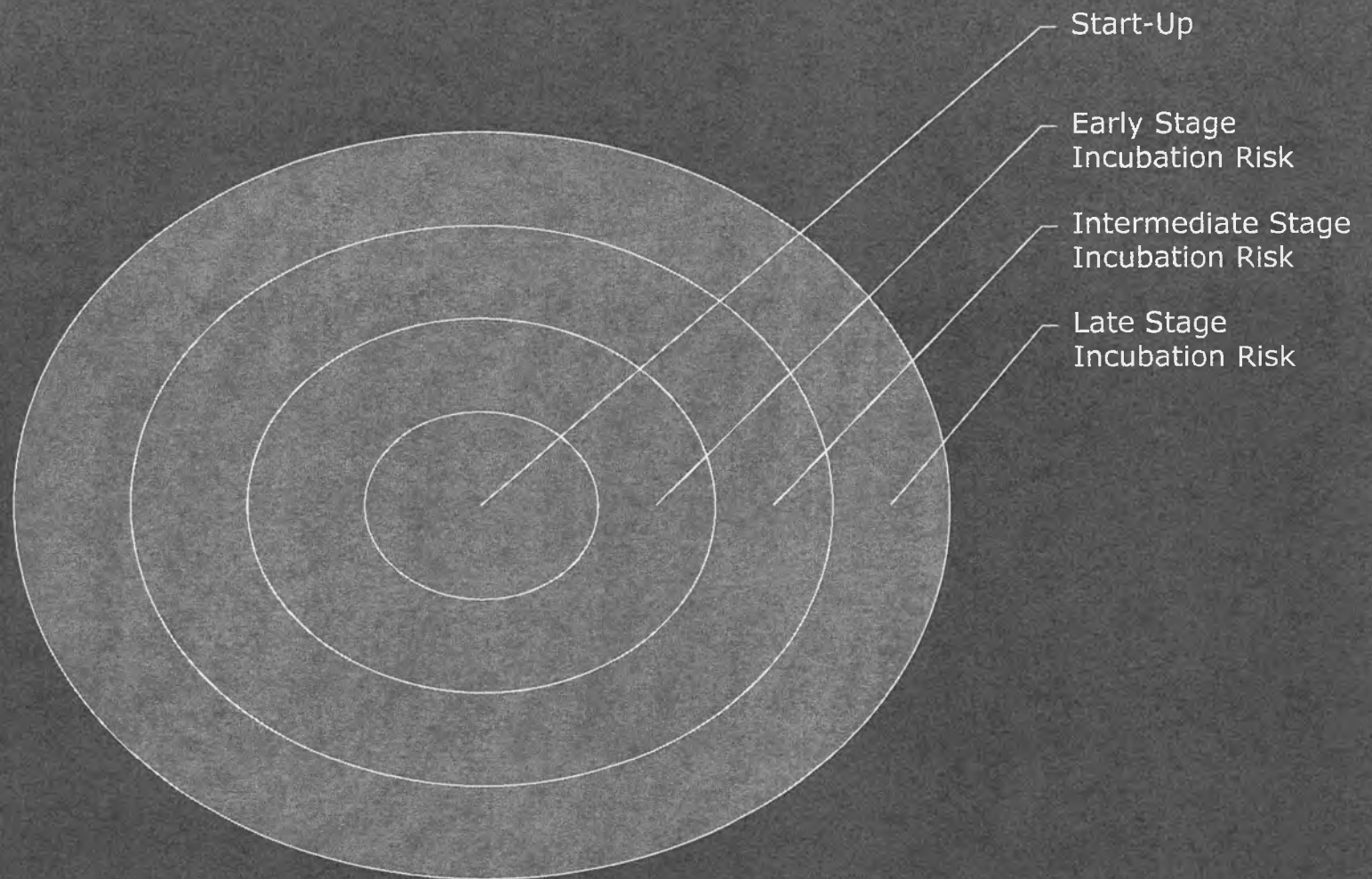
Step Two.

