

ALASKA STATE LEGISLATURE
SENATE RESOURCES COMMITTEE

April 27, 2001
3:55 p.m.

MEMBERS PRESENT

Senator John Torgerson, Chair
Senator Drue Pearce, Vice Chair
Senator Pete Kelly
Senator Kim Elton
Senator Georgianna Lincoln

MEMBERS ABSENT

Senator Rick Halford
Senator Robin Taylor

COMMITTEE CALENDAR

SENATE CONCURRENT RESOLUTION NO. 10
Expressing the legislature's support for sale of a portion of
Alaska's North Slope natural gas for electrical generation to power
data centers within the North Slope Borough.
HEARD AND HELD

PREVIOUS SENATE COMMITTEE ACTION

SCR 10 - No previous action to consider.

WITNESS REGISTER

Mr. Kris Knauss
Staff to Senator Kelly
Alaska State Capitol
Juneau, AK 99801-1182
POSITION STATEMENT: Presented SCR 10 for the sponsor.

Mr. Mike Caskey
MDU Resources Group
Denver CO
POSITION STATEMENT: Supported SCR 10.

Mr. Mark Myers, Director
Division of Oil and Gas
Department of Natural Resources
550 W 7th Ave., Ste 800

Anchorage AK 99501
POSITION STATEMENT: Commented on SCR 10.

Mr. Kevin Banks
Division of Oil and Gas
Department of Natural Resources
550 W 7th Ave., Ste 800
Anchorage AK 99501
POSITION STATEMENT: Commented on SCR 10.

ACTION NARRATIVE

TAPE 01-34, SIDE A

Number 001
#SCR10

SCR 10-SALE OF NATURAL GAS TO POWER DATA CENTERS

CHAIRMAN JOHN TORGERSON called the Senate Resources Committee meeting to order at 3:55 p.m. and announced SCR 10 to be up for consideration.

SENATOR PEARCE moved to adopt the proposed committee substitute (CS), labeled 4/26/01 Chenoweth - Version F, to SCR 10. There were no objections and it was so ordered.

MR. KRIS KNAUSS, staff to Senator Kelly, explained that SCR 10 is intended to send a message stating the Legislature's support for the sale of state royalty gas for the purposes of an Internet data center and to promote business in Alaska, realizing that North Slope gas has been stranded for at least the past 30 years. He said Senator Kelly supports the committee substitute.

SENATOR LINCOLN asked if someone would go through the differences in the versions.

CHAIRMAN TORGERSON explained that the Version F basically lays out the steps you have to go through to purchase state royalty gas by referencing the process to actual statutes and regulations that govern and control its sale. Language on page 3 asks the commissioner to bring a contract to the legislature for approval or a report of why the state can't sell the royalty gas. This assures action and that third parties will have knowledge of the processes.

MR. MIKE CASKEY, MDU Resources Group, thanked the committee for inviting him to speak about one of MDU's favorite projects named Netricity. He said the idea came from looking for a way to utilize trapped gas on the North Slope. The Netricity proposal would use

enough gas on the North Slope to produce approximately 500,000 megawatts of power to drive a data center that would supply non-grid data electricity for the transmission of international data. He said, "There are several things in the Lower 48 that really make data centers not seem the best use of grid power at this point in time because the grid is so loaded."

MR. CASKEY said that MDU is proposing that a fairly large portion of the Internet have a dedicated power grid in Alaska for continuous, high-level dependability for the international Internet. It would employ Alaskans and develop resources instate to the degree that very few other projects would do.

CHAIRMAN TORGERSON said he had a thousand questions generated around MDU's lack of a business plan, but he liked to hear about local hire and development of Alaska's resources. He said this proposal would have to be a good deal for the State of Alaska also. He said the committee needs more detail than the one page offer to buy 25 percent of Alaska royalty gas for 25 years. He said the proposal has raised the question of whether or not the State of Alaska could take its royalty in-kind share prior to the construction or sale of the product by the producers.

