

What's next for Alaska gas



**Will markets, competition,
politics and federal laws
get in the way of a pipeline**

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LNG markets



- Global demand 2011 at 32 billion cubic feet a day
- Demand forecast to double by 2030 — just a forecast
- Expiring contracts from 1990s, 2000s will create need for new supplies during the 2020s and 2030s
- More than 10 bcf/day new supply under construction
- Maybe 20 bcf/day in projects under consideration
- What about pipeline gas to China, maybe even Japan

The competition



- Australia LNG: \$180 billion, 7 bfc/d under construction
- Papua New Guinea, Algeria under construction
- Canada: 5 terminals proposed for B.C. port cities
- Russia: Sakhalin expansion possible; new terminals proposed for Vladivostok and Arctic Yamal Peninsula
- East Africa: Mozambique, Tanzania finds at 100 tcf+
- Moratorium on Qatar LNG projects could be lifted 2015

U.S. Lower 48 exports



- Energy Department holding 14 applications totaling more than 19 bcf a day of export capacity
- Big players: Qatar, ExxonMobil, Sempra Energy, Cheniere Energy, Kinder Morgan, El Paso, ConocoPhillips, Osaka Gas, Dow, BG Group
- Most predictions of U.S. LNG exports range between 5 bcf and maybe 8 bcf a day by 2020/2025
- But no one knows and everyone is guessing numbers

Global LNG pricing



- Buyers pushing back against oil-linked pricing
- Japanese customers unusually vocal — and public
- Asia spot-market prices down to \$13 from \$18 high
- Buyers want new price formula, easing link to high oil prices, factoring in lower North American prices
- Buyers wait anxiously, hopefully to see how North American LNG will affect global pricing

Let's assume ...



- Buyers are willing to sign binding, long-term contracts to take Alaska North Slope natural gas
- Shippers sign long-term contracts to use the pipeline
- Sponsors commit to project development
- Lenders, investors commit to putting up billions
- Environmental reviews look good
- The project is ready for a final investment decision

Is there a law against that?



- Department of Energy approval is required to ship any oil or natural gas outside the United States
- Whether by pipeline, tanker, railroad or truck
- It's easy to get permission for free-trade partners
- It's just about automatic, but the department still wants to know if it's a real project with a real sponsor
- \$50 filing fee; no EIS; no economic impact analysis

Free-trade partners



- But the list of free-trade nations is limited
- U.S. producers sell to buyers in Canada and Mexico, using existing pipelines that crisscross the borders
- Other nations with free-trade treaties are Panama, Australia, Bahrain, Oman, Chile, Israel, Jordan, Morocco, Peru, Singapore and, in 2011, South Korea
- The only potential customer for Alaska on that list is South Korea, which imports about 4.5 bcf a day

Now the harder part



- Energy Department approval for gas exports to non-free-trade countries is not automatic
- Natural Gas Act of 1938 says approval will be given unless exports ‘not consistent with public interest’
- The statutory presumption is that exports are OK
- It is up to export opponents to prove otherwise
- Alaska has debated that for Cook Inlet LNG exports

The rush is on



- Energy Department last year approved its first, and only, LNG export application outside Alaska
- Cheniere Energy approved in 2011 for exports to non-free-trade nations, 2.2 bcf a day for 20 years
- Approval took almost nine months
- Terminal at Sabine Pass, La., set to open in 2015
- Cheniere was first in line — the next 14 not so lucky

U.S. Lower 48 LNG export applications received at the Department of Energy as of Oct. 16, 2012

