

# Testimony before the House Resources Committee on Southcentral Gas Supply

March 15, 2024



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# Relevant Background

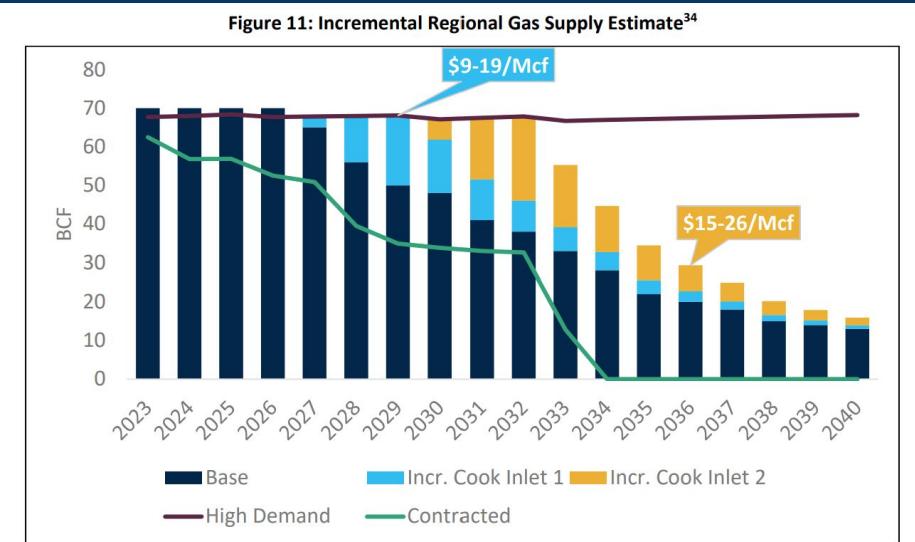
- **Previously:**
  - Senior VP & General Counsel of Arkla, Inc., at the time, the third largest integrated gas company in the US
  - 35 years experience as an oil & gas lawyer, much of it spent dealing with various natural gas market issues (somewhat ironic that my career started with working on interstate natural gas "shortage" issues in the 1970's)
  - 11 years direct experience in Cook Inlet gas (representing Unocal/Chevron from 2000 through the 2011 sale of its assets to Hilcorp)
- **Currently:**
  - Managing Director of Alaskans for Sustainable Budgets, a project focused on developing and advocating for economically robust and durable state fiscal policies
- **Not representing anyone here today (paid my own way)**

# My Perspective: Let the market decide

1. **Baseline**: The market is saying that the current price of gas is too low to elicit the needed supplies (price is below market clearing levels)
2. **No subsidies**: The Cook Inlet gas issue should be resolved through the approach that has the lowest overall cost to all Alaskans
  - Subsidies don't eliminate costs, they only shift them to someone else: the "overall cost" to all Alaskans is the cost to the purchaser + the cost of the subsidy
3. **What is lowest cost**: The best assessment of the overall economics we have seen to date is the "*Alaska Utilities Working Group Phase I Assessment: Cook Inlet Gas Supply Project*" (July 2023)
  - That study suggests, to us, one of the LNG import options is the lowest overall cost of supply
4. **“Who Pays”**: If the state does use subsidies, it should identify “who pays” them and mitigate the impacts of the decision

# Discussion: Baseline

- The market is not saying that there's a physical shortage of gas
- Instead, it is saying that the current price of gas is too low to elicit the needed supplies from existing sources
  - The price needs to rise to the level needed to attract additional supplies
- The market should be allowed to find the lowest overall cost of supply



