

TO; Alaska House Resources Committee

FROM: Lynn Willis, Eagle River, Alaska

RE: Public Testimony relating to HB 223 (Tax & royalty for certain gas) February 7, 2024

Two quotes from history might best describe the current Cook Inlet gas supply crisis and the State's approach to this problem. "It's like déjà vu all over again.", from Yogi Berra and "Insanity is doing the same thing over and over and expecting different results." often credited to Alber Einstein.

Wasn't Alaska facing this crisis about a decade ago, and aren't HB223 and the similar HB276 offering a variant of the same solution attempted then? Again, Alaskans are being offered a "Hobson's Choice" (which is no choice) as Alaska consumers face a form of extortion which might be described as "Pay us more if you want gas.". Paying tribute to private industry obviously didn't work then, so what objective evidence makes you think it will work now? Isn't this legislation just another political mirage created to lull Alaskans into a false sense of security and create the false image of a long-term solution? The recent record-breaking cold temperatures in South Central Alaska and the reemergence of the color-coded supply warnings by the Municipality of Anchorage give the lie to any idea that past efforts have solved this problem for the long term.

DNR Commissioner John Boyle stated during the Jan 31st hearing on HB276: "From a DNR standpoint the challenges we're facing in the Cook Inlet right now aren't related to the resource." He further testified we have: "... ample gas resources that are available under either existing platforms or platforms that could be permitted within a relatively short period of time." Alaskan homes, businesses and other critical infrastructure cannot utilize energy for space heating or electrical generation from a permit to drill alone. How long until actual production of gas, especially if oil production from this same permit is more profitable? Given the apparent time constraints now do members of this committee actually assume, costs notwithstanding, we now have the time to create the infrastructure to import natural gas or build a pipeline from the North Slope? Also, as a side issue, has anyone asked the Military it's opinion about importing gas into Cook Inlet by sea to provide this critical this energy supply to military infrastructure and the civilian population that supports it? Regarding sea lane reliability remember the

reasons the Alaska Highway was built during WWII.

I understand corporations involved in Cook Inlet rightfully pursue a legitimate main objective of maximum profits. However, doesn't that primary objective to seek profit conflict with your state constitutional mandate expressed in Article VIII § 2 that: "The legislature shall provide for the utilization, development, and conservation of all natural resources belonging to the State, including land and waters, for the maximum benefit of its people."?

Absent sufficient demand, Cook Inlet is a failed market for natural gas. The "Public Private Partnership" (PPP) approach relying on a regulated and/or subsidized industry is not working. To provide natural gas for a long-term solution why not use a more public utility approach. I have attached a Dec 27,2023 ADN Opinion Piece by Walter Featherly "The solution to Cook Inlet Gas Supply is right under our noses"

Remember the quote attributed to Einstein about the futility of attempting the same solution to obtain different results. Thank you.

Attachment: OPINION: **The solution to Cook Inlet gas supply is under our noses**

Attachment to testimony by Lynn Willis to House Resources Committee regarding HB223 Feb 7,2024

OPINION: The solution to Cook Inlet gas supply is under our noses

By Walter Featherly

Anchorage Daily New

Published: December 27, 2023 (Updated January 1,2024)

When, in 1966, Atlantic Richfield Company (ARCO) was balking at continuing to explore for oil at Prudhoe Bay, Gov. Wally Hickel told them, “Drill or I will.” As Hickel later described it in his oral history, “There would have been no Prudhoe Bay if I hadn’t been governor ... I took them up to Prudhoe Bay, ARCO, ... and they told me why they weren’t going to drill. They won’t drill because they don’t own it, and I says, ‘Harry (Jamison, ARCO’s Alaska district manager): “Drill or I will.”’

