

ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE

April 17, 2007

1:05 p.m.

MEMBERS PRESENT

Representative Carl Gatto, Co-Chair
Representative Craig Johnson, Co-Chair
Representative Vic Kohring
Representative Paul Seaton
Representative Peggy Wilson
Representative Bryce Edgmon
Representative David Guttenberg
Representative Scott Kawasaki

MEMBERS ABSENT

Representative Bob Roses

OTHER LEGISLATORS PRESENT

Representative Anna Fairclough

COMMITTEE CALENDAR

HOUSE BILL NO. 177

"An Act relating to the Alaska Gasline Inducement Act; establishing the Alaska Gasline Inducement Act matching contribution fund; providing for an Alaska Gasline Inducement Act coordinator; making conforming amendments; and providing for an effective date."

- HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 177

SHORT TITLE: NATURAL GAS PIPELINE PROJECT

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

03/05/07	(H)	READ THE FIRST TIME - REFERRALS
03/05/07	(H)	O&G, RES, FIN
03/06/07	(H)	O&G AT 3:00 PM BARNES 124
03/06/07	(H)	-- MEETING CANCELED --
03/08/07	(H)	O&G AT 3:00 PM BARNES 124
03/08/07	(H)	-- MEETING CANCELED --

03/13/07 (H) O&G AT 3:30 PM HOUSE FINANCE 519
03/13/07 (H) Heard & Held
03/13/07 (H) MINUTE(O&G)
03/15/07 (H) O&G AT 3:00 PM BARNES 124
03/15/07 (H) Heard & Held
03/15/07 (H) MINUTE(O&G)
03/19/07 (H) O&G AT 8:30 AM CAPITOL 106
03/19/07 (H) Heard & Held
03/19/07 (H) MINUTE(O&G)
03/20/07 (H) O&G AT 3:00 PM BARNES 124
03/20/07 (H) Heard & Held
03/20/07 (H) MINUTE(O&G)
03/21/07 (H) O&G AT 5:30 PM SENATE FINANCE 532
03/21/07 (H) Heard & Held
03/21/07 (H) MINUTE(O&G)
03/22/07 (H) O&G AT 3:00 PM BARNES 124
03/22/07 (H) Heard & Held
03/22/07 (H) MINUTE(O&G)
03/23/07 (H) O&G AT 8:30 AM CAPITOL 106
03/23/07 (H) Heard & Held
03/23/07 (H) MINUTE(O&G)
03/24/07 (H) O&G AT 1:00 PM SENATE FINANCE 532
03/24/07 (H) -- Public Testimony --
03/26/07 (H) O&G AT 8:30 AM CAPITOL 106
03/26/07 (H) Heard & Held
03/26/07 (H) MINUTE(O&G)
03/27/07 (H) O&G AT 3:00 PM BARNES 124
03/28/07 (H) O&G AT 7:30 AM CAPITOL 106
03/28/07 (H) Heard & Held
03/28/07 (H) MINUTE(O&G)
03/28/07 (H) O&G AT 8:30 AM CAPITOL 106
03/28/07 (H) Heard & Held
03/28/07 (H) MINUTE(O&G)
03/29/07 (H) O&G AT 3:00 PM BARNES 124
03/29/07 (H) Heard & Held
03/29/07 (H) MINUTE(O&G)
03/30/07 (H) O&G AT 8:30 AM CAPITOL 106
03/30/07 (H) Heard & Held
03/30/07 (H) MINUTE(O&G)
03/31/07 (H) O&G AT 1:00 PM BARNES 124
03/31/07 (H) -- MEETING CANCELED --
04/02/07 (H) O&G AT 8:30 AM CAPITOL 106
04/02/07 (H) Heard & Held
04/02/07 (H) MINUTE(O&G)
04/03/07 (H) O&G AT 3:00 PM BARNES 124
04/03/07 (H) Moved CSHB 177(O&G) Out of Committee
04/03/07 (H) MINUTE(O&G)