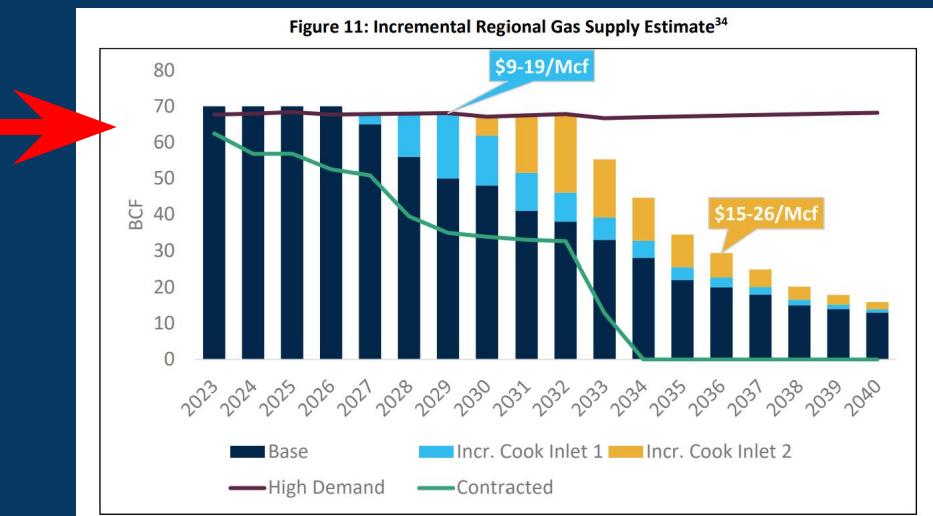
# Discussion: No subsidies

- The Cook Inlet gas issue should be resolved through the approach that has the lowest overall cost to all Alaskans
  - Alaska is an expensive place to operate and live
  - Any decision should seek to limit the the overall costs
- Subsidies don't eliminate costs, they only shift them to someone else: the “overall cost” to all Alaskans is the cost to the purchaser + the cost of the subsidy
  - Example of past Cook Inlet reimbursable (cash) credits (“who paid”)
- Subsidies in one market also substantially distort adjacent markets (for example, subsidies for gas could dampen development or raise the costs of potentially lower overall cost renewables, weatherization)

# Discussion: What is the lowest overall cost

3. The best assessment of the overall economics we have seen to date is the “Alaska Utilities Working Group Phase I Assessment: Cook Inlet Gas Supply Project,” published last July (2023)

Gas Supply Opportunities – Phase I Assessment							
	Option	Timeline Years	CAPEX \$ mm	Throughput Bcf/year	Gas \$/Mcf	Midstream \$/Mcf	Cost of Supply \$/Mcf
1	Cook Inlet Gas	3 - 4	Up to \$1500 - \$2000	Up to ~ 23	\$9.3 - \$25.5	Included	\$9.3 - \$25.5
2 (a)	In-State Pipeline (Private)	6 - 7	~ \$8,790	Up to 105	\$1.3 - \$2.6	\$26.9 - \$34.4	\$28.2 - \$37.0
2 (b)	In-State Pipeline (Subsidized 80%)	6 - 7	~ \$8,790	Up to 105	\$1.3 - \$2.6	\$7.8 - \$10.0	\$9.2 - \$12.6
2 (c)	In-State Pipeline (State Owned)	6 - 7	~ \$8,790	Up to 105	\$1.3 - \$2.6	\$6.0 - 7.4	\$7.3 - \$10.0
3	Kenai LNG	4 - 5	\$768	Up to 55	\$8.6 - \$8.9	\$3.4 - \$4.7	\$12.0 - \$13.6
4	Greenfield Port and Regas	6 - 7	\$876	Up to 55	\$8.6 - \$8.9	\$4.0 - \$5.3	\$12.6 - \$14.2
4 (b)	Greenfield Port and Regas (Subsidized 80%)	6 - 7	\$876	Up to 55	\$8.6 - \$8.9	\$2.3 - \$3.3	\$10.9 - \$12.2
4 (c)	Greenfield Port and Regas (State Owned)	6 - 7	\$876	Up to 55	\$8.6 - \$8.9	\$2.2 - \$3.1	\$10.8 - \$12.0
5	FSRU - Own/Lease	4 - 6	\$607 / \$201	Up to 55	\$8.6 - \$8.9	\$3.6 - \$5.0	\$12.2 - \$13.9
6	Barge / Small LNG Carrier	4 - 5	\$563	Up to 25	\$8.6 - \$8.9	\$13 - \$14	\$21.6 - \$23.0
7	Alaska LNG	7 - 8	~ \$43,000	Up to 183	\$1.3 - \$2.6	\$3.1	\$4.4 - \$5.8
8	LNG Truck and/or Rail	3 - 4	\$321	~ 9	\$2.50	\$22.5 - \$29.5	\$25 - \$32
9	RNG	Unknown	N/A	~ 1	~ \$25	Included	~ \$25
10	Hydrogen (green)	2035 +	Unknown	N/A	N/A	N/A	\$ > 40