MR. MARK MYERS, Director, Division of Oil and Gas, Department of Natural Resources (DNR), said he thought it was very appropriate to describe the state's process. He told members, "Pricing the value of the gas at this time is very difficult considering the uncertainty in terms of the quantity of gas on the North Slope and the netback we would receive from sales and the long-term price of gas."

MR. MYERS said the state is getting about \$1.10 - \$1.11 per million cubic feet (MCF) of gas right now. Netricity's proposal was about 36 cents minus [indisc.], which brings that down to about 15 cents. Applying that difference to a 1 trillion cubic foot (TCF) sale amounts to over \$1 billion. He explained, "So, we're looking at very significant variations in terms of interpreting what the value of royalty gas is."

He said DNR is just beginning to get to the valuation issue and this is the first proposal. He said that long term contracts of 20 to 25 years are not the way gas is sold anymore. Options for long-term are available, but premiums are associated with them. As to whether the state could require purchase of all of it is purely uncharted territory at this point prior to a major gas sale. He thought Alaska could legally sell its royalty share, but DNR is working with the Department of Law to resolve that issue and to determine how to do the payback.

MR. KEVIN BANKS, Division of Oil and Gas, DNR, said he would answer questions, but that Mr. Myers had outlined the issue they are trying to get their arms around.

CHAIRMAN TORGERSON asked Mr. Myers when they expect a legal opinion from the Department of Law.

MR. MYERS replied he does not have a date, but the Department of Law is working at it diligently.

CHAIRMAN TORGERSON asked if the current royalty agreements are confidential.

MR. MYERS said they are not confidential.

CHAIRMAN TORGERSON asked if he received copies of the letters from Phillips and BP commenting on this issue.

MR. MYERS said he received the Phillips' response, but not the BP one.

CHAIRMAN TORGERSON said that both basically said the same thing.

MR. MYERS said he understood the Phillips' letter to say that Phillips was willing to work with the state on it.

SENATOR PEARCE said she understood the Phillips' letter to talk about the governing leases and settlement agreements. She thought settlement agreements were different from the unitization agreement. She asked if the Department of Law would provide them with something that would explain the different tiers of governance and determine whether the Department could sell state gas or not.

MR. MYERS said he didn't have an answer for her in terms of the settlement agreements; portions of those are confidential. He said those are good questions the Department of Law would have to answer.

SENATOR ELTON asked what the normal term of a gas contract is.

MR. MYERS said he thought it is about five years. He said one of the challenges would be to figure out what the market value is.

CHAIRMAN TORGERSON asked if he is assuming there would be a fixed price for gas for five years.

MR. MYERS responded that prior to having a major gas sale, DNR

would have to find a mechanism to value that time. If the pipeline isn't in place until 2006, DNR would need some mechanism to value North Slope gas for multiple years.

CHAIRMAN TORGERSON asked if that would be part of the normal process of selling gas.

MR. MYERS answered it would, because the volume of gas is so large, a small difference would mean millions of dollars. He commented, "On 1 TCF, one cent per million square feet is about \$10 million." That is one of the challenges with this proposal.

CHAIRMAN TORGERSON said that the committee was talking about options of six or seven years, "to give the folks a chance to go around and sell their idea."

He asked if DNR would look at an option.

MR. MYERS answered they would look at options, but something like this would have a significant premium. He didn't think 36 cents was a very reasonable value based on the current sale price of \$1.30 that the state gets.

CHAIRMAN TORGERSON asked if there would be a yearly premium payment for an option.

MR. MYERS answered yes, that's the standard way of doing business.

CHAIRMAN TORGERSON asked if a premium for options should be mentioned in the resolution.

MR. MYERS said it is part of their duty to protect the public interest and get a fair value for the gas and he didn't think it was a bad idea to put it in.

CHAIRMAN TORGERSON asked him to find out the Department of Law's projected time line for its answer. Mr. Myers acknowledged that he would do that.

CHAIRMAN TORGERSON noted that there were no further questions at this time and said he would hold SCR 10 for further work. He adjourned the meeting at 4:27 p.m.

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