Company	Quantity	FTA Applications (Docket Number)	Non-FTA Applications (Docket Number)
Sabine Pass Liquefaction, LLC	2.2 billion cubic feet per day (Bcf/d)	Approved (10-85-LNG)	Approved (10-111-LNG)
Freeport LNG Expansion, L.P. and FLNG Liquefaction, LLC	1.4 Bcf/d	Approved (10-160-LNG)	Under DOE Review (10-161-LNG)
Lake Charles Exports, LLC	2.0 Bcf/d	Approved (11-59-LNG)	Under DOE Review (11-59-LNG)
Carib Energy (USA) LLC	0.03 Bcf/d: FTA 0.01 Bcf/d: non-FTA	Approved (11-71-LNG)	Under DOE Review (11-141-LNG)
Dominion Cove Point LNG, LP	1.0 Bcf/d	Approved (11-115-LNG)	Under DOE Review (11-128-LNG)
Jordan Cove Energy Project, L.P.	1.2 Bcf/d: FTA 0.8 Bcf/d: non-FTA	Approved (11-127-LNG)	Under DOE Review (12-32-LNG)
Cameron LNG, LLC	1.7 Bcf/d	Approved (11-145-LNG)	Under DOE Review (11-162-LNG)
Freeport LNG Expansion, L.P. and FLNG Liquefaction, LLC	1.4 Bcf/d	Approved (12-06-LNG)	Under DOE Review (11-161-LNG)
Gulf Coast LNG Export, LLC	2.8 Bcf/d	Approved (12-05-LNG)	Under DOE Review (12-05-LNG)
Gulf LNG Liquefaction Company, LLC	1.5 Bcf/d	Approved (12-47-LNG)	Under DOE Review (12-101-LNG)
LNG Development Company, LLC (d/b/a Oregon LNG)	1.25 Bcf/d	Approved (12-48-LNG)	Under DOE Review (12-77-LNG)
SB Power Solutions Inc.	0.07 Bcf/d	Approved (12-50-LNG)	n/a
Southern LNG Company, L.L.C.	0.5 Bcf/d	Approved (12-54-LNG)	Under DOE Review (12-100-LNG)
Excelerate Liquefaction Solutions I, LLC	1.38 Bcf/d	Approved (12-61-LNG)	Under DOE Review (12-146-LNG)
Golden Pass Products LLC	2.6 Bcf/d	Approved (12-88 -LNG)	n/a
Cheniere Marketing, LLC	2.1 Bcf/d	Approved (12-99-LNG)	Under DOE Review (12-97-LNG)
Main Pass Energy Hub, LLC	3.22 Bcf/d	Pending Approval (12-114-LNG)	n/a
CE FLNG, LLC	1.07 Bcf/d	Pending Approval (12-123-LNG)	Under DOE Review (12-123-LNG)
Waller LNG Services, LLC	0.16 Bcf/d	Pending Approval (12-152-LNG)	n/a
Total of all Applications Received		27.58 Bcf/d	21.06 Bcf/d

Source: Office of Oil and Gas Global Security and Supply, Office of Fossil Energy, U.S. Department of Energy

The waiting game



- Applications (14) waiting at Energy Department totaling 19 bcf a day of exports; more are expected
- Project developers apply to Energy long before going to FERC for construction and operations certificate
- Export application low cost — FERC, environmental reviews, engineering and design are very high cost
- No sense paying to get expensive FERC certificate unless developers have that essential export approval

And waiting ...



- Energy put a stop to export approvals after Cheniere
- The oldest was filed about two years ago
- “Time out” to consider economic effects on U.S.
- Energy commissioned a study on price impacts
- Consultant said probably small price boost, but it would depend on export volume, demand, supply
- Larger report on overall economic effects delayed

Don't worry, Alaska



- Alaska natural gas not part of consultant report
- Energy agreed no reason to include Alaska gas, which is disconnected from Lower 48 consumers
- Sens. Murkowski, Begich ensured Alaska excluded
- But Alaska LNG exports could still get caught up in the report's political controversy and public debate
- “Export” is a politically charged word

Opposition and support



- Gas buyers like oversupplied U.S. market, low prices
- Utilities and especially petrochemical manufacturers
- Buyers worry of higher prices if gas surplus dries up
- Fracking foes equate exports with more fracking; Sierra Club says it will fight all Lower 48 exports
- Gas producers (and producing states) like exports
- Supporters say more markets will spur production

What's next



- Will Energy Department pick winners and losers?
- Or approve projects and let the market decide how many are needed and which ones get built?
- Winners will be the ones with signed contracts
- And then there are the politics
- Political considerations not part of the export law
- But that doesn't stop Congress from meddling

Political considerations



- Producing states vs. consuming states
- More than 40 members of Congress have written Energy Secretary and said move faster to OK exports
- Several members of Congress have talked of a ban
- No wide support for federal block on LNG exports
- Likely will see congressional hearings next year
- Lots of noise; Alaska best to wait for it to subside

One other issue for Alaska



- Alaska Natural Gas Transportation Act of 1976
- Back when Carter picked Alaska Northwest to build the highway gas line through Canada to serve U.S.
- Law says North Slope gas may not go anywhere except Canada or Mexico unless the president determines exports will not hurt U.S. consumers
- Law also bans any federal authorizations that could hurt the highway line to serve Lower 48 consumers

The decision



- President Reagan in 1988 said yes to Alaska exports
- Presidential decision not specific to Yukon Pacific
- But who knows if that determination is still valid
- No decision whether it is or isn't; no one has asked
- If Alaska export project seeks approval, the federal government would consider 1938, 1976, 2004 and 2005 laws, and the 1988 presidential determination

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