- SOA announces that it is co-sponsoring the “Export Pre-Build” segment to Fairbanks area, bringing project to investment grade status
- What does Investment Grade mean?

Step Three.

- **Sponsoring group invites the private sector to participate by investing in & acquiring rights to initial and future capacity**
- **With SOA keeping only those speculative tariff rights private sector cannot absorb.**
- **For example, later stage capacity utilization generated tariffs.**
- **SOA will not design, build, maintain or operate the pipeline; that will be left to private sector participants.**
- **SOA will only do the LEAST necessary to INSURE the export pre-build is built.**

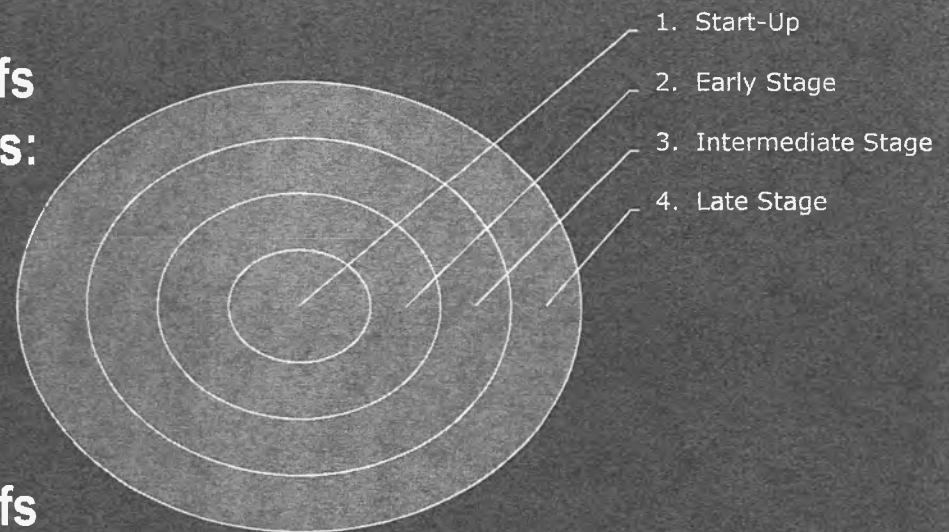
Plan of Finance (Condominium-Like Financial Engineering)



Possible Project Ownership Carve-Outs

1. **10-25 percent start-up capacity utilization & tariffs**
[low risk] Possible Owners: Big Oil, Utilities, Pipeline Companies

2. **25-50 percent early stage capacity utilization & tariffs**
[2-5 Years, modest risk]
Possible Owners: Big Oil, Pipeline Companies, Value-Added Processors



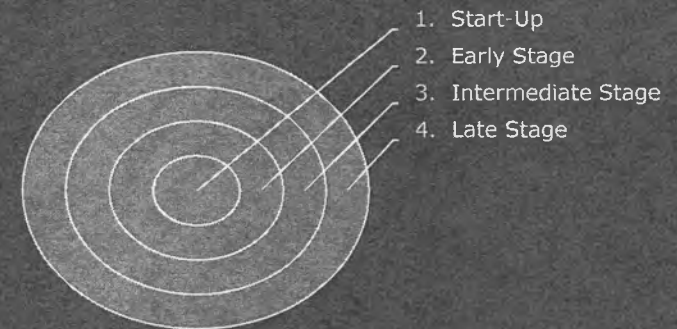
Possible Project Ownership Carve-Outs

3. 50-75 percent intermediate stage capacity utilization & tariffs [5-10 years, moderate risk]

Possible Owners: Private Equity, Hedge Funds

4. 75-100 percent later stage capacity utilization & tariffs [10-20 years, higher risk]

Possible Owners: State of Alaska, China (???)



IT ALL COMES DOWN TO PRICE FOR THE INVESTORS

Step Four

- **Once sponsoring group is established for an investment grade export pre-build segment, we will have opportunity for an open season bidders can take seriously.**
- **Once purchasers know they can get gas, they can begin to put bona fide bids together. Railbelt & other utilities can with certainty make gas purchase commitments**

Step Five.

