

**ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE**

February 2, 2008
11:07 a.m.

MEMBERS PRESENT

Senator Charlie Huggins, Chair
Senator Bert Stedman, Vice Chair
Senator Lyda Green
Senator Gary Stevens
Senator Bill Wielechowski - via teleconference
Senator Thomas Wagoner

MEMBERS ABSENT

Senator Lesil McGuire

OTHER LEGISLATORS PRESENT

Senator Hollis French

COMMITTEE CALENDAR

Presentation: ANS Gas Development by David Keane, Vice President, Government Affairs, BG

PREVIOUS COMMITTEE ACTION

No previous action to consider

WITNESS REGISTER

David Keane, Vice President
Government Affairs
BG Group

POSITION STATEMENT: Gave presentation on ANS gas development.

ACTION NARRATIVE

CHAIR CHARLIE HUGGINS called the Senate Resources Standing Committee meeting to order at [11:07:42 AM](#). Present at the call to order were Senators Green, Stevens, Stedman, Wagoner and Huggins. Senator Wielechowski was present via teleconference.

BG Group Presentation by David Keane, Vice President, Government Affairs

[11:10:48 AM](#)

CHAIR HUGGINS said the committee had invited BG Group to do a presentation on its LNG business in Alaska. He said thanks to former Governor Hickel the Resources Committee was going to retroactively look at a course of action for Canada, LNG and other variables like a potential modification of AGIA.

DAVID KEANE, Vice President, Government Affairs, BG Group said they still support the AGIA process and he wanted to emphasize why BG supported AGIA in the first place. Last year he said BG wanted to see a pipeline developed under an open and transparent process. As explorers they need to know when they find natural gas they will be able to acquire pipeline capacity through a fair and equitable process. AGIA provides this process.

MR. KEANE said BG gave serious consideration to submitting an application under AGIA and developed a bid based upon using LNG exports as an enabler of the larger highway project. It assumed 2.7 Bcf/day of initial gas supply after gas conditioning; 500 Mcf/day of that would be consumed in the local Alaska domestic market, which would leave about 2.2 Bcf/day to be delivered to the LNG facility. He said an LNG export project seemed to be a natural fit for BG, because it is a significant player in the global LNG industry and it is the largest importer of LNG into the U.S. importing approximately 55 percent of all the LNG entering the U.S. market in 2007.

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He said their bid was developed to meet the needs of the state, the federal government, the market and BG, but ultimately they were not able to satisfy those requirements. The bid called for two-phase project with the first phase being the development of an 800-mile pipeline from Prudhoe Bay to Valdez and an LNG export plant followed by phase two, which included a pipeline to be constructed at a later date from Delta Junction to the Canadian border. BG believed that LNG could act as an enabler facilitating the larger highway pipeline project to the Lower 48.

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To make an LNG project viable, BG looked at which existing markets could support a world class export facility. It became very clear that those were the Asia Pacific (AP) markets. He reminded them that the West Coast of the United States has no import terminals; so the AP markets are the ones, at least initially, that could support the high cost of building the

infrastructure. He elaborated that the world is currently supply-short of LNG and Asian buyers are purchasing new supplies on an oil index at prices close to oil parity. He said, "BG's strategy was to leverage this demand at today's high oil prices to cover the high cost of the initial pipeline."

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He reported that the total cost for the initial three-train LNG project along with the pipeline and development costs was \$22 billion U.S. 2007 dollars; phase one of was all-Alaskan and kept the option of a Canadian line open. Initially the pipeline would have been oversized to accommodate LNG volumes and domestic sales of about 2.7 Bcf/day and after that additional volumes of 3.5 - 4.0 Bcf/day to Valdez or additional LNG trains or to be transported to the Lower 48.

He said the pipeline from Prudhoe Bay to Delta Junction would have been 48 inches and 42 inches from Delta Junction to Valdez with an option to take the gas at a later date to [indisc.].

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The reason BG used a two-phase approach was because of its concern over insufficient amounts of proven reserves to support the development of a larger highway project. He believed the when the smaller LNG project was monetized that would encourage more exploration that would result in proven reserves that would provide support for financing of the larger Transcanada pipeline.

