

# Oil and Natural Gas Outlook: Implications for Alaska

## **The Alliance – Meet Alaska**

Remarks by Marianne Kah

Chief Economist

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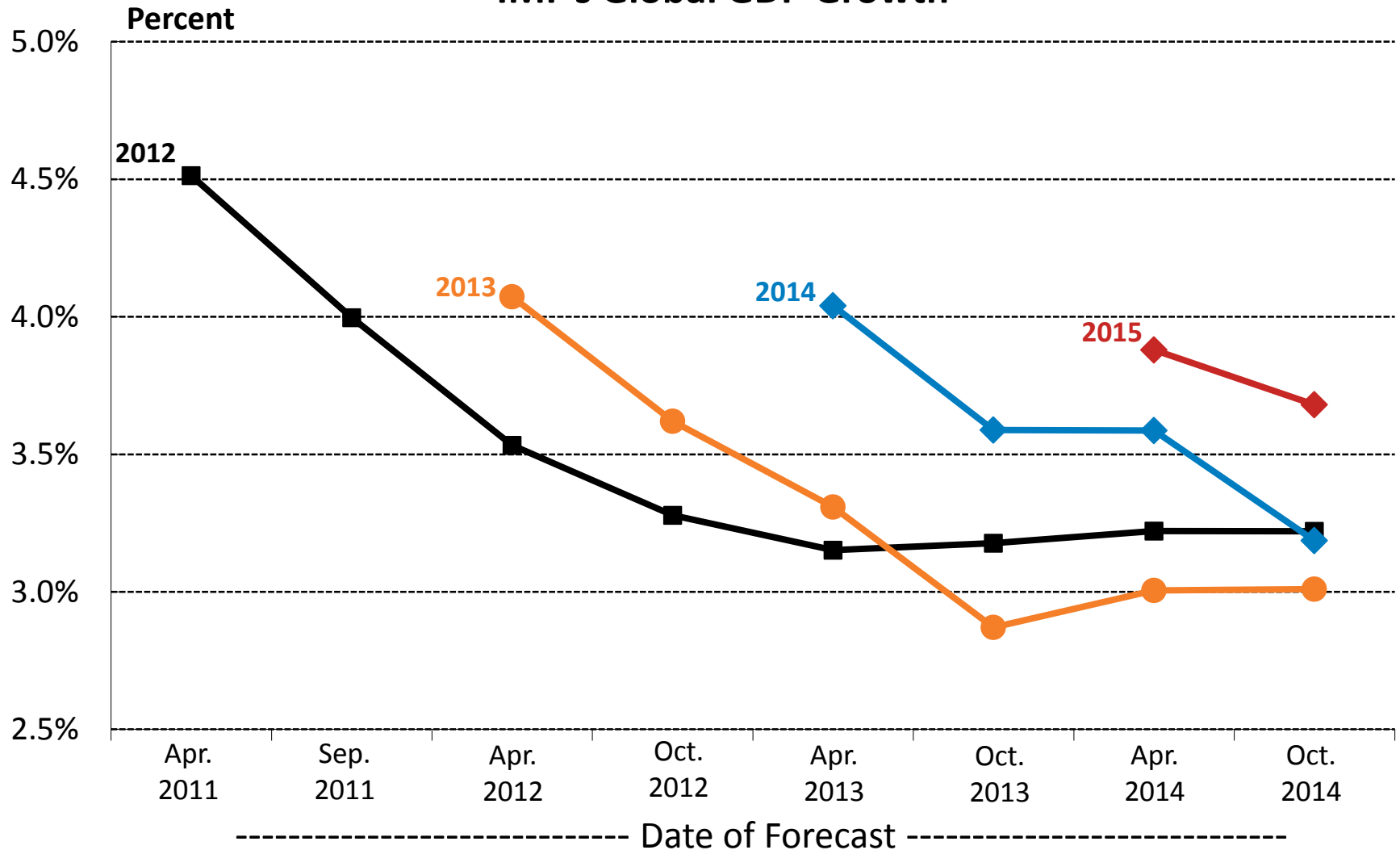
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# Challenging Oil and Natural Gas Outlook

- Weak global economic and energy demand growth
- Global oil supply growth outpacing demand, causing present oil price weakness
- Need for U.S. crude exports
- Weak N.A. natural gas market
  - Sufficient supplies available below \$5/MMBtu prices
- Loosening international natural gas market
  - Pipeline and LNG supply competition
  - Lower economic and gas demand growth
  - Lower oil prices reducing LNG contract prices
- Environmental, cost and tax pressures