04/04/07 (H) O&G RPT CS(O&G) NT 3DP 2NR 2AM
 04/04/07 (H) DP: RAMRAS, DOOGAN, OLSON
 04/04/07 (H) NR: SAMUELS, KAWASAKI
 04/04/07 (H) AM: DAHLSTROM, KOHRING
 04/04/07 (H) O&G AT 8:30 AM CAPITOL 106
 04/04/07 (H) -- MEETING CANCELED --
 04/05/07 (H) O&G AT 3:00 PM BARNES 124
 04/05/07 (H) -- MEETING CANCELED --
 04/10/07 (H) RES AT 1:00 PM BARNES 124
 04/10/07 (H) Heard & Held
 04/10/07 (H) MINUTE(RES)
 04/11/07 (H) RES AT 1:00 PM BARNES 124
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 04/12/07 (H) RES AT 1:00 PM BARNES 124
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 04/16/07 (H) RES AT 1:00 PM BARNES 124
 04/16/07 (H) Heard & Held
 04/16/07 (H) MINUTE(RES)
 04/17/07 (H) RES AT 1:00 PM BARNES 124

WITNESS REGISTER

DAVID KEANE, Vice President of Policy and Corporate Affairs
 BG North America, Caribbean and Global LNG
 BG Group
 Houston, Texas

POSITION STATEMENT: During hearing on HB 177, described BG Group's activities as an integrated gas major, testified in general support of HB 177, and suggested modifications.

CATHERINE FOERSTER, Commissioner
 Alaska Oil and Gas Conservation Commission (AOGCC)
 Anchorage, Alaska

POSITION STATEMENT: During hearing on HB 177, explained the process and procedures of the AOGCC regarding the determination of allowable gas off-take and answered questions.

ACTION NARRATIVE

CO-CHAIR CARL GATTO called the House Resources Standing Committee meeting to order at [1:05:40 PM](#). Representatives Gatto, Johnson, Kawasaki, Kohring, Wilson, Seaton, Guttenberg, and Edgmon were present at the call to order. Also present was Representative Fairclough.

HB 177-NATURAL GAS PIPELINE PROJECT

[1:05:57 PM](#)

CO-CHAIR GATTO announced that the first order of business would be HOUSE BILL NO. 177, "An Act relating to the Alaska Gasline Inducement Act; establishing the Alaska Gasline Inducement Act matching contribution fund; providing for an Alaska Gasline Inducement Act coordinator; making conforming amendments; and providing for an effective date." [Before the committee was CSHB 177(O&G).]

[1:06:17 PM](#)

DAVID KEANE, Vice President of Policy and Corporate Affairs, BG North America, Caribbean and Global LNG, BG Group (BG), explained that BG was formed through a series of "de-mergers" which established BG as "basically the exploration and production arm" of what used to be British Gas. He referred to slide 3 of a PowerPoint presentation and explained that BP is an integrated gas major, which means it is involved in the exploration, production, transportation, and sale of natural gas and other hydrocarbons worldwide. He relayed that BG is more interested in exploring for gas than for oil.

[1:12:01 PM](#)

CO-CHAIR GATTO asked whether BG processes oil or whether it sells its oil to another party.

MR. KEANE replied that BG sells oil to third-parties and has no refining capabilities. He explained that exploration and production activities bring BG to Alaska. BG is the largest supplier of liquefied natural gas to the United States, and supplied 49.8 percent of imports to the U.S. in 2006, he said. The company is a "top 20 UK company" that is traded on both the London and the New York stock exchange and has a current market capitalization of around \$45 billion. The company is active in approximately 25 countries and has approximately 6,000 employees.

[1:13:58 PM](#)

MR. KEANE explained that BG's business strategy is pictorially represented by slide 4. As an integrated gas major, BG explores for natural gas and finds ways to connect that gas to markets. He explained that future plans for Alaska include exploration in the Foothills area of the North Slope. He explained that gas resources worldwide are becoming harder to find and tend to be in areas without natural markets; therefore it is more convenient to liquefy the gas for shipment to areas with large and liquid markets. BG focuses on markets in North America, Europe, India, and South America and is involved in the off-shore production of natural gas in the United Kingdom, he said. He explained that the company's LNG activities are worldwide, referring to the map on slide 7.

[1:17:12 PM](#)

CO-CHAIR GATTO asked whether BG is considering converting Alaska's gas to LNG, or whether it is considering a pipeline project only.

MR. KEANE replied that at present BG is open to both suggestions. Currently the company is interested in making sure that there is a pipeline, he explained. He characterized the LNG option as "interesting" and opined that BG is not opposed to considering it.

[1:17:57 PM](#)

MR. KEANE reviewed his company's LNG portfolio and told the committee that its capacity at Lake Charles and Elba Island in the Southeastern U.S. have expanded in recent years despite hurricanes which caused some loss of production. He explained that up until recently, gas has tended to stay within its region of production. The global gas trade is now evolving so that gas is shipped more globally. He opined that this trend may require Alaska's gas to compete with other suppliers to sell its gas. He offered that this growing competition makes it important to continue to move forward and focus on getting a pipeline built from Alaska.