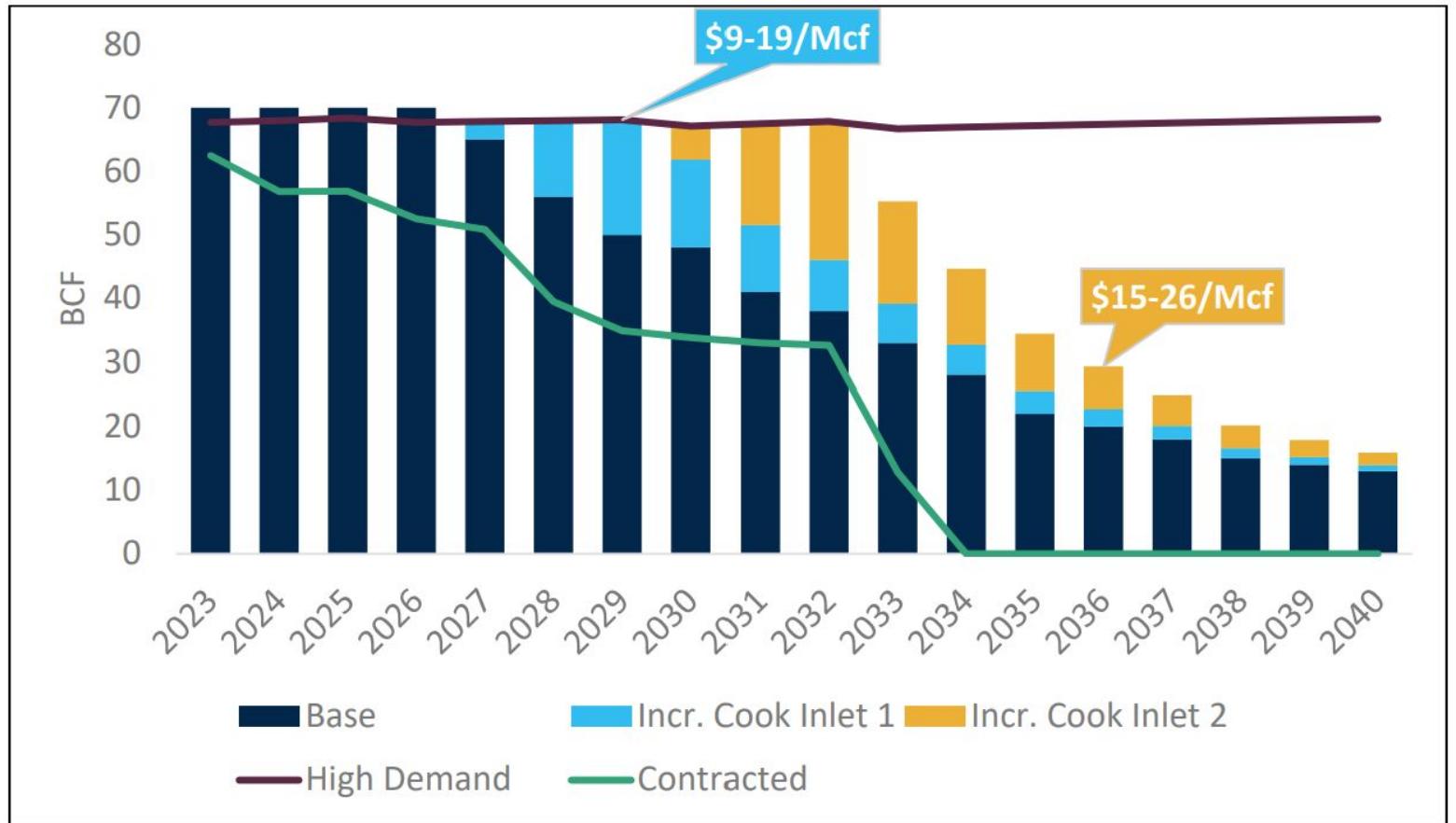


# Gas Supply Opportunities – Phase I Assessment

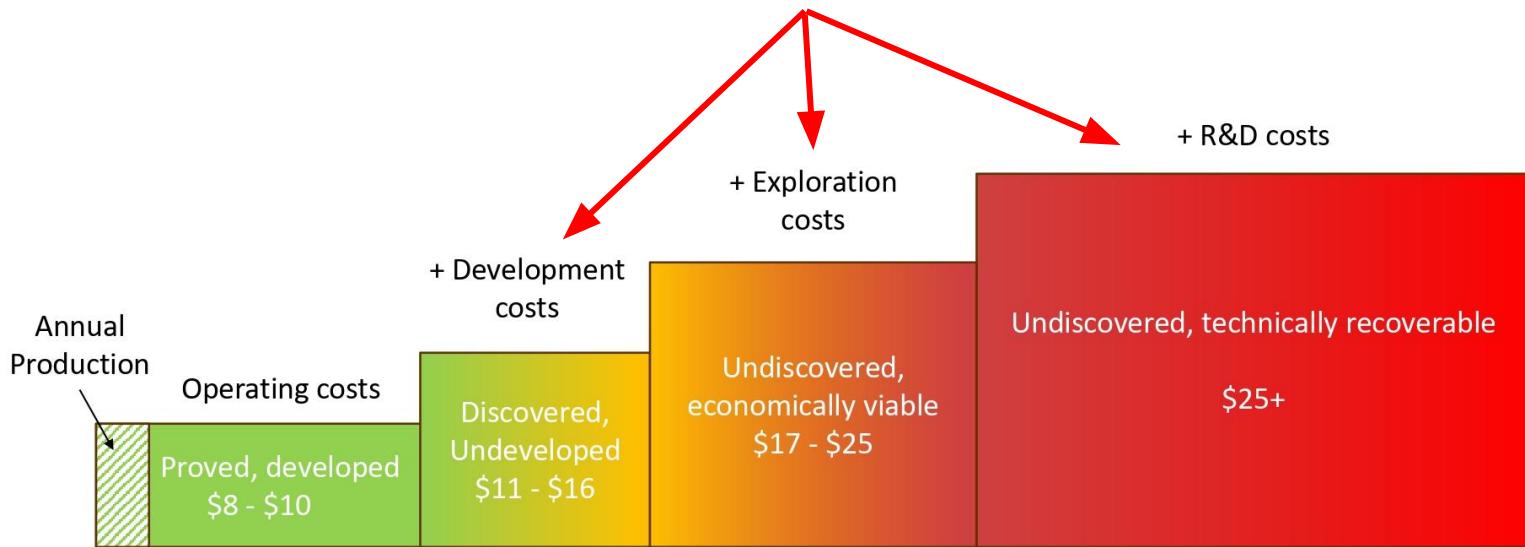


Option	Timeline		CAPEX	Throughput	Gas	Midstream	Cost of Supply
	Years		\$ mm	Bcf/year	\$/Mcf	\$/Mcf	\$/Mcf
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Figure 11: Incremental Regional Gas Supply Estimate<sup>34</sup>



