

WILL THERE BE A HAPPY ENDING TO LNG STORY

The Alliance - MatSu Energy and Industry Update Forum - Wasilla
Nov. 6, 2015 - *By Larry Persily, special assistant to Kenai Peninsula Borough mayor*

Maybe, but skepticism persists

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- State doubles down by buying out TransCanada
- Fiscal talks continue between state and producers
- Federal regulators hold hearings statewide
- Municipalities continue property tax talks with state
- State OKs gas offtakes from Prudhoe, Pt. Thomson
- Alaska LNG project teams plan 2016 field work
- More project details expected first quarter 2016

State buy-out of TransCanada

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- State will own 25% of everything
- The cost is double the equity and double the debt
- Will put more pressure on state finances
- Regardless of buy-out, largest determining factor in state's future income will be market price for LNG
- State gains representation, but not control
- Alaskans should not see this as public works project

Municipal revenues unresolved

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- State, project sponsors negotiated fixed amount for impact aid during the five years of construction
- Negotiators also settled on formula for payments in lieu of assessed property taxes during operations
- Numbers look OK, but what about the municipalities
- State and municipalities still need to figure out how to share both pots of money during construction and during decades of gas project operations

Meanwhile, the market is lousy

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- ❑ Weakening demand in China, Japan, South Korea
- ❑ India pays unused charters rather than take LNG
- ❑ New supplies coming online Australia and U.S.
- ❑ Asia \$7 spot-market just one-third \$20 record high
- ❑ Buyers demanding more flexibility, shorter terms
- ❑ Spot and short-term sales close to 30% of market
- ❑ U.K. starts winter \$6.40/mmBtu; lowest since 2009

It will get worse

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- ❑ First U.S. LNG exports to start this winter
- ❑ Four more U.S. export plants under construction
- ❑ Australia has three new projects making LNG; four more scheduled to start up by 2017-2018
- ❑ New U.S./Australia capacity: 120+ million tonnes, adding almost 40% to global liquefaction capacity
- ❑ The only good news for Alaska: Most of that new capacity is already under contract to buyers

But it could get better, if ...

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- ❑ China's economy resumes strong growth
- ❑ China (and rest of the world) chooses gas over coal
- ❑ Japan restarts a limited number of nuclear plants
- ❑ Growing economies use more energy: India, Southeast Asia, South America, South Africa
- ❑ Mideast burns more gas for power generation
- ❑ Low LNG prices lead to more global demand

Shortages possible by 2020s

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- ❑ Weak projects fall victim to oversupply, low prices
- ❑ Declining reserves at older projects will trim supply and contract expirations will create opportunities
- ❑ Most analysts see risk of supply shortage in 2020s
- ❑ Estimates of 5 to 8 new projects needed by 2025
- ❑ Strong projects will survive to meet new demand
- ❑ Next round of investment decisions will not be easy

LNG market has changed

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- ❑ More spot and short-term sales, flexible contracts
- ❑ Korea Gas and Tokyo/Chubu Electric partnership say no more long-term supply contracts this decade
- ❑ “Gone are the days when you can expect to get 15 percent return on your LNG plant.”
- ❑ Korea Gas reportedly to earn 6%, and 7% to 9%, return on investments in two Australia LNG projects
- ❑ LNG export project developers will have to adapt

Financing is available

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- ❑ Lenders still want to see long-term contracts, creditworthy buyers, experienced developers with a strong balance sheet to finish the project
- ❑ Average for 15 LNG projects 2000 – 2015; 65% debt / 35% equity; nothing over 85% debt
- ❑ The more gas under long-term contract, the higher the percentage of debt lenders willing to provide
- ❑ Risk matters: Russia's Sakhalin LNG just 27% debt and Yamal LNG is having trouble raising capital

What will it take for Alaska

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- ❑ Alaska must get its fiscal mess resolved
- ❑ Alaskans must realize it's business, not public works
- ❑ Project must compete on price in competitive market
- ❑ “When I buy chocolate, I look at Swiss or Belgium.
... (but) when I buy gas, I look at the price.”
- ❑ Market is looking for winning projects in 2020s
- ❑ Alaska needs to stop political fighting and work with partners to show market it is a contender