# Downward Revisions to Global Economic Growth Forecasts

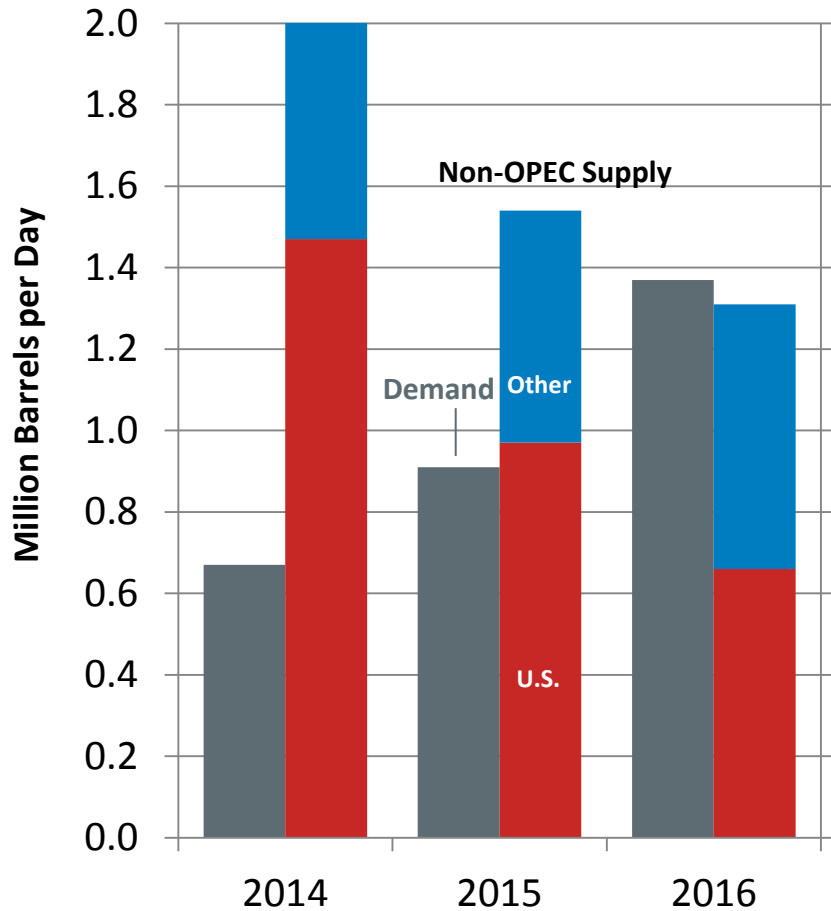
## IMF's Global GDP Growth



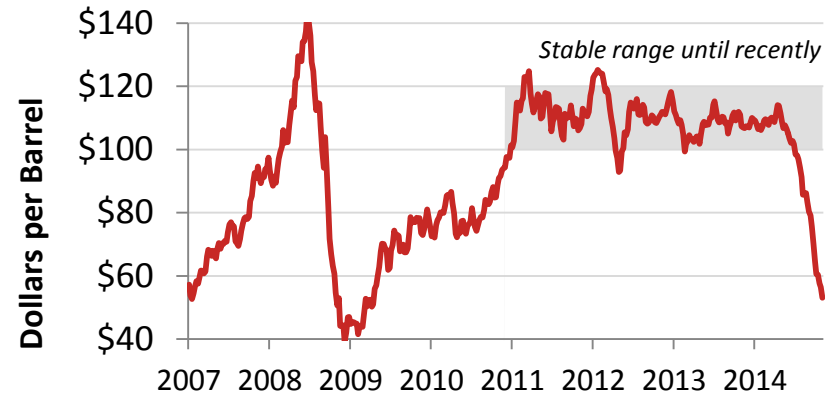
Downward revision has been a constant theme

# Brent Crude Market Outlook

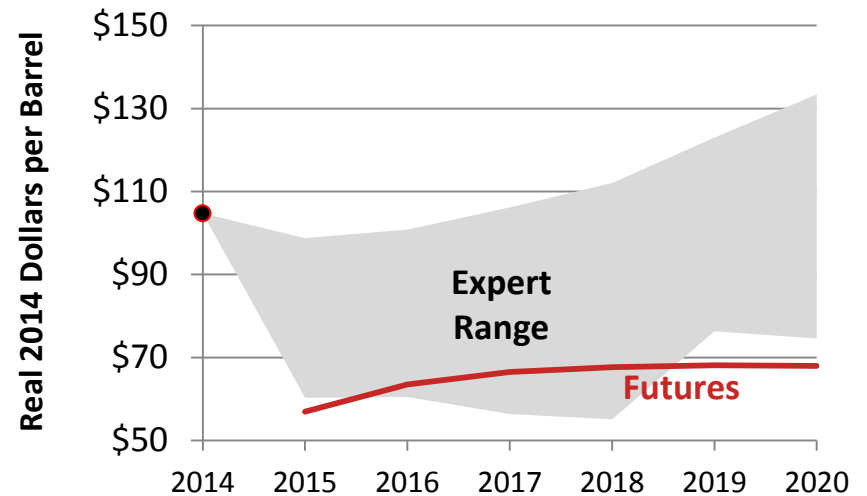
## Global Oil Demand vs. Non-OPEC Supply Growth



## Historical Brent Crude Price



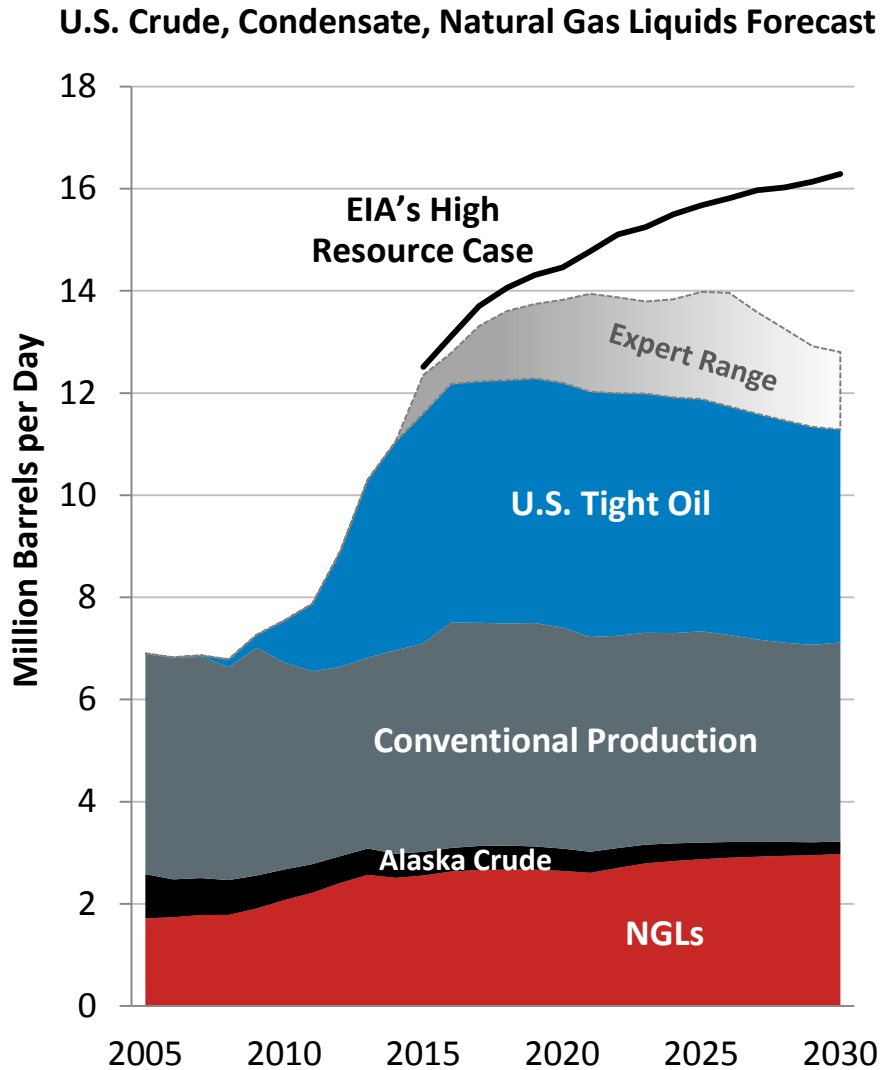
## Market Brent Price Outlook



Recent weakness in economic and oil demand growth lowered prices

Source: IEA 12/14 Monthly & Medium Term, U.S. includes NGLs Notes: 2014 Brent price is annual average; Futures from 1/5/2015

