

CS FOR HOUSE CONCURRENT RESOLUTION NO. 1(WTR)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTIETH LEGISLATURE - FIRST SESSION

BY THE HOUSE SPECIAL COMMITTEE ON WORLD TRADE AND STATE/FEDERAL
RELATIONS

Offered: 1/24/97

Referred: Resources, House Special Committee on Oil and Gas

Sponsor(s): REPRESENTATIVES Barnes, Phillips, Rokeberg, Kubina, Kott, Sanders, Williams, James, Vezey, Austerman, Davis, Hodgins, Ryan, Dyson, Davies, Nicholia, Kemplen, Porter, Bunde, Brice, Elton, Therriault, Kelly, Mulder, Ogan

SENATORS Lincoln, Pearce, Sharp, Leman, Taylor, Wilken, Mackie, Donley, Torgerson, Kelly, Miller, Duncan

A RESOLUTION**1 Relating to a new Alaska liquefied natural gas project.****2 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

3 **WHEREAS** there are abundant, known natural gas resources on Alaska's North Slope
4 with the Prudhoe Bay field containing about 26 trillion standard cubic feet, the Point
5 Thompson field estimated at three to five trillion standard cubic feet, and, perhaps, two to six
6 trillion standard cubic feet at the Kuparuk, Lisburne, and Endicott fields considered together;
7 and

8 **WHEREAS**, particularly with the Prudhoe Bay field, natural gas coexists and is
9 produced with marketable oil and, lacking a market for much of the gas, it has been returned
10 to the reservoir where it provides for enhanced long-term oil production and is saved for
11 future gas sales; and

12 **WHEREAS** the major Prudhoe Bay leaseholders and others have pursued a costly
13 variety of options for future gas sales, each driven by a perception of market potential; and

14 **WHEREAS**, in recent years, liquefied natural gas (LNG) delivered to Asian markets
15 has emerged as an option of substantial interest, but given strong international competition to
16 supply the Asian LNG market, it is clear that prudent sponsors and investors will require that
17 a new Alaska LNG project show economic viability with competitively, not premium, priced

1 LNG; and

2 **WHEREAS** the LNG market is a unique commodity business because there is no
3 global spot market for LNG as there is with oil; hence, development of an LNG project
4 requires substantial dedicated investment for the production, transportation, and use of the gas
5 to be produced; and

6 **WHEREAS**, to make investment in a new Alaska LNG project viable, gas owners,
7 facility owners, gas buyers, host governments, financial institutions, and other participants
8 must contractually join to form a long-term (20 to 30 year) business structure to ensure a
9 reliable competitively priced gas supply results from the project and to realize a competitive
10 return on project investment; and

11 **WHEREAS** substantial additional facilities will be required for the development of
12 Alaska's North Slope gas resources for delivery to the Asian market, including a gas
13 conditioning plant on the North Slope to produce pipeline quality gas while appropriately
14 handling rejected carbon dioxide, a gas transmission pipeline to tidewater from the
15 conditioning plant, an LNG production plant and storage facility at tidewater, a marine
16 terminal, LNG oceangoing tankers, and miscellaneous supporting infrastructure; and

17 **WHEREAS** the current estimated cost of facilities needed for a new Alaska LNG
18 project is about \$15,000,000,000, with a range of uncertainty around this estimate, and not
19 included in this estimate are the substantial investments required of the gas buyers for LNG
20 receiving terminals, gas transmission and distribution systems, and gas-fired electrical power
21 plants; and

22 **WHEREAS**, due to the significant up-front investment, a new Alaska LNG project
23 will require a fast ramp-up to a minimum production level of approximately two billion
24 standard cubic feet of gas per day, or 14 million tons per annum, of LNG, which represents
25 a significant share of the anticipated growth in demand in the Asian market; and

26 **WHEREAS**, following the discovery of the Prudhoe Bay field, changes in legislation
27 or interpretations of legislation by state agencies have resulted in unpredicted state tax
28 increases and in litigation between the state and the petroleum industry over state taxes and
29 royalties to be paid for oil and gas; and

30 **WHEREAS** any major new commitment such as would be required for a new Alaska
31 LNG project must, by necessity, be backed by a long-term, stable, and appropriate fiscal

