

# ***There is good news for the Alaska gas pipeline***



**Anchorage Chamber of Commerce**

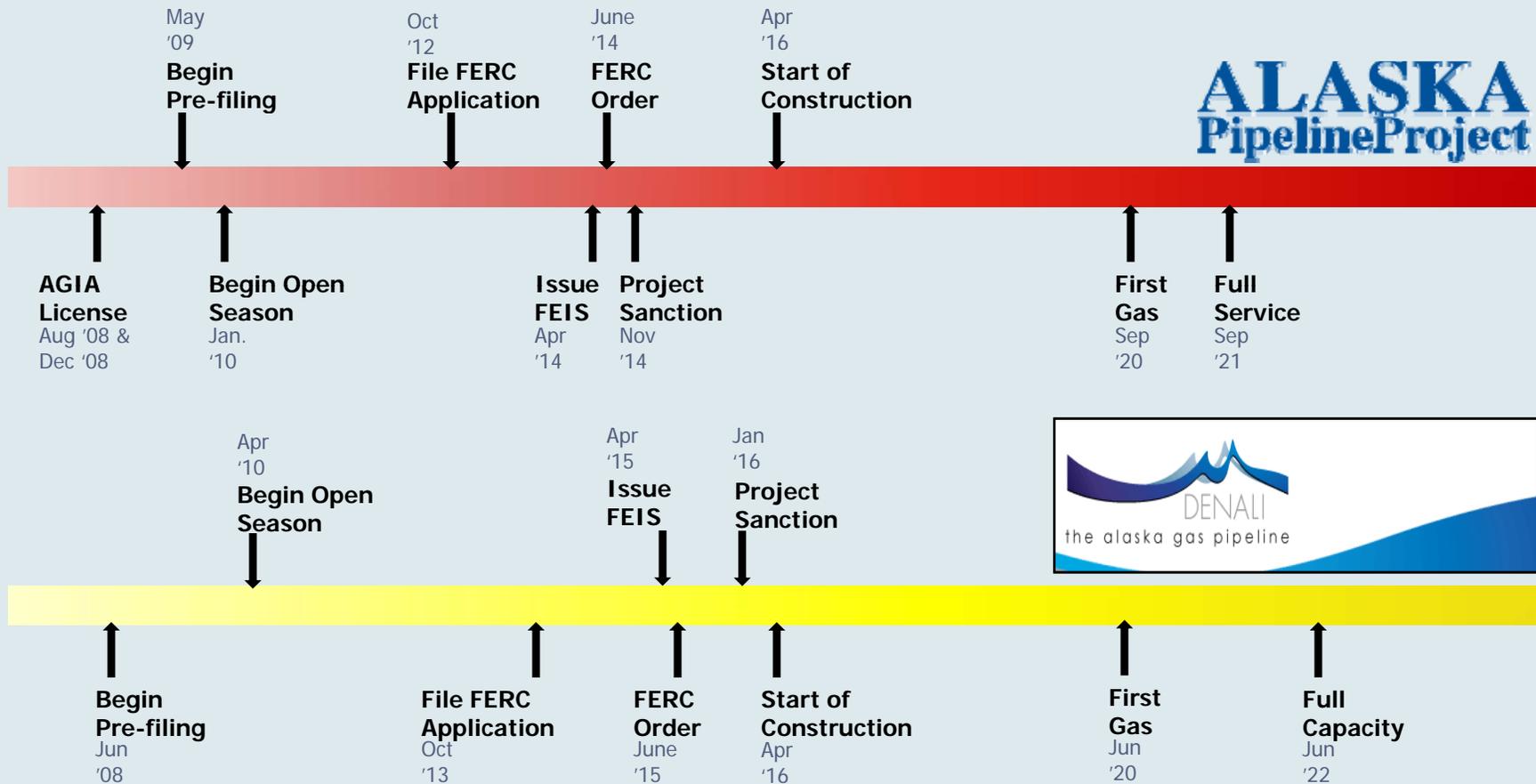
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# There is progress