# U.S. Oil Production is Set to Expand



**Liquids production has returned to levels not seen since 1972**

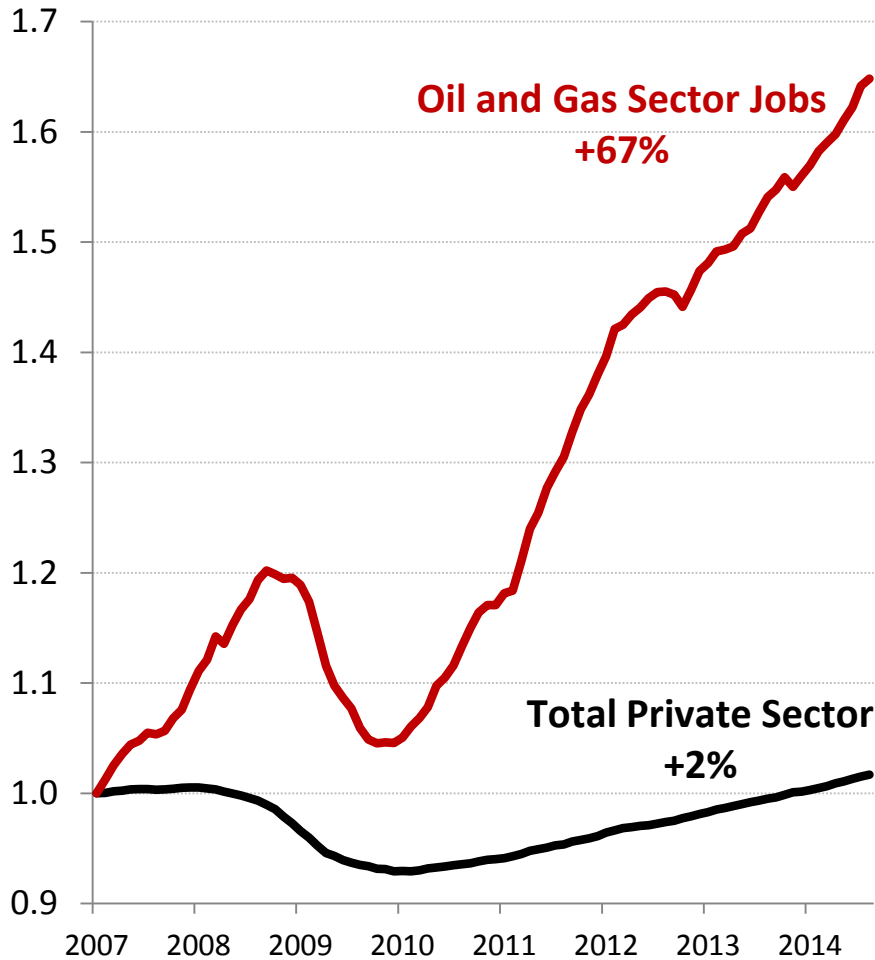
Source: U.S. Department of Energy, EIA Annual Energy Outlook 2014, various forecasts

Source: Rystad Energy Upstream Database

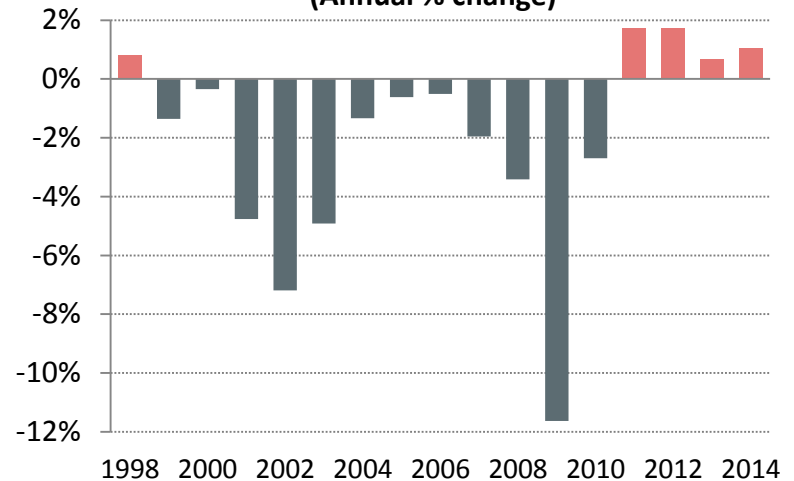
# Oil & Gas Has Spurred Growth in the Broader U.S. Economy

