

**01-23-15
UPDATE: OFFICE
OF FEDERAL
PIPELINE
COORDINATOR FOR
ALASKA NATURAL
GAS
TRANSPORTATION
PROJECTS**

<TARGET><BILL></BILL><SUBJECT>01-23-15 UPDATE OFFICE
OF FEDERAL PIPELINE COORDINATOR FOR ALASKA NATURAL GAS
TRANSPORTATION
PROJECTS</SUBJECT><COMM>HRES29</COMM></TARGET>



WE'RE NOT THERE YET

BUT A GAS PROJECT
IS GETTING CLOSER

Senate and House Resources Committees – Jan. 23, 2015

Presentation by Larry Persily, Federal Coordinator for Alaska Gas Line Projects



FERC efforts during 2015

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- FERC expects project sponsors to submit first draft environmental resource reports next month
- FERC to issue formal Notice of Intent for an EIS as required by National Environmental Policy Act
- Contractor on board to assist with EIS
- FERC will lead workshops in Alaska for federal agencies participating in EIS process
- Public 'scoping' meetings will be held statewide



Export authorization status

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- ❑ Exports to free-trade nations approved Dec. 21
- ❑ Exports to non-free-trade nations pending
- ❑ Just one challenge filed with Energy Department
- ❑ All other comments were supportive
- ❑ Energy Secretary in October said the department would decide Alaska as 'expeditiously as possible'
- ❑ Export approval will be conditional on FERC EIS



Federal Coordinator shutdown

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- No funding in FY15 budget; shutdown March 1
- Congress did not expand agency's 2004 authority to allow coordinating work on LNG export project
- Agency will preserve reports and research under 'The Pipe Files' digital library at ARLIS / UAA
- Discussions under way with federal officials to possibly find new home for information services
- The need to share information does not disappear



Make-or-break factors for Alaska

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- Global economic growth, LNG market demand
- Japan, China, Europe, Middle East, South America
- Price and politics of burning gas instead of coal
- If LNG demand fails to meet expectations, investors will build fewer new LNG export plants
- Whether Alaska wins? It's project cost and price
- Alaskans should not expect oil wealth from LNG



It's all about risk and price

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- Dozens of proposed, potential, possible projects are making pitches to the same buyers as Alaska
- No global shortage of gas
- Project cost and price rules in competitive market
- But certainty, dependability have value, too
- Reducing risks for buyers and investors is crucial
- No LNG project has lost money long-term, but some will earn a lot less profit than sponsors had planned



What are the odds for Alaska

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- Best it's been in 40 years
- The timing this time is good for Alaska
- Natural gas increasingly the fuel of choice
- LNG demand growing, just a question of how much
- Turning North Slope gas into cash would extend life of oil operations — crucial for Alaska's future
- By 2020s and beyond, gas sales could begin without ruining North Slope oil production numbers



Staying on schedule

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- Draft resource reports to FERC early 2015
- Pre-FEED field work summer 2015
- FEED decision early 2016
- Full application to FERC summer 2016
- Draft EIS 2017; final EIS 2018; FID 2019
- Each decision point is about partners agreeing to spend increasingly larger amounts of money



Alaska's competition: Canada

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- High costs make it hard to sign up customers
- Petronas delayed FID, saying it needs to cut costs
- None of the 18 projects have gone to FID
- First Nations negotiations taking more time
- Environmental issues for coastal LNG plants
- Project sponsors pushed for lower taxes in B.C.; now seek faster depreciation on federal taxes



Competition: U.S. Gulf Coast

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- First project to start up end of 2015; two more under construction on Gulf and one on East Coast
- All others are waiting for permits and FID
- Industry will not want to risk cost overruns from building too many projects all at the same time
- All are 'tolling model' projects, where plant owners don't take gas price risk — they're paid regardless
- Likely a lot of the LNG could stay in Atlantic Basin



Competition: Russia

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- ❑ Yamal LNG under development, but under duress
- ❑ Western sanctions over Ukraine hinder financing
- ❑ Russian government helps from 'Wellbeing Fund'
- ❑ Russia is building port, airport and icebreakers
- ❑ Chinese has offered financing, but no bargain rate
- ❑ Sanctions block technology, equipment, expertise
- ❑ Many expect Yamal will miss 2018 start-up target



Global pricing debate

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- Asian buyers, led by Japan, have been pushing to delink LNG pricing from oil since at least 2012
- High oil prices, growing LNG demand, lack of new supply pushed prices to \$17 - \$20 per million Btu
- That was then, this is now: \$10 per million Btu
- New supply coming online; demand growth softens
- And plummeting oil price makes LNG cheaper
- Buyers signing shorter contracts until market settles



Future pricing unknown

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- ❑ Lower prices will lessen push for new price formula
- ❑ But most LNG still will be sold on long-term deals
- ❑ Today's price is not the deciding factor for Alaska
- ❑ Price and contract terms for 2020 and beyond will determine success or failure of Alaska gas project
- ❑ Alaska has to compete at future prices, not today's
- ❑ Terms will vary as buyers seek diversified portfolio



Confidentiality

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- ❑ Debate is unavoidable with state ownership
- ❑ Confidentiality a financial and political conflict when public entity is a partner with private business
- ❑ Issue must be resolved to satisfaction of all partners
- ❑ Balance that works for public and private interests
- ❑ No LNG project would allow disclosure of design, technology, contract terms, strategy, rates of return
- ❑ State will need to separate business from politics



For more information

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