# Market Dynamics



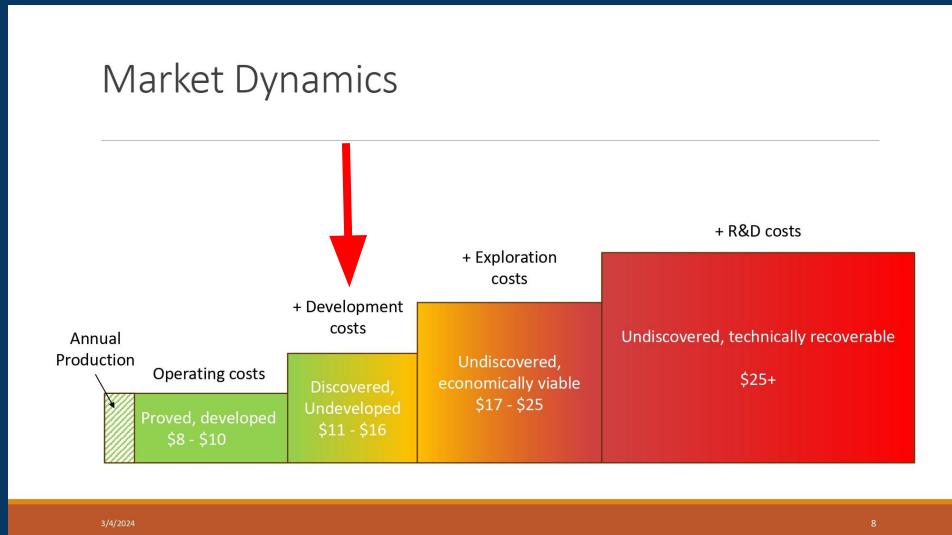
## Discussion: What is the lowest overall cost (con't)

- That study suggests, to us, one of the LNG import options most likely is the lowest overall cost of supply (the report doesn't appear to calculate the overall cost of subsidized options, but they can be inferred from the cost of the similar non-subsidized options)