## Oil and Gas Sector Expanded While Other Sectors Lagged

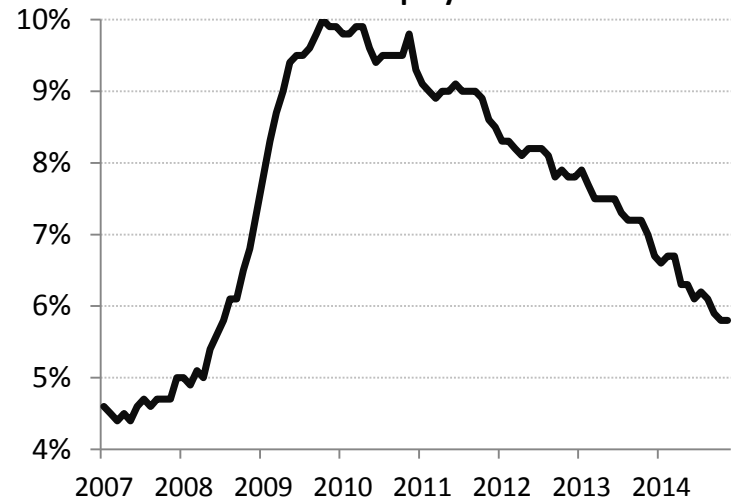
Index of Job Growth: Jan. 2007 = 1.0



## Manufacturing Employment Reversed a 12-year Decline (Annual % change)



## U.S. Unemployment Rate



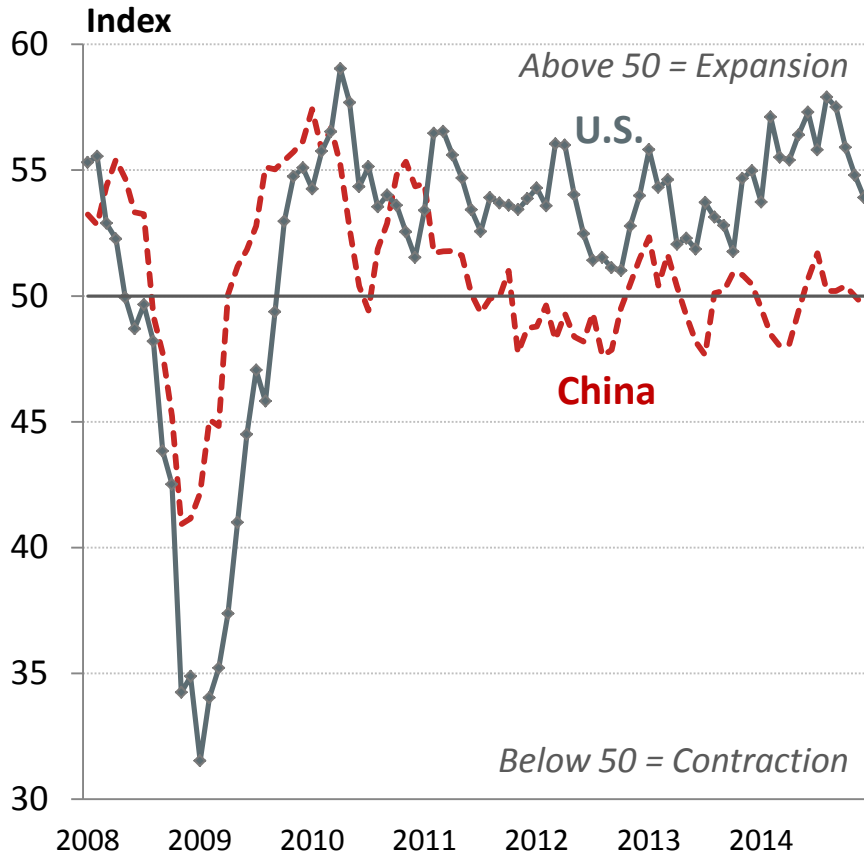
**Energy production prevented U.S. downturn from being worse, and spurred recovery**

Source: U.S. Bureau of Labor Statistics (Total Private Sector Jobs, NAICS 211000 and 213112).

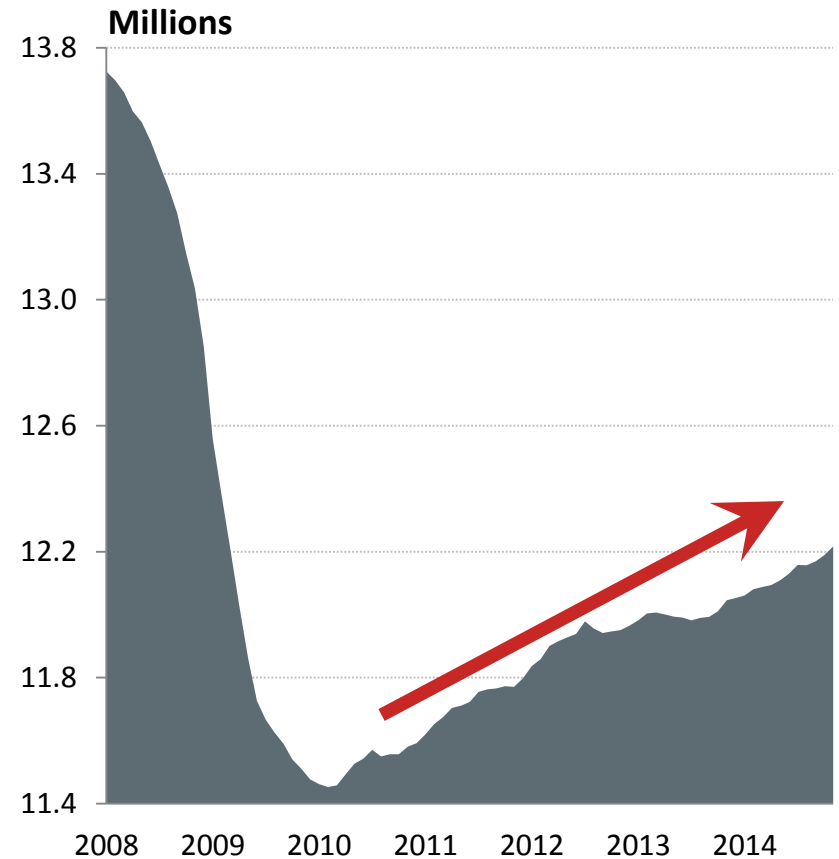
Source: U.S. Bureau of Labor Statistics.