[1:22:04 PM](#)

REPRESENTATIVE GUTTENBERG asked for more detail as to the industry trends from local markets to a more global gas industry, referring to slides 8 and 9.

MR. KEANE explained that recently the global gas market "was very isolated" and that gas produced in North America tended to stay in the region. However, the way gas is sold worldwide is "changing quite dramatically" due in part to BG's activities, he opined. He explained that BG was involved in around 25 to 30 percent of spot sales of gas to the Far East from production in Trinidad and Egypt. He offered that demand for gas in the Lower 48 is increasing at 1 to 2 percent annually, while production is relatively flat. He set forth his belief that at some point in time, the demand for gas is going to have to be met from somewhere. He said that due to BG's interest in Alaska, it would like to see a method of getting gas from the Foothills area of the North Slope to the Lower 48.

MR. KEANE reviewed information which shows BG as the largest LNG importer to the U.S. from 2003 to 2006. He said BG believes in managing and controlling its own ships and currently owns six vessels and controls 14 others through charters. He explained that they have orders in for additional ships.

[1:25:21 PM](#)

REPRESENTATIVE GUTTENBERG asked about the location of LNG receiving terminals in the U.S. He asked whether the receiving points on the U.S. West Coast are operating below capacity and how gas gets to the receiving points in the Midwestern U.S.

MR. KEANE explained that the arrows on slide 9 of the PowerPoint do not represent terminals, rather the arrows are to show general supply coming from the other markets to the U.S. market.

CO-CHAIR GATTO asked if BG has ever had to re-flag a tanker initially flagged in the United States, and if so, how easy or difficult that procedure is.

MR. KEANE stated BG has not had to try and re-flag a tanker, and he does not know if that procedure is difficult. He did say that the BG's new ships would be "state of the art", environmentally sound, and fuel efficient.

[1:27:45 PM](#)

CO-CHAIR GATTO asked what happens if there is a fire or a other serious incident whereby a pressure tanker bursts and releases its contents at an enormous rate. He asked about this situation at the dock or at sea.

MR. KEANE responded that LNG is not transported or stored under high pressure, but under perhaps two pounds of pressure for venting purposes. The reason the gas is liquid is because it has been super-cooled to around -250° Fahrenheit. He said that in the past 40 or so years of LNG marine transportation, there has never been a serious accident where a major loss of cargo has occurred. He told members that LNG is not as volatile as other carbon products that are imported to the United States.

[Co-Chair Gatto turned the gavel over to Co-Chair Johnson.]

1:30:02 PM

MR. KEANE explained that BG will be exploring 2.1 million acres in the Foothills area of the North Slope with Anadarko Petroleum Corporation and Petro-Canada. On the eastern North Slope, BG has explored with partners and drilled its first well in the area this past winter. BG hopes to drill an exploratory well in the Foothills area sometime next year.

MR. KEANE emphasized that BG is extremely interested in the pipeline and is investing in Alaska. He set forth that BG is a leading player throughout the natural gas value chain. He said that BG supports AGIA as the right way to move the project forward. He opined that "it will result ultimately in a pipeline." He expressed concern over past negotiations which excluded participation of new entrants. He opined that the eventual contract needs to provide a level playing field for all participants. He relayed that whatever the result, it is critical for BG to have reasonable certainty that it will be able to secure access or capacity on the pipeline. He encouraged the state to enter into the discussions with independent pipeline companies.

1:33:15 PM

REPRESENTATIVE SEATON asked if BG has a strategy for reducing carbon dioxide emissions in pipeline operation so as to save on expenses for "cap and trade" purchase of CO₂.

MR. KEANE stated that he could not answer the question, but could provide further information to the committee.

REPRESENTATIVE SEATON noted that environmental standards and efficiencies are an area of concern for shipping and pipeline operation issues, therefore information in this area would be

appreciated. He asked for comments on specific areas of AGIA that BG may see as problematic.

MR. KEANE opined that AGIA is a good vehicle for getting everyone to the table to discuss key issues. He said his understanding is that the bill's purpose as set forth in AS 43.90.010 is to get a gas pipeline developed. He opined that there is an understandable tendency "to be dragged into the weeds" with details of each party's individual desires. He offered his belief that all the details are unimportant "unless we have a pipeline" and encouraged the committee to focus on "getting the vehicle together" that allows the state to receive applications so that it can issue a license.

