

ALASKA'S NORTH SLOPE NATURAL GAS
"WORTH \$90 BILLION AS LNG OR CLOSE TO \$600 BILLION AS GTL's"
WHICH WAY WILL YOU CHOSE?

In a recent interview with Tim Bradner published in the Petroleum News, Alaska Gasline Development Corporation (AGDC) President Keith Meyer said: "Give us a chance" to bring Asian investors to the table. Let me address this comment.

"Give Us a Chance".

I wonder if Mr. Meyer realizes that his biggest obstacle in getting the Alaska LNG Export project to work is Alaskan's. In Alaska just because you have an agreement with the State or a taxing authority doesn't mean that next year a different Legislature won't change the rules or the Governor will veto a payment that was agreed to.

As an example Governor Walker should have gone to each company that invested its money to earn the tax credits the law provided and asked them to renegotiate because of the financial problems that the State was going through. He didn't. Companies may have agreed to waive or delay credits or payments. Those who didn't may not be welcome in the State for future business but at least the world would have seen the State of Alaska honor its agreements. Changing the rules because the State needs more money will turn off most customers especially those from Asia. This is the single greatest obstacle to getting any mega billion-dollar project in Alaska financed.

Many years ago we would enter into natural gas sales agreements with a pipeline customer and we included "FERC Outs" in the agreement. FERC or Federal Energy Regulatory Commission had the ability to change the rules at any time that could render an agreement uneconomic to either party. Because of this, most natural gas sellers included a provision in the gas sales agreement that said if the FERC or any other regulatory authority introduced a new regulation that caused the seller to receive a lower value, then the seller had the right to re-open the agreement for negotiation. It could be possible that the seller could cancel the agreement.

An Alaska based project has at least two regulators who can change the rules almost at will. The FERC and the State of Alaska. There is always the possibility of the FERC introducing rules that could impact the net back price the seller receives for his natural gas or the price the market will pay for the delivered gas. Today, however the FERC doesn't regulate the transport and sale of exported LNG except if the pipeline crosses state borders – potentially not an issue for Governor Walkers proposed LNG export project. The Alaska Government can change at will the production tax a producer pays and it has over the years. The State can also change the property tax a project pays and in fact Governor Walker as an attorney successfully raised the assessed value of the Trans-Alaska Pipeline System (TAPS) from its depreciated value back to \$9 billion so that communities that provide little to no services to TAPS could extract more money.

In a free market with excess supply, the “market” will chose to buy its natural gas from a different seller or cause the seller to receive a lower net-back price or the owner of the transportation infrastructure to receive a lower return with a lower tariff if the regulatory and or taxing authorities change the rules. No natural gas seller who has been in the business for more than 20 years is going to commit to sell natural gas without a “FERC Out” or an “AK Out” in the contract. No financial market is going to lend billions to an Alaska LNG Export project unless the State of Alaska is prevented from changing the rules to collect more taxes / revenues (money) during the term of the debt service repayment. No end market is going to commit to buy LNG from an Alaska project where the State can charge higher fees that will be passed on to the end market. Actually today, as Mr. Meyer says with so much competition to supply LNG, the end markets will only pay a deemed competitive “market price”.

So for Mr. Meyer to succeed with the Alaska LNG Export Project he will need Alaska to change how it does business. That means the people of Alaska will have to stop saying “it's our resource” and we will change how we tax the project to meet our financial needs and begin saying we will live with whatever contract the Administration and Legislature agrees to - for the term they agree to.

We are told that takes an amendment to the State Constitution. Something Administrations over the past 20 years have promised to pursue but haven't yet done so. Governor Walker had the opportunity to do this in early 2016 and chose not to. I hope Mr. Meyer can get Governor Walker on board with this issue because if he can, it will improve the chances of financing all mega projects in Alaska including a much better GTL option.