# In-Migration of Manufacturing: U.S. Industrial “Re-shoring”

## U.S. Manufacturing PMI Consistently Ahead vs. China Since Early 2011



## U.S. Manufacturing Employment: Gained about 750,000 Jobs Since 2010

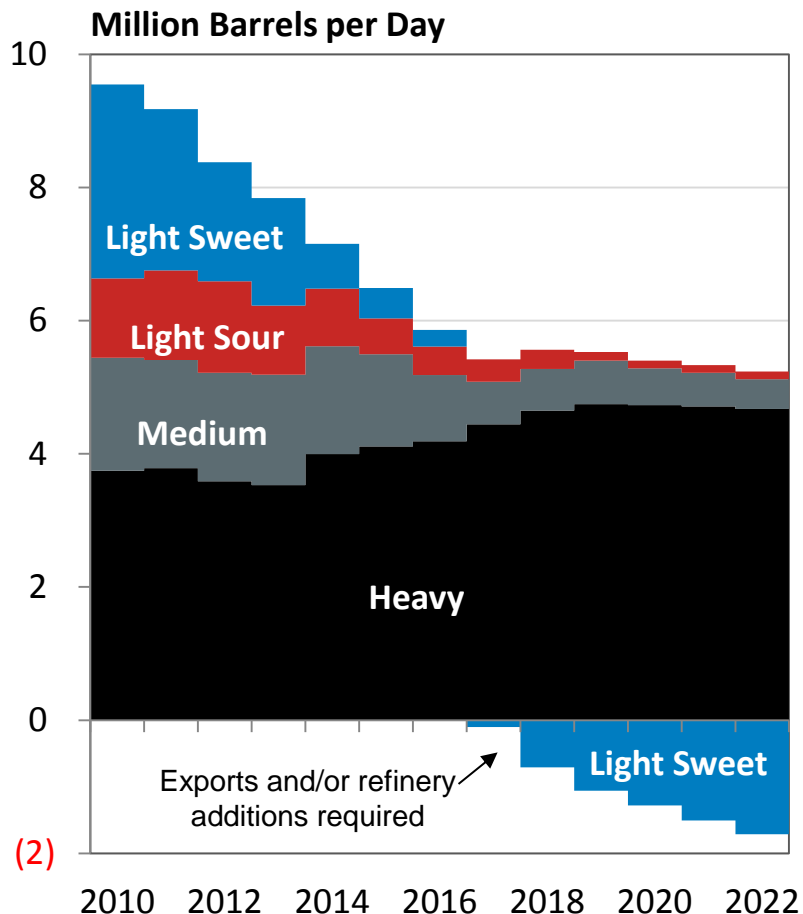


**Affordable energy has given U.S. industry a competitive advantage**



# Changing Pattern of U.S. Crude Imports

## U.S. Crude Imports/(Exports)

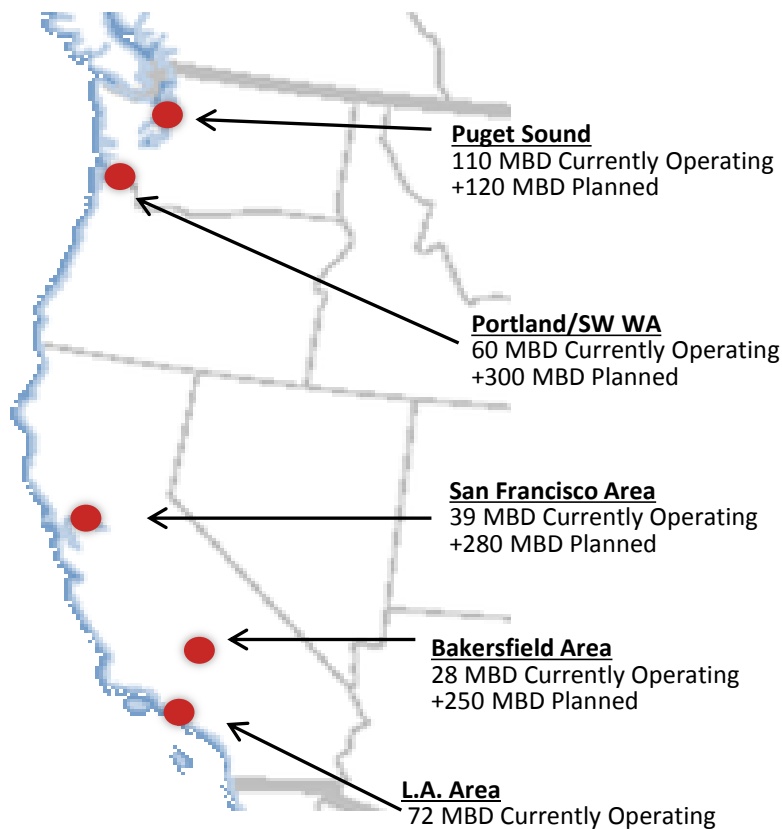


- Declining light, sweet crude imports, with year round exports needed by 2017
  - Condensates and super light crudes are already in surplus
  - Seasonal exports needed before then during U.S. refinery turnarounds / outages
- Eventual reductions in light, sour and medium crude imports
- U.S. likely to maintain heavy crude imports that better matches domestic refinery configuration