[1:36:47 PM](#)

MR. KEANE said that BG would like a longer period of fiscal certainty than 10 years, but commented that "it is not going to mean anything if we don't have a pipeline." He explained that it may take at least three years to determine if some of BG's leased land in Alaska contains commercially significant quantities of gas. He opined that although BG may not be in the position to "try and secure capacity during the initial open season," as long as BG is diligently exploring for gas it should not be penalized in terms of fiscal certainty with regard to "tax rates and the like." He characterized this issue as "one of our biggest concerns with regards to the bill right now." He reiterated that "everybody that is actively involved" should be on a level playing field.

[1:38:46 PM](#)

MR. KEANE said that BG supports rolled-in rates and that the Federal Energy Regulatory Commission (FERC) may be involved in setting the rates. Once the licensee is determined, everyone involved in the process will have the opportunity to weigh in on the most appropriate rate design, he predicted. Therefore he emphasized that it is important not to get bogged down in the intricacies of rate design at this point and lose focus of the main goal of getting a licensee in place to move the pipeline project forward.

[1:39:49 PM](#)

MR. KEANE went on to say that the only other issue BG has with AGIA is 60 day period for review of applications [AS 43.90.160]. If the state gets more than one application, it may be

physically impossible to review them as they will be lengthy and detailed documents, he suggested.

[1:40:35 PM](#)

CO-CHAIR JOHNSON asked for clarification regarding BG's position on rolled-in rates.

MR. KEANE replied that BG supports rolled-in rates and that FERC will help determine what the actual rates should be. He stated he thinks having it in the bill is extremely helpful.

CO-CHAIR JOHNSON returned the gavel to Co-Chair Gatto.

[1:41:16 PM](#)

CO-CHAIR GATTO asked whether flaring of gas is typical, referring to a picture of an Egyptian LNG port on slide 10.

MR. KEANE replied no, and said he assumes the picture is showing the result of "a plant upset." He explained that typically one would not be flaring gas unless there was a reason.

CO-CHAIR GATTO sought assurance that the flaring shown on slide 10 was not a continual operation, but a way to handle over-pressure or some other issue.

MR. KEANE replied that it is likely due to some sort of an upset in the plant whereby the operators have to "flare it."

[1:42:19 PM](#)

CO-CHAIR JOHNSON asked about a recent ruling of the California Coastal Commission denying a license to an LNG plant and whether BG sees this as problematic.

MR. KEANE replied that he cannot speak about the particular project itself, although he opined that the aforementioned project "looked like the perfect project." However, he said BG believes it is difficult to develop LNG facilities on the West Coast of the U.S.

CO-CHAIR JOHNSON asked for further explanation of the difficulties of developing LNG plants.

MR. KEANE responded that the opposition on the East and West Coasts of the U.S. is not so much on the regulatory side, but is

mostly due to a tremendous amount of public opposition to LNG plants. He offered that this opposition is despite the safe operation of LNG plants in urban areas worldwide. He opined that public opposition is the biggest hurdle to overcome for LNG plant development in the U.S.

[1:45:10 PM](#)

REPRESENTATIVE GATTO opined that Los Angeles must be a huge consumer of gas and asked where that area gets its gas.

MR. KEANE explained that most of the gas used in Los Angeles comes from the Southwestern United States.

CO-CHAIR GATTO asked if there was a plan to import LNG to the Los Angeles area.

MR. KEANE replied that the last plan he saw from the California Energy Commission does include LNG imports, although he noted "he is not an expert" on California energy policy. In response to a further question, he noted he could only guess at the amount of power that could be generated by windmills, but opined "they cannot build" enough windmills and solar energy sources to supply the energy needs of California. He characterized California as an "enormous consumer" of energy, but a "limited producer" of energy.

CO-CHAIR GATTO asked whether California is planning to produce its own electricity.

MR. KEANE replied that California has power plants and has recently constructed some gas-fired plants.

[1:48:52 PM](#)

CO-CHAIR GATTO asked whether BG retires its old LNG tankers as new ones come on line.

MR. KEANE replied that as its new tankers are complete in 2009 or 2010, it will retire some of its current long-term charters.

CO-CHAIR GATTO asked what happens to a retired ship.