- **Consistent with the Build and Then Fill Model, SOA negotiates with Hawaii enough tariff discounts as investments in Hawaii's new gas infrastructure to make North Slope Gas their economical fuel of the future.**

Step Six.

- It is then Open Season on a continuous increase in capacity utilization

What Do We Get For Our Marginal Cost of \$3-6 Billion?

- a. **We avoid saddling Alaskans with high energy costs for possibly decades.**
- b. **We avoid putting an export project at materially greater risk in terms of time and money by moving from a highly inefficient logistical footprint to a highly efficient one.**
- c. **We get gas to Alaskans in as little as six to eight years.**
- d. **We put our future and destiny on our timeframe.**

What Do We Get For Our Marginal Cost of \$3-6 Billion?

- e. **By announcing to the energy community that we are prepared now to build, and we invite them to participate, we force them to act, for fear of being left behind.**
- f. **We greatly invigorate the potential for adding volumes to not only the gas pipeline, but the oil pipeline as well.**
- g. **The Oil & Gas Commission, for the first time will be empowered to maximize their mandate by maximizing the trade-off of oil and gas values, unconstrained by capacity limitations.**

What Do We Get For Our Marginal Cost of \$3-6 Billion?

- i. We position many parts of rural Alaska to benefit with reliable access to lower cost energy over time because of the economies-of-scale generated.
- ii. We create the opportunity to approach Hawaii about Alaska being a long-term significant solution to their energy needs with a project that could actually happen. Unfettered with any export limitations.
- j. Upon the announcement of an investment grade project, we will jump-start the Alaskan economy and generate decades of improved prosperity for almost all Alaskans.

What Do We Get For Our Marginal Cost of \$3-6 Billion?

- j. We avoid, to a considerable degree, exposing the SOA to long-term fiscal decay, and hopefully put off pressures to use Permanent Fund to help pay for state government.
- k. If we have buyers and a pipeline, producers will have no choice but to supply our gas.

Closing Comments

- **Tariff pricing becomes a public policy issue regarding assistance**
- **Marginal cost is only between \$3-6 billion**
- **It is the cheapest insurance we could ever buy in order to insure prosperity versus economic calamity**
- **We will be importing LNG for 6-8 years plus the time it takes to an investment grade decision**

Gottstein Permanent Fund Value Forecast 02-21-11

Population Growth	1.0%	US Bonds	\$6,153,500,000	15.5%	4.5%	0.7%
Inflation	2.5%	US Stocks	\$6,686,400,000	16.9%	8.5%	1.4%
Oil Flow Annual Decay	-4.0%	Non US Stocks	\$8,225,600,000	20.7%	9.5%	2.0%
Annual Oil Price Rise	5.0%	Global Stocks	\$4,808,100,000	12.1%	9.5%	1.2%
Current PF Value	\$39,650,300,000	Non US Bonds	\$1,037,200,000	2.6%	5.0%	0.1%
Budget Reserve	\$9,500,000,000	Real Estate	\$3,528,500,000	8.9%	6.5%	0.6%
		Cash	\$1,482,300,000	3.7%	1.5%	0.1%
		Alternatives	\$4,708,600,000	11.9%	6.0%	0.7%
		Real Ret. External	\$3,020,100,000	7.6%	4.5%	0.3%
		Total	\$39,650,300,000	100.0%		7.1%

