

PIPELINE PROSPECTS

A GAS PROJECT IS GETTING CLOSER

World Trade Center Anchorage, Statewide Economic Forecast – Jan. 27, 2015

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

It may not look easy today

2

- New supply: Papua New Guinea, Algeria, Australia
- New supplies + weak demand = lower spot prices
- Falling oil prices = falling LNG contract prices
- Oil is so cheap, some utilities choosing it over LNG
- More projects online 2015-2016 in Australia, U.S.
- Even more projects nearing investment decision
- Oversupplied market could continue several years

But it's long-term that matters

3

- Buyers are still signing long-term deals
- Today's prices don't matter to Alaska LNG nearly as much as prices and terms in 2020s and beyond
- More LNG export projects will be built
- Winners will be cheapest, most dependable, most stable, least risky supply options for buyers
- Alaskans shouldn't panic, but shouldn't expect gas to solve all of the state's very deep fiscal problems

FERC efforts during 2015

4

- 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

5

- 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

It's different for Alaska

6

- New Energy Department policy Lower 48 only
- No more first-come, first-served application review
- Energy now requires applicants to finish EIS and obtain FERC approval before export decision
- Eliminates works on projects unlikely to proceed
- Energy Secretary: “We are very explicit this is a completely separate evaluation” for Alaska LNG

Make-or-break factors for Alaska

7

- Global economic growth, LNG market demand: Japan, China, Europe, Middle East, South America
- Price and politics of burning gas instead of coal
- Declining production from Indonesia, Egypt
- If LNG demand fails to meet expectations, investors will build fewer new LNG export plants
- Whether Alaska wins? It's project cost and price

It's all about risk and price

8

- 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

9

- 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

Alaska's competition: Canada

10

- High costs make it hard to sign up customers
- Petronas delayed FID, saying it needs to cut costs
- None of 18 proposed 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

11

- 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

12

- 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

13

- 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: \$8 and \$9 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

14

- 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

Pipeline prospects

15

- Alaska LNG preliminary work to continue
- Draft environmental resource reports will give more details on project construction and impacts
- Energy Department likely to grant export license
- FERC will hold public meetings statewide
- Governor, lawmakers and project partners need property tax, fiscal legislation to stay on schedule

For more information

16

Office of the Federal Coordinator
for Alaska Natural Gas Transportation Projects

www.arcticgas.gov

Larry Persily - lpersily@arcticgas.gov - 907-351-8276