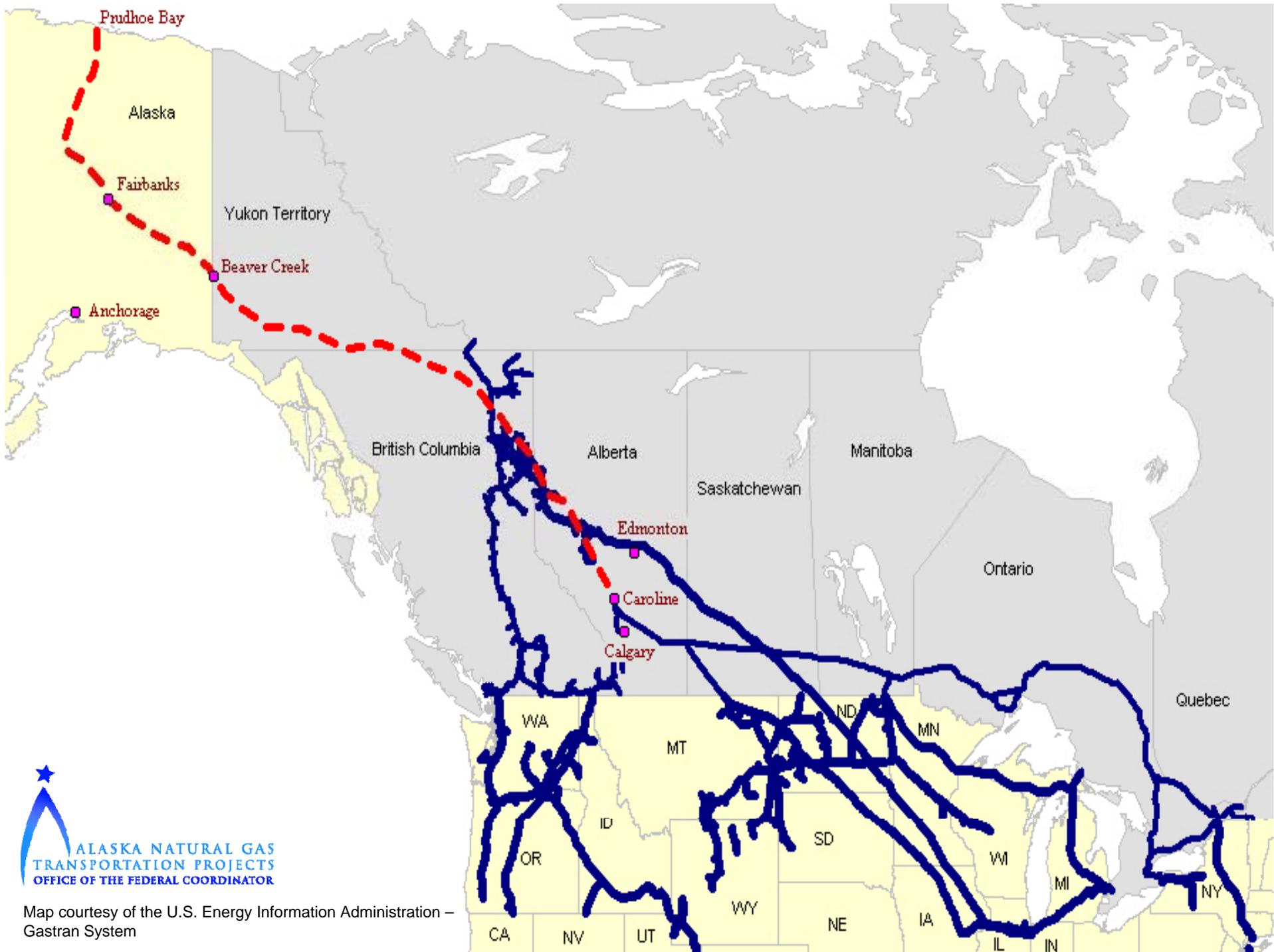
- Alaska Pipeline Project (TransCanada/ExxonMobil) and Denali (ConocoPhillips/BP) have spent more than \$500 million since 2000
- Open seasons closed; multiple bids (with conditions)
- Conditions on pipeline bids not unusual
  - ▣ ***Just like an earnest money offer on a house***
- More news could come late 2010, early 2011
  - ▣ ***No disclosures until signed agreements***

# Proposed project schedules



# Find the best market

- Pipeline from Alaska to North America would feed into the largest natural gas market in the world
- North America consumes 75 to 80 bcf per day
- Pipeline grid can move Alaska gas from California to New York, and every other state in between
- North America market is three times the size of China, India, Japan, South Korea and Taiwan natural gas markets combined
- In-state delivery is part of the deal for Alaskans