MR. KEANE said legislators should not focus on an either/or solution or look at any project out of Alaska in isolation, because he thought there would be enough gas long-term to serve both projects. He said BG would have located their LNG facility in Valdez where other facilities would have also included LPG (liquefied petroleum gas) extraction plant. The initial design of the LNG facility in Valdez would have accommodated 2.2 Bcf/day that would include three 5.1 million tons per annum trains including liquid storage and vessel loading facilities.

He said their project also identified additional opportunities to have an NGL (natural gas liquids) fractionation facility located in Delta Junction which would have extracted the heavier hydro-carbons from the gas stream and allowed those NGLs (such as propane) to be sold and distributed throughout the state.

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Their application would have most likely been deemed non-conforming by AGIA because it couldn't meet all of the "must haves." These conditions were related to securing additional consortium members, requiring BG Group board approval and a declaratory order from the FERC confirming the jurisdictional assumptions underlying the bid, which was that the pipeline and Phase one would be federally regulated.

11:19:00 AM

The reasons BG decided not to submit an application under AGIA are because it didn't own natural gas reserves and had no pipeline partner, the high cost of capital along with escalating costs, political and reputational risks, possible loss of market opportunities due to possible schedule delays and regulatory uncertainty for an LNG export scheme.

However, Mr. Keane said just because BG didn't submit an application doesn't mean it is not interested in Alaska or AGIA. On the contrary, he said BG is actively exploring for natural gas in the foothills of the North Slope and the eastern North Slope. This winter its partner, Anadarko, will be drilling two exploratory wells in the foothills and will be completing a third well in the Jacob's Ladder area of the eastern North Slope.

MR. KEANE said "BG continues to be interested in developing a significant exploration and production business in Alaska." Their exploration program calls for them to spend approximately \$100 million net over the next three years and that will be critical for future investment decisions. Beyond that time horizon will be the degree of certainty they will have regarding their ability to secure pipeline capacity. Therefore they believe it is critical for the future of Alaska to get the infrastructure right.

11:21:47 AM

SENATOR WAGONER asked if the U.S. Department of Energy (DOE) would even allow ANS gas to be liquefied and transported to anywhere else than the U.S. especially considering the \$18 billion federal guarantee. He knows there is no receiving capacity on the West Coast and if the FERC didn't allow an export license BG would have to transport to the Gulf of Mexico and BG already imports a lot of gas there. He asked what their capacity was for additional importation to the Gulf Coast and ability to get it back to the U.S.

MR. KEANE replied that exporting LNG outside of the U.S. carried significant political risk, but even under a highway project, the natural gas that comes out of Alaska will ultimately go to a foreign company before reaching the Lower 48 or not. He didn't foresee terminals being located on the West Coast at this time and moving gas to the Gulf is almost cost prohibitive.

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SENATOR WAGONER asked if that is because BG's current vessels are too large to go through the Panama Canal.

MR. KEANE replied yes.

SENATOR WAGONER asked if an LNG plant were to be built, what would be the difference in tariff rate from the LNG plant delivered to someplace in the U.S. as opposed to being delivered to Chicago through a pipeline.

MR. KEANE answered that BG looked briefly at tariff rates and felt that the tariff of selling gas to the AP markets had a better netback.

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SENATOR WAGONER said one of the most important things coming off the North Slope for the state of Alaska is going to be liquids and propanes are good for fuel in remote areas. But he was thinking more of the ethane part of it and the marketability of having a plant similar to the Nova plant in Alberta established in the Cook Inlet area around Pt. MacKenzie or on the Peninsula to process the ethanes. The projection is 120,000 barrels per day of ethane and an 80,000 barrel-a-day plant involves 600-800 long-term jobs.

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MR. KEANE answered that BG is not involved in NGLs. It was considering developing an NGL extraction plant for propanes (primarily) in Delta Junction. But BG is not involved in the marketing of it; so it would have looked for an Alaskan partner to develop that business.

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SENATOR STEDMAN asked him to elaborate on why BG didn't apply. Didn't they negotiate with the folks with gas?

MR. KEANE replied that BG didn't have any discussions with the people who own the gas, but with a major interstate pipeline within the U.S. that eventually withdrew.

SENATOR STEDMAN asked why BG didn't talk with the people who have the gas.

MR. KEANE replied that they were going to do that. They think it's very important for the big three producers to be included in the process.

SENATOR STEDMAN asked if BG's capital costs included partners. Were there are other risks involved?