MR. KEANE replied that usually there is a market "for somebody to purchase it." In response to a further question, he explained that there are no U.S. flagged LNG carriers at present. There are some older tankers that were built in the

U.S. some 20 years ago, and newer ships are from other countries. He said he can obtain information for the committee on the life expectancy of tankers.

[1:50:45 PM](#)

REPRESENTATIVE WILSON inquired as to how BG would be affected if the issue of rolled-in rates was changed, especially if the change occurred during the time BG was engaged in exploration activities in Alaska.

MR. KEANE replied that clearly such a change would add more uncertainty to its business. He noted that decisions on where to invest are based on an evaluation of all factors, including rates. He indicated that it would be helpful for an explorer to have some certainty regarding its transport rates. He said "if you get tagged with the incremental rates" it may "simply make it uneconomic."

CO-CHAIR GATTO characterized AGIA as setting forth a level playing field for all participants, and asked for further explanation of any BG concerns with AGIA.

[1:52:36 PM](#)

MR. KEANE stated that BG absolutely believes that AGIA does provide a level playing field for all involved. He stated that it appears there will be many opportunities for comment before the appropriate regulatory agencies regarding pipeline rates once the licensee is selected. He noted the need to build the pipeline in a prudent cost-efficient manner so as to help assure reasonable rates and offered his belief that the "big independent pipeline companies" are "best placed" to do that.

[1:54:34 PM](#)

CO-CHAIR GATTO offered that a pipeline is also the state's goal and that the provision regarding rolled-in rates [AS 43.90.130(7)] was drafted to allow independent explorers to add to the pipeline's capacity. He asked about the effect on explorers if the rates had to shift to incremental rates once the pipeline was filled to capacity.

MR. KEANE responded to question by stating that BG currently has several leases in the Foothills area of the North Slope and has a strong interest in seeing development of a pipeline that will

provide access to capacity on a fair and reasonable basis for independent explorers.

[1:56:14 PM](#)

REPRESENTATIVE GUTTENBERG stated his understanding that BG Group is not looking to build the pipeline, but wants reasonable access to the pipeline. He asked for clarification of BG's request that "the contract must provide reasonable certainty that when we discover gas, we will have access to pipeline capacity." He asked whether BG means "reasonable certainty" as to pipeline access or as to another area.

MR. KEANE opined that prior negotiations did not result in a requirement to expand the pipeline; although there were some discussions about requiring a certain quantity of gas before evaluating pipeline expansion opportunities. He offered that BG "thinks if it is economic to expand, then it is economic to expand." He said that "open access" gas pipelines in the Lower 48 give everybody with gas access to capacity. He said BG "wants to make sure we have the same type of access for the Alaska gasline." Access to pipeline capacity is important for explorers throughout the life of the pipeline so that they know they will have somewhere to market their gas, he indicated.

CO-CHAIR GATTO asked about the stock market capitalization of BG and how it may compare to other pipeline companies.

MR. KEANE explained that BG's "market cap" is approximately \$45 billion U.S., although the company is primarily traded on the London exchange. He explained that BG "prefers to have other people" build the pipelines.

[1:59:23 PM](#)

REPRESENTATIVE SEATON asked whether BG is comfortable with the terms [AS 43.90.130(6)] regarding the requirement that an applicant commit to expanding the project in commercially reasonable terms and in reasonable engineering increments. He asked whether those terms give enough guidance as to be acceptable.

MR. KEANE replied yes.

REPRESENTATIVE SEATON asked if BG sees fiscal certainty as a component of building the pipeline or of going to open season.

MR. KEANE replied that he sees it as a component of going to open season.

REPRESENTATIVE GUTTENBERG noted that prior negotiations were based on a producer-owned pipeline. He asked whether it is unique in the gas market to have a similar situation.

[2:00:47 PM](#)

MR. KEANE responded that he does not think "it is unreasonable" because in the gas exploration industry there are many areas in the world where there is no expertise. He said that there is expertise in this situation as there are companies with pipeline construction experience. He offered his belief that these companies can construct a pipeline on a cost-effective basis. He would prefer that the builder of the pipeline be motivated to increase revenues by increasing "through-put," rather than being built by a party who is motivated to increase revenues by decreasing "through-put." He indicated that it gives him "more comfort" to know that an independent, third-party pipeline company whose business is transporting natural gas to markets will build the pipeline. He responded to a question by stating that BG encourages the state to enter into discussions with independent pipeline companies regarding the construction of a pipeline.