Year	Current State Savings	Net Fee Return Perm. Fund	State Oil Rev +	State Portion of Budget Growth(Pop+Inf)	Surplus Bud. To P. Fund	Dividend% Of PF Earnings After Inflation	Perm. Fund Inf. Proofing	Price per Barrel
		7.1%	1.0%	3.5%		25%		
1	49,150,300,000	3,477,460,301	6,000,000,000	5,500,000,000	500,000,000	562,175,700	1,228,757,500	\$91.00
2	49,088,124,300	3,473,061,273	\$6,060,000,000	\$5,692,500,000	367,500,000	561,464,541	1,227,203,107	\$95.55
3	48,894,159,758	3,459,337,980	\$6,120,600,000	\$5,891,737,500	228,862,500	559,245,996	1,222,353,994	\$100.33
4	48,563,776,262	3,435,962,833	\$6,181,806,000	\$6,097,948,313	83,857,688	555,467,107	1,214,094,407	\$105.34
5	48,092,166,843	3,402,595,732	\$6,243,624,060	\$6,311,376,503	(67,752,443)	550,072,890	1,202,304,171	\$110.61
6	47,474,341,509	3,358,883,627	\$6,306,060,301	\$6,532,274,681	(226,214,380)	543,006,272	1,186,858,538	\$116.14
7	46,705,120,857	3,304,460,067	\$6,369,120,904	\$6,760,904,295	(391,783,391)	534,208,011	1,167,628,021	\$121.95
8	45,779,129,454	3,238,944,733	\$6,432,812,113	\$6,997,535,945	(564,723,833)	523,616,624	1,144,478,236	\$128.05
9	44,690,788,997	3,161,942,950	\$6,497,140,234	\$7,242,449,703	(745,309,470)	511,168,306	1,117,269,725	\$134.45
10	43,434,311,222	3,073,045,189	\$6,562,111,636	\$7,495,935,443	(933,823,807)	496,796,852	1,085,857,781	\$141.17
11	42,003,690,563	2,971,826,549	\$6,627,732,752	\$7,758,293,183	(1,130,560,431)	480,433,571	1,050,092,264	\$148.23
12	40,392,696,560	2,857,846,213	\$6,694,010,080	\$8,029,833,445	(1,335,823,365)	462,007,200	1,009,817,414	\$155.64
13	38,594,865,996	2,730,646,900	\$6,760,950,181	\$8,310,877,615	(1,549,927,435)	441,443,812	964,871,650	\$163.42
14	36,603,494,749	2,589,754,282	\$6,828,559,683	\$8,601,758,332	(1,773,198,649)	418,666,728	915,087,369	\$171.59
15	34,411,629,371	2,434,676,391	\$6,896,845,279	\$8,902,819,874	(2,005,974,594)	393,596,414	860,290,734	\$180.17
16	32,012,058,363	2,264,903,004	\$6,965,813,732	\$9,214,418,569	(2,248,604,837)	366,150,386	800,301,459	\$189.18
17	29,397,303,140	2,079,904,998	\$7,035,471,870	\$9,536,923,219	(2,501,451,350)	336,243,105	734,932,578	\$198.64
18	26,559,608,685	1,879,133,694	\$7,105,826,588	\$9,870,715,532	(2,764,888,943)	303,785,869	663,990,217	\$208.57
19	23,490,933,872	1,662,020,170	\$7,176,884,854	\$10,216,190,575	(3,039,305,721)	268,686,706	587,273,347	\$219.00
20	20,182,941,445	1,427,974,552	\$7,248,653,703	\$10,573,757,245	(3,325,103,543)	230,850,254	504,573,536	\$229.95
21	16,626,987,649	1,176,385,281	\$7,321,140,240	\$10,943,838,749	(3,622,698,509)	190,177,647	415,674,691	\$241.45
22	12,814,111,492	906,618,352	\$7,394,351,642	\$11,326,873,105	(3,932,521,463)	146,566,391	320,352,787	\$253.52
23	8,735,023,637	618,016,531	\$7,468,295,159	\$11,723,313,664	(4,255,018,505)	99,910,235	218,375,591	\$266.20
24	4,380,094,897	309,898,538	\$7,542,978,110	\$12,133,629,642	(4,590,651,532)	50,099,041	109,502,372	\$279.51
25	(260,655,677)	(18,441,795)	\$7,618,407,891	\$12,558,306,680	(4,939,898,788)	(2,981,351)	(6,516,392)	\$293.48

short-Term
Extra Costs

new Cost Through Bullet Line

old
costs

Long Term
Cost Savings