Non-Subsidized Options Ranked by Cost of Supply Midpoint				
Options (Non-Subsidized)	Timeline (Years)	Cost of Supply (\$/Mcf)		
		Low	High	Midpoint
Kenai LNG	4 - 5	\$12.00	\$13.60	\$12.80
FSRU (Own/Lease)	4 - 6	\$12.20	\$13.90	\$13.05
Greenfied Port & Regas	6 - 7	\$12.60	\$14.20	\$13.40
<b>Cook Inlet Gas</b>	<b>3 - 4</b>	<b>\$9.30</b>	<b>\$25.50</b>	<b>\$17.40</b>
Barge/Small LNG Carrier	4 - 5	\$21.60	\$23.00	\$22.30
In-State Pipeline (Private)	6 - 7	\$28.20	\$37.00	\$32.60
* Alaska LNG	7 - 8	\$4.40	\$5.80	\$5.10

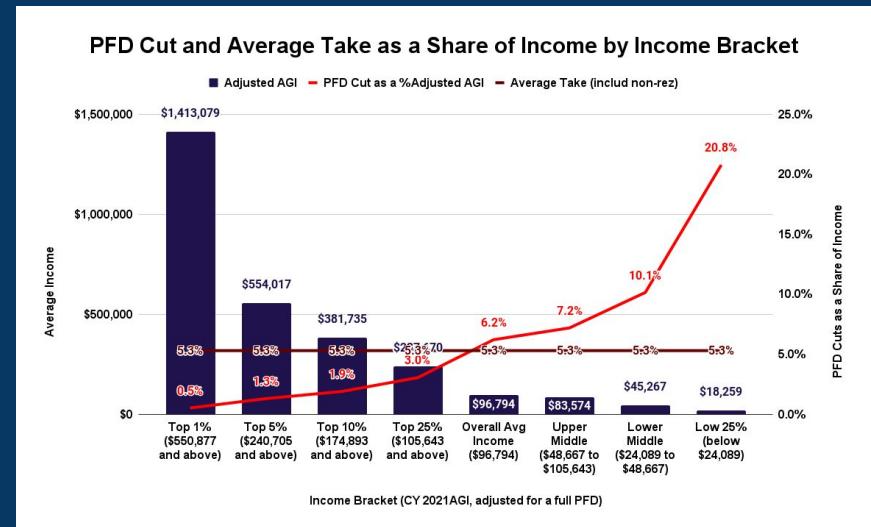
# Discussion: What is the lowest overall cost (con't)

- That study also suggests LNG won't fully displace Cook Inlet gas. Instead, it will establish a market price which likely will elicit additional Cook Inlet gas supply.
- One of the benefits of imported LNG is that it is scalable and can be balanced to whatever Cook Inlet supply is available.



# Discussion: Who Pays

4. If the state does use subsidies, it should identify “Who Pays” them and directly address that in the decision
  - Given the state’s current fiscal approach, most likely would come from additional PFD cuts
  - In that event, “Who Pays” are disproportionately middle and lower-income Alaska families (doubly so for those outside of Southcentral)
  - Should they really be paying disproportionately for the subsidies?



# A word about royalty relief

- Royalty relief is a subsidy: It transfers to the producer the revenue the state otherwise would receive from the resource when sold (which, in turn, may be transferred to or split with the buyer through lower price)
- Existing law already provides for royalty relief (AS 38.05.180(j)):

*The DNR Commissioner “may provide for modification of royalty on individual leases” (or units) under various circumstances where the producer can demonstrate that, without the modification, production from the lease or unit “would not otherwise be economically feasible.”*

- It also requires that any relief be targeted (AS 38.05.180(j)(3)):

*“The Commissioner … shall provide for an increase or decrease or other modification of the state’s royalty share by a sliding scale royalty or other mechanism that shall be based on a change in the price of oil or gas and may also be based on other relevant factors such as a change in production rate, projected ultimate recovery, development costs, and operating costs.”*

- To me, that authority seems adequate to the goal of royalty relief: target the development of any physically needed supplies (e.g., any “gap” before 2030)

# Summary

- Let the market decide the outcome based on lowest overall cost
- The market appears to suggest LNG
- The cost of any subsidies designed to achieve a different outcome:
  - Should be calculated and added to the different outcome to transparently determine its overall cost
  - If needed for a specific objective, should be strictly limited in time and scope
    - For example, only until LNG is in-service
  - Will affect adjacent markets, potentially increasing costs in them as well
  - Will be borne by some set of Alaskans: to minimize the impact, the costs of any subsidies should be spread broadly, not concentrated on middle & lower-income Alaska families



Thank you. Any questions?