

ALASKA LNG

ENVIRONMENTAL REVIEW, SUMMER 2015 FIELD WORK

Kenai Peninsula Borough Assembly – April 7, 2015

Presentation by Larry Persily, Special Assistant to the Mayor, Oil and Gas Issues

Project status and timeline

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- Continuing field work, preliminary engineering, environmental reports and permitting discussions
- 1st draft environmental reports submitted February
- Summer 2015 onshore work around Nikiski site will include 80 boreholes (100' - 150'), 20 groundwater monitoring wells (100' – 200') and 20 test pits
- Offshore, boreholes from jack-up rig (late summer)
- 2nd draft reports expected in first quarter 2016

Summer work and land acquisition

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- Logistics report expected later this year, detailing what would move, how and when during construction
- Geophysical and geotechnical work this summer
- AKLNG has acquired ownership or options for 550 of 800 acres for liquefaction plant, marine terminal
- Discussions starting with state and borough regarding reroute of Kenai Spur Highway
- Project team spent three days in March with federal officials to review environmental reports, work plans

Regulatory work, public sessions

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- Alaska LNG team working with Coast Guard on Cook Inlet Waterway Suitability Assessment
- Project team working with federal pipeline safety regulatory agency, which also oversees LNG plant
- Contract with state on community subsistence surveys
- April 23: Kenai/Nikiski open house on summer work
- April 27 – May 1: Business information sessions planned in Kenai, Anchorage, Fairbanks and Barrow

Federal EIS process

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- Federal Energy Regulatory Commission will prepare single EIS for use by all federal agencies
- Could take at least a year after full application
- Project currently in ‘public scoping period’
- FERC asking public to raise issues for the EIS
- Scoping sessions to be held statewide this fall
- Public comments are due to FERC by Dec. 4, 2015

Preferred Cook Inlet crossing

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- Pipe to enter water south of Beluga power plant
- Sunk on the bottom, weighting and protected for the roughly 30-mile run to the Kenai Peninsula
- AKLNG survey for depth, terrain, obstacles, currents
- Pipeline would reach shore about at Boulder Point
- Stays west of the Kenai Spur Highway before it turns east to the plant site south and east of the refinery, fertilizer plant and ConocoPhillips LNG

Cooperating agency status

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- Borough could apply for cooperating agency status
- More active role in FERC preparation of EIS
- Hard test to pass for cooperating agency status
- Borough must show special expertise in an environmental issue; authority over project; commitment of staff time and resources; and the legal ability to maintain confidentiality
- Kenai Borough and state could each apply to FERC

State issues (political)

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- Legislators vs. governor over whether to pursue state-owned alternative to producer-led project
- Governor wants state gasline corporation to stop work on small-volume backup pipeline and switch to larger-volume gas export project
- Most legislators oppose the effort; fear conflict with state/AKLNG partnership, market confusion
- Legislation would block work on upsized state line

State issues (political)

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- State gasline corporation was working on supplemental EIS for smaller-volume project
- After governor's pivot to larger-volume export project, the U.S. Army Corps stopped work on EIS
- No sense spending more staff time on project
- State corporation ready to get cost estimates for larger project after legislative battle ends
- Construction estimates will not cover LNG plant

State issues (financial)

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- State contracted with financial adviser to analyze potential financing options for state ownership stake
- Interim report in January lists options
- Final report this fall will provide recommendations
- Options: Combination of debt and equity
- State equity options limited by falling oil revenues
- Billions in state debt could affect credit rating

Municipal property taxes

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- PILT – Payment in Lieu of Taxes
- Negotiated formula for payment to municipalities
- Factors: Project cost, inflation, depreciation, volume
- Preferred to annual battles over assessed value
- Municipal Advisory Group working with administration to devise formula and allocation
- PILT would cover payments during operations
- Impact aid covers municipal costs during construction

State issues (fiscal stability)

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- LNG sold on long-term contract at set prices
- Producers worry that state fiscal terms could change mid-contract — buyers will not cover the increase
- All LNG projects look for long-term fiscal stability
- LNG developers in British Columbia are each negotiating a fiscal contract with the province
- At some point, Alaska and producers will need to present negotiated terms for legislative approval

Could this fall apart?

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- Global LNG market demand could come up short
- Alaska's competitors could beat us on price
- Russia could succeed at winning over Asian buyers
- Producers unable to design cost-effective project
- Alaska politics could get in the way of success
- But better to lose to market forces than to defeat ourselves with political squabbling
- We need project to prolong North Slope operations

Alaska has advantages

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- Short tanker voyage to Asia; one week to Japan
- High Btu value for North Slope gas
- Proven reserves, 30+ tcf; no exploration risk
- Dependable production; 8 bcf reinjected daily
- Proven supplier; smaller Conoco plant since 1969
- Liquefaction more efficient at cold temperatures
- Major Alaska oil and gas producers are aligned