In the depth of the subarctic winter, when it is cold and dark here in Alaska, heating and lighting our homes and businesses is more top of mind than in other seasons. But it is not a seasonal issue, and, as we are increasingly hearing, not one that we can take for granted. The just-released report of the Governor’s Alaska Energy Security Task Force noted, “Cook Inlet natural gas supplied to Railbelt utilities for electrical and heat energy sources is rapidly decreasing. Existing contracts for Cook Inlet natural gas begin expiring as soon as 2027. This will force Railbelt utilities to find alternate sources of natural gas, at prices significantly higher compared to the current gas supply price.”

A number of options are being considered for increasing or replacing the supply of Cook Inlet natural gas, including importing natural gas from outside of Alaska, incentivizing further oil and gas exploration and production in Cook Inlet by lowering or eliminating state taxes and royalties, or completing project development for the North Slope natural gas bullet line. All of these options will be costly to the consumers, state, or both. Even the lowest cost option, importing gas from Canada, is estimated to increase energy prices in the Railbelt by 50% and would be a significant blow to Alaska’s economy.

There is, however, another option: Like the approach Gov. Hickel took with Prudhoe Bay, we — Alaska — could do the drilling ourselves.

Let’s take a step back. The problem with the Cook Inlet gas supply is not that Cook Inlet is running out of gas. According to an analysis of the Alaska Department of Natural Resources, presented at a Jan. 30, 2023 hearing of the Senate Resources Committee, Cook Inlet holds more than 19 trillion cubic feet of available natural gas, which is enough gas for 270 years of current demand, based on DNR’s estimated use of about 70 billion cubic feet per year.

While the potential supply of Cook Inlet gas is enormous, the size of the market for that gas is too small for oil and gas companies to attract the needed investment to develop the fields. Journalist Nat Herz writes in the Norther Journal, “The biggest obstacle to further development in (Cook Inlet) is that potential investors and buyers are wary of the risk involved,” according to John Hendrix, the president of HEX, a company sitting on significant quantities of untapped Cook Inlet gas. In other words, we have what economists call a “market failure” — a recognized public good exists (a reliable future supply of gas from Cook Inlet). Still, the potential rewards (marginal profits) to oil and gas companies are insufficient to compensate the companies for the marginal costs and risks of supplying the market.

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So how do we “do the drilling ourselves?” In 1968, the Alaska Legislature provided us with the means to do so by creating the Alaska Industrial Development Authority (since renamed the Alaska Industrial Development and Export Authority — AIDEA), which was granted by the Legislature the power “to acquire, manage, and operate projects as the authority considers necessary or appropriate to serve a public purpose;” Alaska Statute 44.88.080. With this power, AIDEA could acquire controlling equity interests in one or more of the companies currently sitting on Cook Inlet gas deposits that John Crowther, the state’s deputy natural resources commissioner, describes Cook Inlet’s “nearest-term prizes.” Two of these companies, HEX and BlueCrest Energy, are currently pitching the Railbelt utilities to provide the investment capital for the infrastructure and drilling required to develop the resource. But the Railbelt utilities are customers, not economic development agencies, and it would be imprudent for them to incur risks beyond those that are priced into the supply contracts.

AIDEA, on the other hand, as its name suggests, is an economic development agency whose charge by the Alaska Legislature includes, “to encourage the economic growth of the state, including the development of its natural resources, through the establishment and expansion of manufacturing, industrial, energy, export, small business, and business enterprises and ... other facilities.” With nearly \$1.5 billion in net assets, according to its 2022 Annual Report, AIDEA could easily afford this level of investment, especially when coupled with its statutory authority to issue revenue bonds, which could be used to finance the acquisition of equity interests in HEX or BlueCrest Energy.

“Harry: Drill or I will.” “Governor, you will?” To which Hickel replied: “You’re ----- right. It’s our land and our oil.”

Walter T. Featherly, a lifelong Alaskan, is the General Counsel of Calista Corporation, vice president of the Anchorage Home and Landowner’s Association, board member of the Anchorage Economic Development Council, and a candidate for the Alaska House of Representatives, District 11 on the Hillside.