**ALASKA NATURAL GAS  
TRANSPORTATION PROJECTS  
OFFICE OF THE FEDERAL COORDINATOR**

Map courtesy of the U.S. Energy Information Administration – Gastran System

# LNG market is tough

- Australia, Indonesia, Russia, Malaysia, Brunei, Papua New Guinea, Qatar, Oman, Yemen, United Arab Emirates, Egypt, Algeria, Nigeria, Trinidad, Peru and Norway
- All operating or building LNG export projects
- Projects adding 50% to Asia supply 2009-2015
- Floating LNG: Shell's multibillion-dollar order with Samsung to access smaller Australia fields; proposals for Indonesia, Papua New Guinea too

# Australia wants to be No. 1

- ❑ \$50 billion in LNG projects under construction
- ❑ \$50 billion more in projects will be ready for investment decisions by next year
- ❑ Shell, Chevron, ExxonMobil, ConocoPhillips, Hess, Total, Apache, Woodside and others are spending serious money in Australia
- ❑ Shell alone looking at \$50 billion this decade
- ❑ Nothing in Australia needs 800-mile Arctic pipeline

# Competition back home

- Unconventional gas about 20% of U.S. supply
- Growing rapidly across the U.S. and Canada
- Horizontal drilling efficiency improves each year
- CERA: “Nobody drills a dry hole in a shale play. If they did, they’re not very good.”
- But the truth is, much of shale goes toward replacing declining production from conventional gas wells
- And shale wells experience a steep decline curve

# Shale has its problems

- ❑ Fracking becoming about as popular as an oil spill
- ❑ EPA review underway; states consider their own laws
- ❑ More questions as it moves closer to urban areas
- ❑ Hydraulic fracturing for shale gas requires  
3 million to 5 million gallons of water per well
- ❑ EPA lead: “Where is that water coming from?”
- ❑ Produced water disposal is the biggest issue
- ❑ Utilities group: “Environmental costs always go up.”

# Shale actually could be good

- Shale could help by eliminating price spikes and getting utilities to think gas for the long term
- Worldwatch Institute: “Price volatility remains the Achilles’ heel of natural gas.”
- No utility can afford repeat of \$14 price spikes
- Utility president: “Building a 1,000-megawatt, gas-fired plant doesn't make sense if you can't be sure what your fuel costs will be.”
- Shale makes utilities feel more comfortable with gas

# Utilities are thinking gas

- Growth in electrical power plant demand is essential
- American Public Power Association: Clean Air Act is pushing utilities to decide which plants survive
- The future is natural gas, not coal, for new plants
- TVA, Calpine, Xcel Energy, Constellation, Duke, Progress Energy planning new gas-fired plants
- Colorado's Xcel: Gas will cost \$1.3 billion, but \$225 million less than upgrading coal plants

# New regulations and EPA

- Anything that helps drive the nation to clean-burning natural gas is good for the Alaska project
- New EPA regulations could boost gas demand
- Utilities see possible new federal regulations, but don't know what or when — they're nervous
- They are factoring that uncertainty into their long-term power plant investment decisions now
- Politics could help, or hurt, natural gas demand

# Demand growth is key

- Electrical demand grew from 14 billion cubic feet per day in 2000 to 19 bcf per day in 2009
- CERA: Electrical utility demand for gas could almost double 2009 - 2030; an additional 16 bcf/day
- Interstate Natural Gas Association of America:  
Replacing half of oldest, least-efficient coal plants would require 5.5 bcf of gas per day
- It's not taking from coal, but going after new plants and replacement of older, costlier coal plants

# It's not easy, but it's possible

- Wood Mackenzie: “Whether the project proceeds ... depends on if the producers and the state can reach agreement on the applicable tax terms and, ultimately, what the producers believe to be the long-term value of natural gas in the North American marketplace.”
- At some point everyone needs to sit down and talk
- Alaska needs the gas line to help replace declining oil revenues and spur North Slope development

# Think before you spend

- Growing interest in a state-subsidized, small line from Prudhoe Bay to Fairbanks to Anchorage
- Hypothetical: For a multibillion-dollar state investment in the gas line, Alaska could get:
  - ***Gas to Anchorage at today's prices, maybe***
  - ***\$200 million a year in taxes and royalties, maybe***
  - ***No added reason for new North Slope exploration and development to stem the oil production decline***

# There is a better option

- Take those billions, negotiate and look at what could be done to help a large line to North America
- Merge the mainline and in-state line projects
- The state could get for its money:
  - ***The lowest cost gas for in-state consumers***
  - ***Maybe \$2 billion a year in taxes and royalties***
  - ***Moving so much gas would start an immediate push for new exploration and production to keep the line full***

# Thank you

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