MR. KEANE answered his concern was with capital escalation above the \$22 billion original cost of the project. For every year of delay the tariff was greatly increased and most of those delays they would have no control over.

SENATOR STEDMAN asked if his capital cost point wasn't capital structure.

MR. KEANE replied no sir; it was capital cost.

SENATOR STEDMAN asked him to elaborate on how gas parity with oil relates to the Japanese LNG market.

MR. KEANE answered the AP market gas price competes with the price of crude oil, but in the U.S. its gas for gas competition. He said BG provides 30 percent of spot LNG going into the AP market.

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SENATOR STEDMAN asked him to elaborate on why the gas contracts are getting shorter.

MR. KEANE replied the market has changed considerably over the last four or five years and is becoming more flexible. However, some companies are still signing long-term LNG contracts of 20 - 25 years. He said it seemed that a spot market was starting to evolve, but that the cost of developing liquifaction facilities was definitely slowing it down.

CHAIR HUGGINS asked him how feasible it would be to bring gas in through the Baja entry point.

MR. KEANE replied that Baja already has more than an adequate supply and the ANS LNG would be some of the highest priced in market. The netbacks didn't make economic sense.

11:31:52 AM

SENATOR WAGONER asked how many wells BG is drilling with Anadarko this year.

MR. KEANE answered that Anadarko is drilling two wells in the foothills and one well is being completed that was started last year on the eastern North Slope.

SENATOR WAGONER said it seems like their drilling program indicates they think there will be a way to get that gas to market.

MR. KEANE answered that was correct.

SENATOR WAGONER said BG and TransCanada's proposals have an 18-month differential for the first open season and asked how important those 18 months are.

MR. KEANE replied clearly having an open season a little bit later makes more sense, because a lot of work will have been done and there will be more certainty about what is there. The concern with having it early is that one wouldn't know what the price will be for transport capacity. Clearly Alaska is competing with other markets either for gas supply into the U.S. or gas supply into other markets such as Asia Pacific. Scheduling will be important and that was one of BG's concerns.

11:34:37 AM

SENATOR WAGONER asked long-term if the pipeline proposal falls flat, would it be a viable opportunity for them to manufacture liquids from the gas that are currently on the North Slope and ship them down the existing line.

MR. KEANE replied he wasn't qualified to answer that and BG is not involved in the gas to liquids industry.

CHAIR HUGGINS asked him to expound more on the non-conforming elements of their application.

MR. KEANE responded because BG lost its pipeline partner, they would have had to secure another pipeline partner to manage the pipeline. While BG is good at exploration and production of LNG, it doesn't have the expertise to manage a pipeline. And because BG didn't have a pipeline partner it couldn't submit an application that would have to be approved by the BG Group board.

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CHAIR HUGGINS asked if restarting the AGIA process again would "up the likelihood" of BG's potentially being an applicant.

MR. KEANE answered there would have still been the political risk in terms of what the Alaskan delegation just said about an LNG export project. If those concerns were somewhat mitigated, BG is still interested in LNG.

CHAIR HUGGINS asked how much it would cost if they built the LNG facility in Valdez and what employment would it provide.

MR. KEANE replied it would cost \$7-\$8 billion and provide a substantial number of jobs.

CHAIR HUGGINS asked if he had any suggestions for the state to consider.

MR. KEANE replied his concern with the pipeline and the LNG facility was he couldn't see how the FERC could actually regulate the pipeline primarily because it's sort of the fox guarding the henhouse in terms of cost and wellhead netbacks. The pipeline operator would want to make sure they were recovering their costs with a fair return and the state's motivation might not be the same.

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SENATOR WAGONER said the market for LNG in Japan is closer in value to oil than gas, so why would anybody even want to produce LNG in one part of the U.S. and ship it to another "or is that just a spot market?"

MR. KEANE replied that it is a continuous market. Japan, Korea and Taiwan have limited indigenous natural gas supply. So having the ability to buy long-term natural gas supplies an OECD (Organization for Economic Co-operation and Development) country means a lot to them. Senator Wagoner was absolutely correct; you wouldn't supply gas from Alaska into any terminals on the West Coast of the U.S.

CHAIR HUGGINS thanked him for his comments and adjourned the meeting at [11:42:09 AM](#).