

**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.