1 regime consistent with the long-term agreements established between LNG buyers and sellers;
2 and

3 **WHEREAS** the state historically has enacted legislation allowing the state to
4 contractually grant fiscal relief to attract new industry, a notable example being the
5 Marathon/Phillips Kenai LNG plant; and

6 **WHEREAS** other host governments of competing LNG projects have encouraged their
7 projects by providing stable fiscal terms for the lives of the projects, fiscal relief, and direct
8 financial participation; and

9 **WHEREAS** the Department of Revenue and Department of Natural Resources have
10 studies showing under realistic assumptions that a new Alaska LNG project is not
11 economically attractive for investment at this time, and that, for the project to become
12 attractive for investment, requirements include increased certainty about market price and
13 demand, definition of what is likely to be a complex business structure, substantial reduction
14 in and narrowing of uncertainty about facility capital costs, and appropriate stable fiscal terms
15 from the state; and

16 **WHEREAS** an important potential benefit of an LNG project is the employment of
17 Alaska residents and Alaska-based businesses in the construction and operation of the project,
18 but, in order to assist in achieving a commercially viable project, there will be a need for
19 competitively priced goods and services; and

20 **WHEREAS** access to natural gas for local Alaska community use may be provided
21 by an LNG project, an additional public benefit; and

22 **WHEREAS** the major Prudhoe Bay leaseholders plan to focus on reflecting market
23 needs in the design and structure of an LNG project, will continue their already substantial
24 efforts to reduce the range of cost uncertainty and identify further cost reductions for the
25 project, and plan to develop possible project structure alternatives; and

26 **WHEREAS** the Nineteenth Alaska State Legislature passed House Joint Resolution
27 54 in support of an LNG project;

28 **BE IT RESOLVED** that it is the wish of the Twentieth Alaska State Legislature that
29 the state provide a stable and appropriate fiscal and regulatory environment to give a new
30 Alaska liquefied natural gas (LNG) project the best opportunity to become economically
31 attractive, and it is the intention of the legislature to support efforts to provide such an

1 environment; and be it

2 **FURTHER RESOLVED** that the Alaska State Legislature recognizes that a window
3 of opportunity now exists and encourages the Governor to work with leaseholders of North
4 Slope natural gas resources, the legislature, and the federal government to develop and
5 complete an LNG project to transport and market North Slope natural gas by the year 2005;
6 and be it

7 **FURTHER RESOLVED** that the Alaska State Legislature respectfully requests the
8 Governor to identify fiscal conditions that would best facilitate an LNG project; and be it

9 **FURTHER RESOLVED** that the Alaska State Legislature respectfully requests the
10 Governor to develop with the leaseholders of the North Slope gas resources a contract for
11 execution with the parties that appear likely to be sponsors of an LNG project that sets out
12 the nature, degree, and duration of the fiscal terms that best facilitate the LNG project and
13 provides for the contractual guaranteeing of those terms; and be it

14 **FURTHER RESOLVED** that the Governor is respectfully requested to submit an
15 LNG project contract to the legislature for ratification along with enabling legislation required
16 or advisable to authorize the state to formally enter into the contract; and be it

17 **FURTHER RESOLVED** that the Alaska State Legislature requests potential project
18 sponsors to find suitable measures to

19 (1) support and encourage qualified Alaska businesses and residents to
20 participate in construction and operation of an LNG project; and

21 (2) ensure that, if the project is constructed, it will be configured and operated
22 where technically and economically feasible so that natural gas can be marketed to Alaska
23 communities; and be it

24 **FURTHER RESOLVED** that the Governor is respectfully requested to work closely
25 with the Alaska Congressional delegation and the Prudhoe Bay leaseholders to identify
26 appropriate federal actions that would best facilitate the advancement of an economically
27 attractive new Alaska LNG project; and be it

28 **FURTHER RESOLVED** that the Governor is respectfully requested to consider and
29 to report to the legislature the form of participation in an LNG project by the state.

30 **COPIES** of this resolution shall be sent to the Honorable Ted Stevens and the
31 Honorable Frank Murkowski, U.S. Senators, and the Honorable Don Young, U.S.,

1 Representative, members of the Alaska delegation in Congress.