## Need for exports of surplus light, sweet crudes

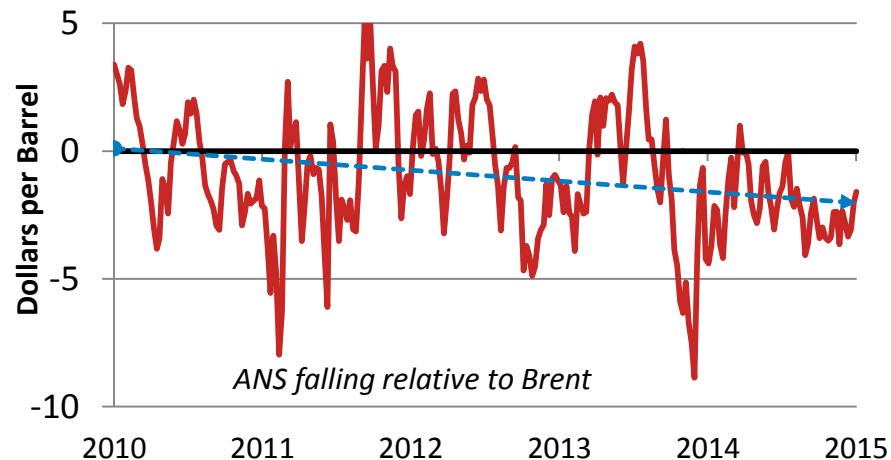
# Case for ANS Crude Exports

## Rail Unloading Capacity on West Coast

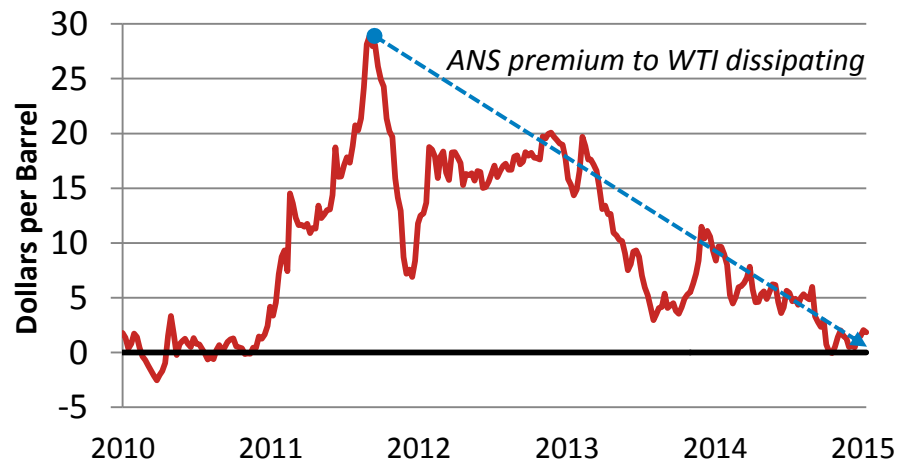


Current West Coast rail unloading capacity ~300 MBD  
 Could reach 1250 MBD capacity by end-2016

## ANS (Long Beach) - Brent Price Differential



## ANS (Long Beach) - WTI Price Differential



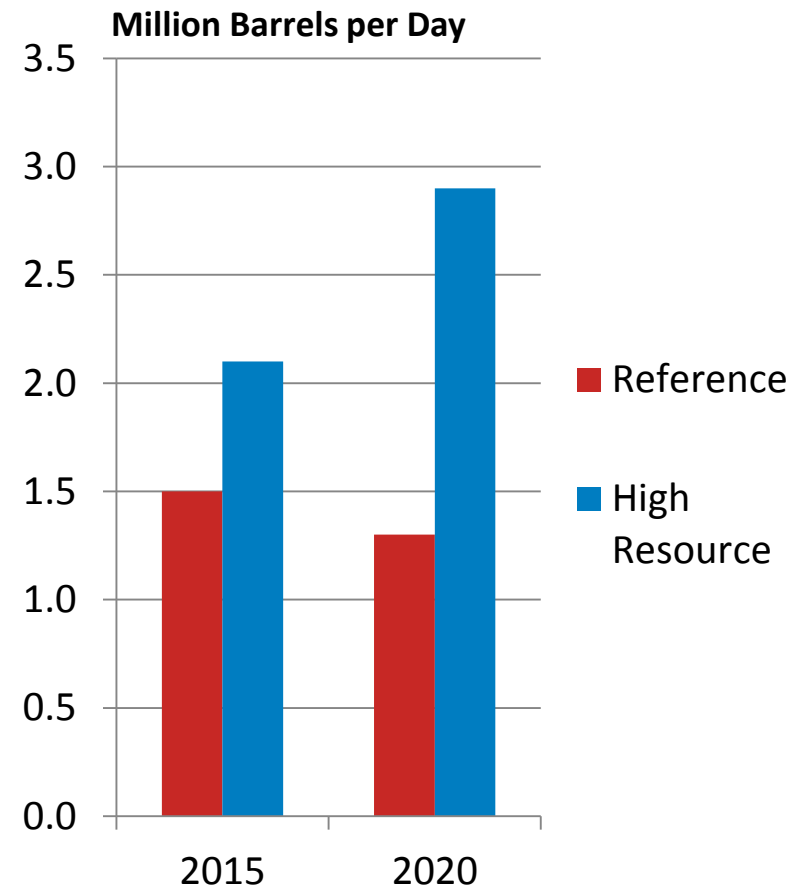
**West Coast imports of ANS face stiffer competition from Lower-48, Canada & South America**

Source: ConocoPhillips, Various; Platts for prices

# Ability to Export L48 Crude Would Increase U.S. Oil Production

- Lifting the ban on U.S. Lower 48 crude exports would increase production by 1.5 to 3.0 MMBD by 2020
  - 10-20% increase
- Removing domestic crude price discounts caused by the ban would increase investment in new production
  - More wells and plays would become economic
  - Increased cash flow to invest

## Incremental U.S. Crude Production from Lifting Export Ban in 2015



**Increased production comes with significant economic benefits to the U.S.**

# Benefits of U.S. Crude Oil Exports

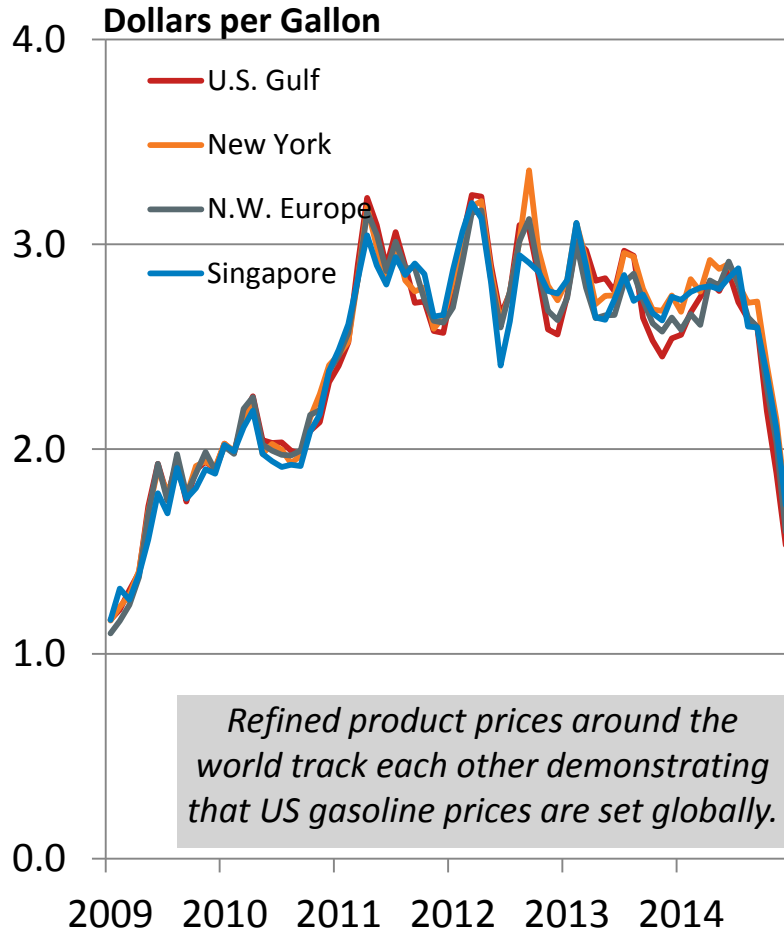
- Would lower consumer fuel costs at the pump by \$18 billion annually
- U.S. economy could gain \$135 billion and about one million jobs at its peak
- Reduce nation's oil import bill by \$67 billion annually
- Increase government revenues by \$1.3 trillion between 2016-2030
- Strengthen U.S. geopolitical position