[2:02:38 PM](#)

MR. KEANE summarized that BG encourages the Alaska State Legislature "to get to a point where we actually have the vehicle in place that would allow for the development of a pipeline." He observed that in the past few years the "fast track method" became the slow track. He said BG is very encouraged by this process and that it will result in a gas pipeline.

[Co-Chair Gatto turned the gavel over to Co-Chair Johnson.]

[2:04:03 PM](#)

CO-CHAIR JOHNSON asked about the possibility that BG Group will be in a position to offer gas at the initial open season, assuming a three-year time frame from issuance of a license to open season.

[2:04:15 PM](#)

MR. KEANE replied that would be difficult. He mentioned that BG will be drilling exploratory gas wells in the winter of 2008 and depending on the results, more drilling may occur in 2009 and 2010. AGIA requires that the successful licensee hold an initial open season within three years after issuance of the license, which he opined is a good idea as one does not want to delay too long. He said that companies that do not participate in the initial open season are not eligible for the 10-year fixed tax rate in AGIA and suggested that the state consider amending this provision. He offered that explorers who are diligently exploring for more gas should not be penalized because they are not able to "make that specific window" of the initial open season.

[2:06:13 PM](#)

REPRESENTATIVE GUTTENBERG asked where BG would ship its gas.

MR. KEANE clarified that today's discussion was not about "an LNG project." He noted that currently there are no LNG terminals on the West Coast of the U.S., therefore it is likely that the market would be in the Far East - Japan, Korea, and Taiwan. He said that currently "you cannot go through the Panama Canal," a restriction he believes is based on ship size.

REPRESENTATIVE WILSON asked if there are there other independent pipeline companies besides Mid-America and Trans-Canada that might be interested in the Alaska project.

MR. KEANE said he cannot speak as to what other pipeline companies may be interested in this project.

The committee took an at-ease from 2:09:32 to 2:16:31.

[2:17:04 PM](#)

CO-CHAIR JOHNSON asked about the process the Alaska Oil and Gas Conservation Commission (AOGCC) uses to evaluate the volume of gas that can be removed from a field.

[2:17:08 PM](#)

CATHERINE FOERSTER, Commissioner, Alaska Oil and Gas Conservation Commission (AOGCC), explained that typically an operator comes to AOGCC and requests a "gas allowable off-take" for an oil field. She indicated that this procedure would apply to a field in Prudhoe Bay. Before this can be done for Point

Thomson, a determination must be made as to whether it should be operated as an oil field or a gas field. She indicated that Point Thomson does not meet the criteria of a gas field under Alaska law and regulations, rather it meets the "producing parameters" of an oil field. Therefore, the operator will have to request permission to operate Point Thomson as a gas field. She reminded the committee that the mission of AOGCC is to prevent waste of hydrocarbons. She explained that removal of gas from a field prior to recovery of all the liquids "does put those liquids at risk of being lost." She explained that AOGCC has the authority to call its own hearing to determine an allowable gas off-take if the operator does not request one so that AOGCC can be assured that there will be no waste of hydrocarbons.

[2:19:30 PM](#)

MS. FOERSTER explained that AOGCC considers three variables when determining what an operator will be allowed to do in Prudhoe Bay: timing and rate of off-take, and details of plans to remove as much oil as possible prior to gas production. The operator must demonstrate that greater ultimate hydrocarbon recovery will result from their proposal. The AOGCC staff evaluates the technical data submitted by the operator to evaluate the accuracy of the operator's predictions.

CO-CHAIR JOHNSON noted that currently AOGCC authorizes a 2.7 billion cubic feet (Bcf) off-take of gas at Prudhoe Bay, which is not enough "to really do a pipeline." He asked whether AOGCC uses its own data or operator-provided data to make its determinations.

[2:21:00 PM](#)

MS. FOERSTER explained that two years ago AOGCC called a meeting to consider the amount of gas off-take authorized from Prudhoe Bay. The conclusion of that meeting was that "the 2.7 [Bcf] was probably not the right number" and needed to be re-evaluated. As a result, AOGCC entered into an agreement with BP Exploration (Alaska) Inc. (BP), and its partners to do a collaborative study that combined the technical expertise of the AOGCC staff and BP's more advanced and complete data. The AOGCC started that study in January 2006 and completed it last year, she said. In February 2007, AOGCC presented a technical report that is available on its web site. She said that the technical evaluation is complete. The next step is for BP and its partners to request that AOGCC amend the allowable off-take

amount, she explained. At that point, there will be a public hearing and more information will become available, she indicated. She concluded "we are pretty far along" on the Prudhoe Bay analysis, and opined that AOGCC has engaged in this process so as to be ready for any hearing regarding allowable gas off-take at Prudhoe Bay.

