Laws and politics

Will either get in the way of selling Alaska North Slope natural gas?

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Sept. 18, 2012 – Alaska Oil & Gas Congress

ALASKA NATURAL GAS
TRANSPORTATION PROJECTS
OFFICE OF THE FEDERAL COORDINATOR

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

And let's assume …

- The gas is leaving the state by tanker, not pipe
- LNG destined for Japan, China, India, South Korea
- Not quite what Congress was told in 2004
- Not quite what Palin had promised in 2008
- Not quite what TransCanada and ExxonMobil had been working toward the past few years
- But shale gas changed the North America market

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 12 not so lucky

Applications Received by DOE/FE to Export Domestically Produced LNG from the Lower-48 States (as of September 11, 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	Pending Approval (12-05-LNG)	Under DOE Review (12-05-LNG)
Cambridge Energy, LLC	0.27 Bcf/d	Pending Approval (12-18-LNG)	n/a
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)	n/a
Golden Pass Products LLC	2.6 Bcf/d	Pending Approval (12-88 -LNG)	n/a
Cheniere Marketing, LLC	2.1 Bcf/d	Pending Approval (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
Total of all Applications Received		26.62 Bcf/d	18.66 Bcf/d

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

The waiting game

- A dozen applications waiting at Energy Department totaling 16 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 almost 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
- Gas producers (and producing states) like exports
- LNG exports a “relief valve” for U.S. production
- Supporters say more markets will spur production

What's next

- No one expects export decisions until after election
- But will Energy Department pick the winners?
- Or approve projects and let the market decide how many are needed and which terminals get built?
- 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 a federal ban on LNG exports
- Mostly just posturing for constituents back home
- And there is T. Boone Pickens and his self-interest

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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