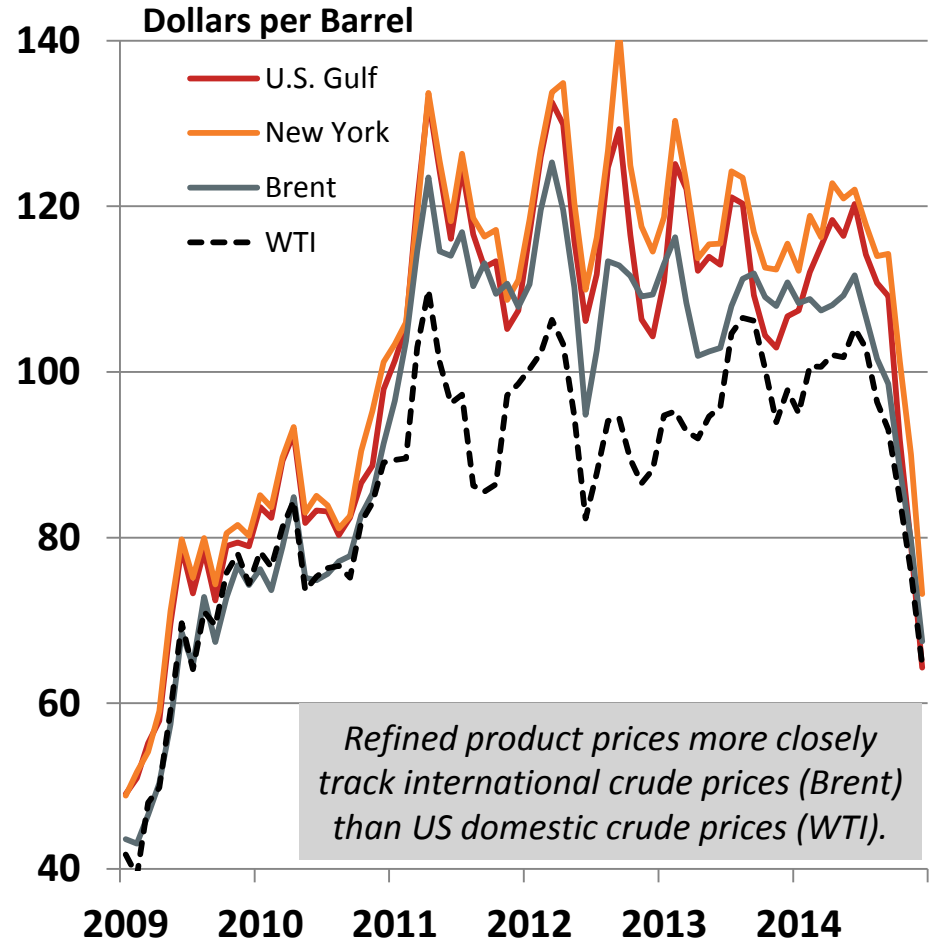
**More jobs & economic development would result  
from continued growth in U.S. oil production**

# Gasoline Prices Are Set Globally by International Crude Prices

## Spot Gasoline Prices



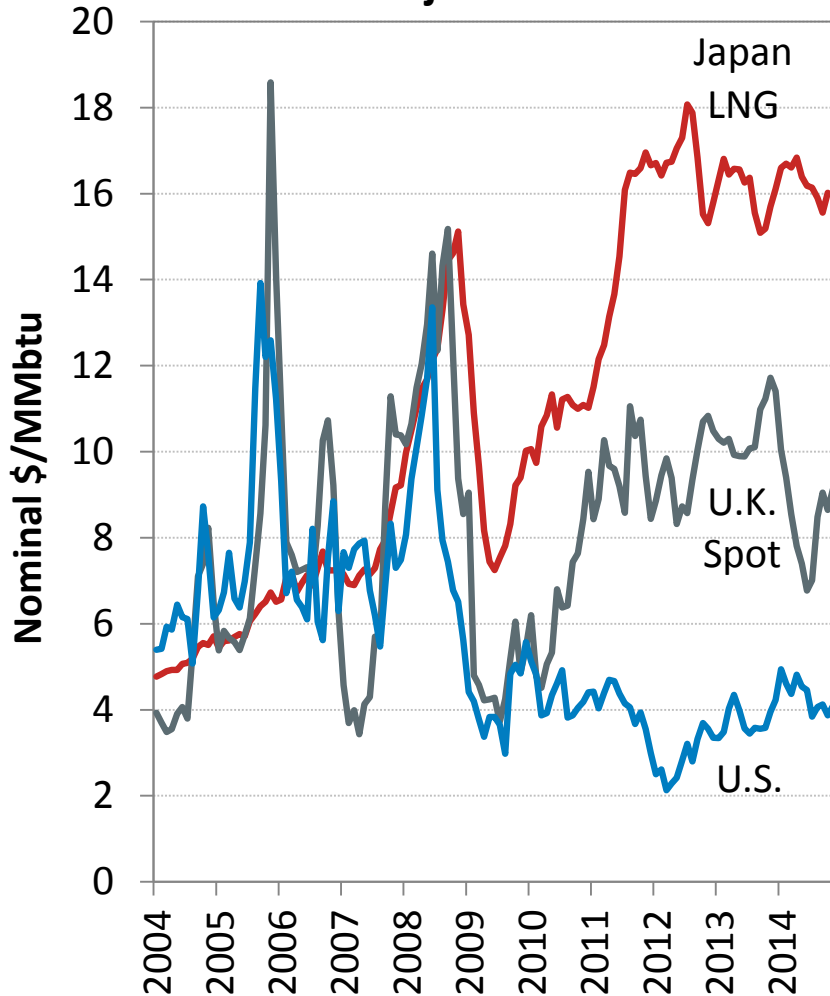
## U.S. Gasoline Prices vs. International & Domestic Crude Prices