MS. FOERSTER said that AOGCC has "tried to do the same thing at Point Thomson," but has faced more obstacles for this area. She reiterated that AOGCC "is adequately prepared to address the Prudhoe Bay gas off-take allowable," assuming it is not delayed by years, in which case AOGCC will have to update its data. However, she said she is "very uncomfortable that we are not where we need to be on Point Thomson."

[2:24:21 PM](#)

CO-CHAIR JOHNSON asked for further definition of a reasonable amount of time in which to hold a hearing on Prudhoe Bay off-take issues.

MS. FOERSTER responded that if the hearing is held a year to eighteen months from now, AOGCC would likely still have sufficient information to feel comfortable with the data. If the hearing is five years from now, "it's not fine" due to changes in data based on field operations.

[2:25:10 PM](#)

CO-CHAIR JOHNSON asked how long it may take to issue an opinion on a new field, such as Point Thomson.

MS. FOERSTER said that AOGCC has an agreement with operators for a study at Point Thomson similar to the one done at Prudhoe Bay. The study started around the time the Department of Natural Resources (DNR) found the operators in default of their lease terms, so there was only one meeting that gave AOGCC "a little tiny bit of the data" needed. She said that ExxonMobil Corporation (Exxon) has indicated it will not proceed with AOGCC until legal issues regarding the leases are resolved. Had there not been obstacles, she opined that it might have taken six months for AOGCC to complete its technical analysis and be ready to consider an operator proposal. She said that AOGCC cannot make a ruling without sufficient data, and without it, will be "completely at the mercy" of the operator's decision as to how much data it wants to provide. She said that in a reservoir like Point Thomson if the gas is not "cycled" [re-injected] on a

continuing basis, the result is a waste of hydrocarbons in violation of the mandates of AOGCC's mission. She opined that the volume of liquid hydrocarbons at risk in Point Thomson is comparable to "an Alpine field." She emphasized that there are "hundreds of millions" of barrels of liquid hydrocarbons at risk "if we don't do it right at Point Thomson." She expanded on this point by opining it would not be appropriate to allow the Point Thomson operator to "do whatever" it wants so as to "get a gas pipeline going" if that approach puts "hundreds of millions of barrels" of liquid hydrocarbons at risk.

[2:29:03 PM](#)

CO-CHAIR JOHNSON asked about the timelines in AGIA - If the licensee has 36 months from the date of license issuance to prepare for open season, is it reasonable to expect that the producers will have enough information to receive a ruling from AOGCC regarding the amount of gas available for off-take at Prudhoe Bay in time for open season?

MS. FOERSTER replied that a 36 month timeline is not a problem for Prudhoe Bay due to the amount of work already done. However for Point Thomson, AOGCC needs data and information to start the evaluation process.

[2:29:43 PM](#)

CO-CHAIR JOHNSON asked for further specificity regarding Point Thomson - could a ruling regarding allowable off-take be made in 36 months.

MS. FOERSTER replied "you'll have to ask Exxon" whether it is going to provide data. She said that without any data, the answer is no [that AOGCC could make a decision in time for open season.]

CO-CHAIR JOHNSON asked if 36 months is a reasonable time period if data is available.

MS. FOERSTER replied that 36 months for a study is "pretty darn comfortable," and that a study could be completed in a year's time if necessary.

[2:30:31 PM](#)

REPRESENTATIVE GUTTENBERG asked what type of data is required and whether it is confidential under the current lease terms.

MS. FOERSTER responded that this data will be confidential once provided, but becomes public during the hearing process. The data necessary is "reservoir description" data which shows that the planned development will not waste hydrocarbons. This includes: reservoir description, geophysical data, seismic data, reservoir modeling, and other information.

[2:31:58 PM](#)

REPRESENTATIVE GUTTENBERG asked if individual fields within Prudhoe Bay are similar in nature.

MS. FOERSTER replied that question is difficult to answer. However, she pointed out that Point Thomson is significantly different from Prudhoe Bay. She explained that a determination to take gas from one field has "nothing to do with whether or not it is okay to take gas out of another field."

REPRESENTATIVE GUTTENBERG summed up Point Thomson as a "whole other project."

