

Alaska gas line update



Arctic Gas Symposium

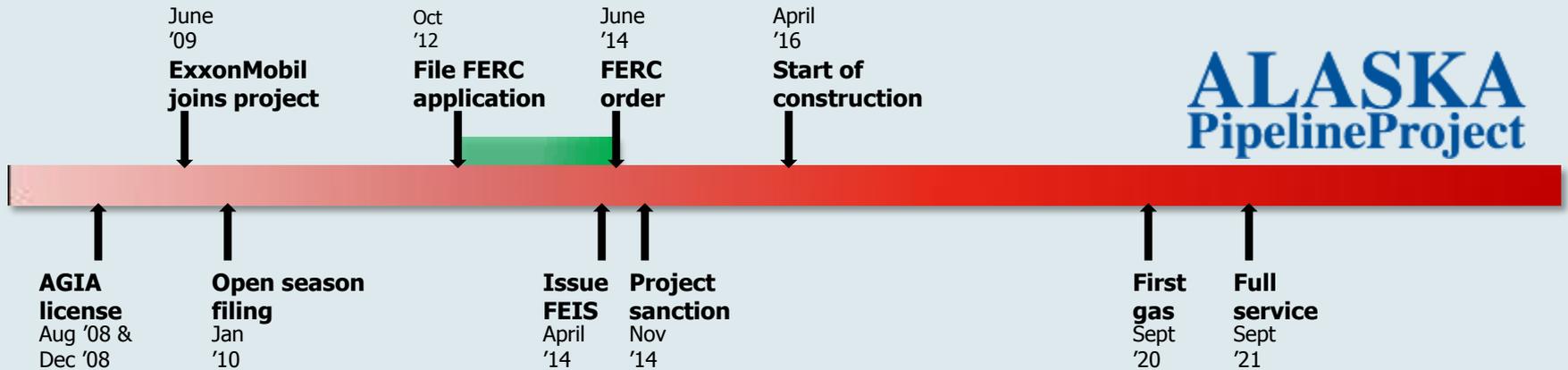
March 2, 2011 – Calgary, Alberta

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Open seasons

- Open seasons closed 7 months and 5 months ago
- Bids were conditional (and confidential)
 - *Possible conditions: Construction delays, overruns, service interruptions, additional revenues, Alberta terminus, back-out deadline — it's not only the state*
- Complex commercial negotiations are under way
- No FERC deadline to conclude open seasons
 - *Terms become public when 'precedent agreements' ready*
- Full precedent agreements may not be public

Project timelines



Project teams are working

- APP sent 19 employees and contractors to recent meeting with FERC and federal permit agencies
- APP planning three dozen open houses in 2011; its first resource reports due to FERC in 2011
- FERC has a 14-member team assigned to project
- Federal pipeline safety office, BLM, Army Corps and other agencies fully engaged in project
- Denali and APP are cautious about overspending until they see some results from open seasons

Pipeline construction issues

- APP engineers and technical personnel have met four times in five months with pipeline regulators
- Design approach, strain capacity, fracture control, routing pinch points, material selection, steel and rolling mills, pipe coating, welding, testing, quality and integrity management issues
- Proximity to trans-Alaska oil pipeline and roads
- Heightened safety awareness among the public following several recent gas pipeline accidents

Technical workshops

- Alaska Pipeline Project team met 3 days this week with federal agency personnel in Anchorage
- Construction overview workshop
 - *900 railway and road crossings, Alaska to Alberta*
- Pipeline ROW preparation / maintenance workshop
- Water body crossing workshop
 - *70 major rivers and lakes along the 1,700-mile route*
 - *Almost 2,400 crossings over or under small rivers / streams*

Activities in Canada

- Denali met in November with Canadian officials; project description could come later this year, starting a two-year environmental assessment
- APP has notified the Northern Pipeline Agency it plans 'fairly extensive' field season this year
- APP open houses in Yukon Territory March/April
- TransCanada has until next year to show it can fulfill all of the environmental and other conditions of the 1977 Foothills certificate

Federal EIS timeline

- Federal law designates FERC as lead agency for the project's environmental impact statement
- Alaska Natural Gas Pipeline Act deadlines:
 - Draft EIS within 12 months of complete application
 - Final EIS six months after draft EIS
 - Final order published within 2 months after final EIS
- State requires TransCanada application Oct. 2012
- No deadline for Denali project application to FERC

Attention items

Office of Federal Coordinator is tracking issues:

- Air quality
- Bald and Golden Eagle Protection Act
- Climate change
- Contaminated sites
- Cultural resources
- Geological studies
- Human health studies
- Land access issues and Native allotments
- Pipeline and Hazardous Materials Safety Administration permits
- Subsistence
- Threatened and endangered species
- West Dock dredging

Next steps

- FERC requires environmental resource reports before it will accept an application as complete:
 - General project description
 - Water use and quality
 - Fish, wildlife and vegetation
 - Cultural resources
 - Socioeconomics
 - Geological resources
 - Soils
 - Land use, recreation and aesthetics
 - Air and noise quality
 - Alternatives
 - Reliability and safety

Alaskans grow impatient

- TransCanada had anticipated reaching precedent agreements before Dec. 31
- Missed non-deadline prompted critics to cry ‘failure’
- Several Alaska legislators want to set deadline to end reimbursement of development costs
- Denali timetable: Precedent agreements March 13
- Alaskans losing hope in big pipeline, and are turning to a long list of proposed in-state-only options
- Meanwhile, state legislators battling over oil taxes

The unknowns

- How much will economy recover and demand build?
- How much will EPA limit greenhouse gas emissions?
- How much will utilities switch from coal to gas?
- How much will the federal government, states and municipalities constrain shale production?
- Will shale production costs rise (water handling)?
- Can Alaska gas compete on price with shale?
- What will be the price for gas 2020, 2030, 2040?

What it will take for Alaska

- Greenhouse gas restrictions, new air quality rules must continue driving utilities from coal to gas
- Gas prices rebound as demand builds
- Community resistance makes life harder on shale; water quality issues drive up shale drilling costs
- Producers see market opportunity after 2020
- Alaska gas must be competitively priced to win market share; not a penny more than others

Shale could help Alaska

- Shale could help by eliminating price spikes and getting utilities to think gas for the long term
- Worldwatch Institute report: “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.”
- Stable gas supply encourages more consumption

Utilities are thinking gas

- Clean Air Act is pushing utilities toward gas;
EPA issued new regulations Jan. 2, more to come
- President's clean-energy initiative includes gas
- Interstate Natural Gas Association of America:
Replacing half of oldest, least-efficient coal plants would boost demand 5.5 bcf per day
- Denver to go coal-free; TVA, Calpine, Xcel Energy, Constellation, Duke planning gas-fired plants

Coal has its own problems

- Half of the nation's coal-fired electrical generating plants are more than 40 years old
- Coal-fired capacity unchanged 1997 to 2008
- No new coal-fired power plants started 2009-2010
- Credit Suisse: Just 25% of coal-fired capacity fully scrubbed; \$40 billion to scrub half of the rest
- Utilities see more federal air quality regulations, but don't know what or when — they're nervous

Local reality

- Alaska really needs the big gas pipeline project
- For the public revenues, for the jobs, for the gas, but mostly to bring in oil and gas investments
- Alaska isn't as attractive as an oil-only investment
- It's hard to justify investment dollars without a way to convert natural gas into profits
- It would be a mistake to count the 'fairness' of any gas line fiscal structure in tax dollars only

Thank you

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