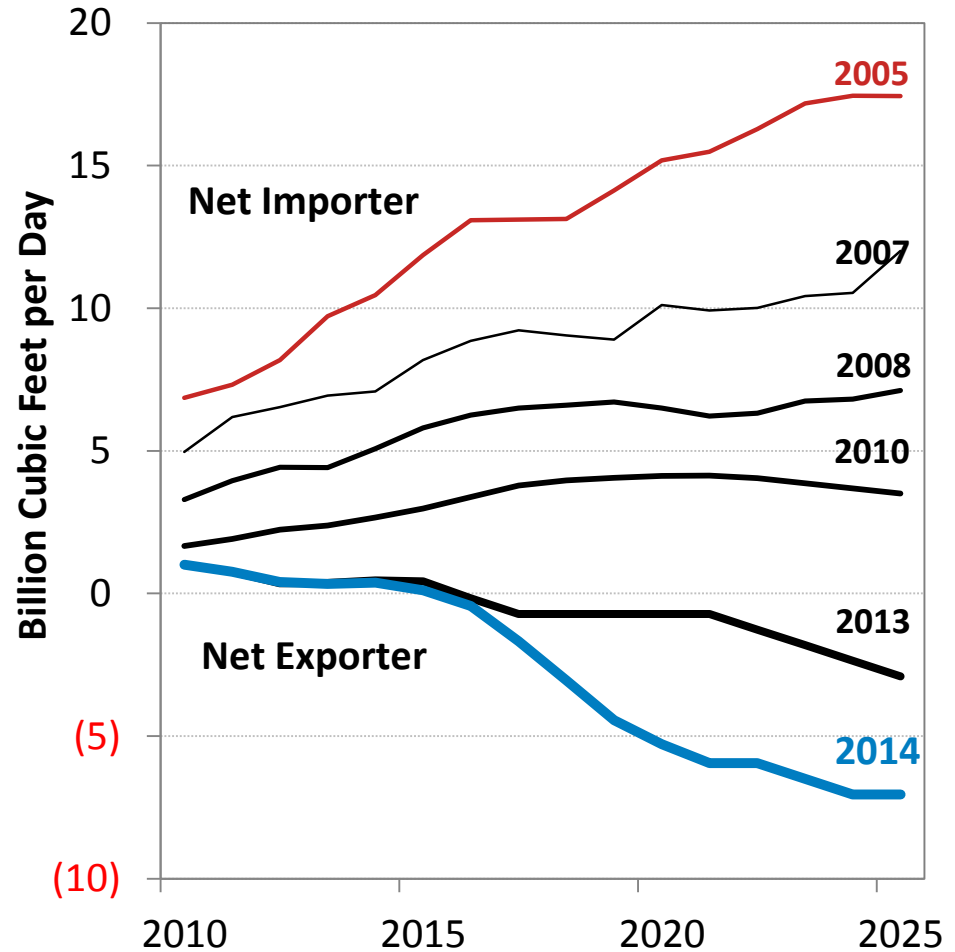
**U.S. crude exports should lower U.S. gasoline prices**

# U.S. LNG Exports

## Wide Divergence Between Pricing in Major Markets



## Historical U.S. Department of Energy Projections

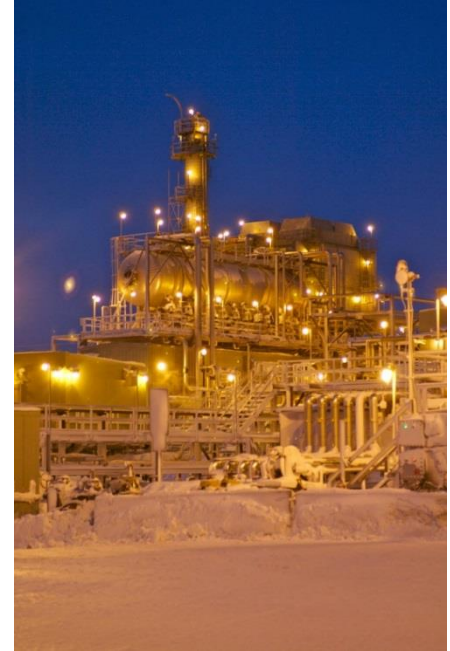


**U.S. is poised to become an LNG exporter**

Source: Bloomberg; U.S. Department of Energy, EIA, AEO 2005-2014

# Alaska Activities Announced Since Tax reform (SB21) Passed

- **Added two rigs to the Kuparuk rig fleet**
  - *Investment has decreased Kuparuk Unit field decline from 7% to 1%*
- **Two new-build rigs are on order – deliver 2016**
  - Rotary rig Doyon 142
  - Coil tubing drill rig Nabors CDR-3
- **New Drill site at Kuparuk (DS-2S) – Approved October 2014**
- **Evaluating plans for additional development in NPRA (GMT-1)**
  - In dialogue with Federal Government for acceptable terms
- **Pre-engineering for viscous oil expansion in Kuparuk (1H NEWS)**



\*Gross dollars

# Implications for Alaska

- Alaska North Slope oil needs to be cost competitive, especially in today's low oil price environment
- ANS crude export option driven by increased flows of competing crude oils to the U.S. West Coast
- Relatively low natural gas prices in Lower 48 makes those LNG projects competitive and they are helping set global LNG prices
- With stiff competition, Alaska LNG needs to be competitive with regard to cost and fiscal terms