MS. FOERSTER agreed and stated that Point Thomson requires a separate analysis. She said that the questions to be considered for gas off-take for Prudhoe Bay are : when, how much, and what the operator plans to do in the meantime to recover as much oil as possible. However, the issue at Point Thomson is "can you get better ultimate recovery by cycling or by not cycling?" If the operator proposes not to cycle, it must explain how it is going to remove liquid hydrocarbons, she explained.

[2:34:14 PM](#)

REPRESENTATIVE GUTTENBERG asked what happens if Point Thomson is declared a gas field instead of an oil field.

MS. FOERSTER replied that if Point Thomson is designated as a gas field, the operator "would not have to get an allowable" and could produce as much gas as it wanted. If it is declared an oil field, the operator must demonstrate that its operations will not put the liquid hydrocarbons at risk.

[2:34:58 PM](#)

REPRESENTATIVE SEATON referred to the Prudhoe Gas Sale Reservoir Study by the AOGCC dated February 28, 2007. He asked for further information about some language in that report that

indicates there is not sufficient information to allow a gas off-take amount over 2.7 Bcf. He expressed some uncertainty as to whether AOGCC would allow a higher gas off-take amount if BP requested it in light of the language in the report.

[2:36:14 PM](#)

MS. FOERSTER offered her belief that the report recognized that there is still a lot of uncertainty regarding an appropriate off-take amount. However, to "give them an off take", the AOGCC must know the operator's plans with regard to oil recovery. She said that the determination involves many variables. The key variables to consider are when the gas off-take will start, what the operator will be doing until that time, and how much gas can be safely removed without compromising recovery of liquids. The determination of the off-take amount will vary based on the operator's plans, she explained. For example, an off-take start date for tomorrow would likely not be allowed, while a start date twenty years from now would allow an operator to "do whatever" it wants.

REPRESENTATIVE SEATON asked if an operator would be allowed to off-take 2 Bcf a day of gas for an earlier start [at Prudhoe Bay.]

[2:37:37 PM](#)

MS. FOERSTER answered that if the operator was planning to sell the gas tomorrow, the AOGCC would "call a hearing" to consider whether the "rate should be zero or whether 2 [Bcf] was okay." She said the only reason AOGCC has "not taken the gas allowable off-take rate away is because there is nothing there are going to be able to do without it." She said she is "not sure 2 [Bcf] would be okay today", and reminded the committee that the off-take amount was determined 30 years ago, prior to the existence of any production data on Prudhoe Bay. She said that if someone wanted to sell gas from Prudhoe Bay today, she "would be really uncomfortable with it," as "every puff of gas" currently produced is being re-injected into the field to keep the pressure up or for enhanced oil recovery (EOR) in Prudhoe Bay or other fields.

[2:39:03 PM](#)

REPRESENTATIVE SEATON clarified his understanding that the amount of gas available for the pipeline will not be determined

until the lease holders put in a request with AOGCC for a new gas off-take amount.

[2:40:07 PM](#)

MS. FOERSTER agreed that until there is an application for "gas take allowable" everything is on hold. She said that for Prudhoe Bay, AOGCC is ready to review an application in which the operator sets forth their depletion plan and start time. She offered that AOGCC will work with the operator to develop an allowable off-take that will insure the greater ultimate recovery of Prudhoe Bay hydrocarbons. She opined that Exxon could continue to work with AOGCC on Point Thomson regardless of the legal issues regarding the leases. She predicted that if Exxon cooperated, AOGCC could be ready for a hearing on Point Thomson in a year. She said that there is plenty of time before open season to resolve these issues.

[2:42:11 PM](#)

MS. FOERSTER suggested that these procedures can cause frustration and that AOGCC can appear to be a stumbling block for development. However, she reminded the committee that AOGCC is charged with working to insure that state constitutional directives regarding resource management are met and that as much of Alaska's oil and gas reserves as possible are recovered. She characterized the oil as the "bird in hand" while the gas is "the bird in the bush," and the challenge is to protect the oil resources while working to develop gas resources.

[2:43:50 PM](#)

CO-CHAIR JOHNSON asked whether there is any more information on an appropriate gas off-take amount for Prudhoe Bay based on the now 30 years of production history for that field.

MS. FOERSTER explained that she cannot predict the appropriate gas off-take amount absent information regarding how much oil is left in the ground and when gas production will start. She emphasized that "there is not a number," and that there will be more information available when there is a public hearing on this issue.

[HB 177 was held over.]

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at [2:45:43 PM](#).