

HOUSE FINANCE COMMITTEE  
April 2, 2010  
9:05 a.m.

9:05:15 AM

CALL TO ORDER

Co-Chair Hawker called the House Finance Committee meeting to order at 9:05 a.m.

MEMBERS PRESENT

Representative Mike Hawker, Co-Chair  
Representative Bill Stoltze, Co-Chair  
Representative Bill Thomas Jr., Vice-Chair  
Representative Allan Austerman  
Representative Mike Doogan  
Representative Anna Fairclough  
Representative Neal Foster  
Representative Les Gara  
Representative Reggie Joule  
Representative Mike Kelly  
Representative Woodie Salmon

MEMBERS ABSENT

None

ALSO PRESENT

Representative Bryce Edgmond; Representative Beth Kerttula; Representative Jay Ramras; Representative Chris Tuck; Representative Tammie Wilson; Senator Joe Paskvan; Senator Bill Wielechowski; Larry Persily, Federal Coordinator, Alaska Natural Gas Transportation Projects.

PRESENT VIA TELECONFERENCE

Representative Nancy Dahlsrom

SUMMARY

^Presentation: No Shortage of Possibilities or Problems for Alaska Gas

[9:06:02 AM](#)

Co-Chair Hawker and the committee welcomed former legislative aide Mr. Persily. He invited any other legislative members present to participate in the dialogue about Alaska gas.

LARRY PERSILY, FEDERAL COORDINATOR, ALASKA NATURAL GAS TRANSPORTATION PROJECTS, informed the committee that the Office of Federal Coordinator is focused on getting North Slope gas to market in North America. He stressed that he was not present to give advice or an opinion about the in-state line.

Mr. Persily provided a PowerPoint presentation, "No shortage of possibilities or problems for Alaska gas, April 2, 2010."

Mr. Persily began with Slide 2, "Everybody has an opinion":

- Former Sen. Ted Stevens
- Former Govs. Frank Murkowski and Bill Sheffield
- Soon-to-be-former University President Mark Hamilton
  - Says gas will never exceed \$6/mcf in 2010 dollars in his lifetime
- All of the gubernatorial candidates
- Me too
- The only thing for certain: We're probably all wrong.

Mr. Persily commented on the number of opinions about a big pipeline to North America and listed some of the sources. He noted that the soon-to-be-retired University of Alaska President Mark Hamilton had recently announced that the line would never be built. Mr. Hamilton believed that gas would not exceed \$6 per thousand cubic feet in 2010 dollars in his lifetime. Mr. Persily added that all projections are probably wrong; no one knows what the price of gas will be, what the market needs will be, what the final construction costs will be, or what the shippers will do.

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Mr. Persily reported the results of a meeting with the White House in Washington D.C. (Slide 3, "White House opinion"):

- Interested, engaged, involved
- Elevate focus on the project (but no office moves)
- Alaska gas line is part of a national energy plan
- Gas = lower emissions, jobs, domestic energy supply
- White House willing to work with state, project sponsors
- No specific proposals—that's on my work list

Mr. Persily detailed that it was clear that the White House wanted to be involved in the project and to elevate focus on the project. He noted that the White House would not move his physical office; the Office of Federal Coordinator is not in any agency, but is a stand-alone federal office. He reports to the White House but would not physically be there.

Mr. Persily maintained that the White House believes that an Alaska gasline bringing gas to North America is part any national energy plan; gas has lower emissions and is cleaner, brings jobs, and is a domestic energy supply for decades to come. He stated that the White House is willing to work with state and project sponsors, although there are no specific proposals or plans in place yet. They do recognize that the producers, pipeline developers, state, and federal government will be involved in any final decision.

Mr. Persily addressed "Public frustration" in Slide 4:

- So many expectations since 1968
- So many political promises
- So close, or sort of close, so many times
- Pipe vs. LNG, then pipe, then LNG, then pipe, then LNG, then pipe, now either or both, or maybe both
- Meanwhile, Southcentral saw loss of industry and felt the reality of market prices for gas, and they're worried

Mr. Persily understood the level of frustration and anger the public has been feeling regarding changing expectations related to gas.

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Mr. Persily urged Alaskans: "Don't give up, not yet" (Slide 5):

- Pipeline to North America would tap into the largest natural gas market in the world
  - North America = 70 to 80 bcf/d
  - Almost three times China, India, Japan, South Korea, Taiwan
- Billions of dollars in public revenues for the state
- Gas for in-state use; possibly propane too
- Help encourage exploration and extend life of TAPS
- Open season (two) will tell us a lot

Mr. Persily advised not giving up on a big pipeline from the North Slope going through Alaska and Canada and tying into the grid beginning in Alberta that feeds gas across North America, including the Pacific Northwest, California, Upstate New York, the Midwest, and the Southeast. He called the region "the largest gas market in the world": North America on an average day uses three times as much gas as China, India, Japan, South Korea, and Taiwan combined. He pointed out that a big pipe would help the state treasury for decades to come. In addition, there would be gas for in-state use.

Mr. Persily emphasized that the two open seasons coming up would tell a lot; the shippers will determine if the project gets built and when and where.

Mr. Persily acknowledged the many problems connected with building a big pipe (Slide 6, "Problems with Lower 48 pipeline"):

- Construction risk; high tariff; market risk
- Have to deliver all 4 bcf/d at once; new supply could weaken the market, pulling down prices short term
- No stopping the flow, even in a down market
- Producers need long-term sales but utilities are nervous because public utility commissions second guess them
- There are less risky projects for investors
- It's all about minimizing, controlling and sharing risk

Mr. Persily detailed problems with the large pipeline, including construction risk, delays, high cost estimates (\$30 to \$40 billion for the TransCanada/Exxon project). He reminded people of cost overruns for the Trans Alaska Pipeline System (TAPS). In addition, the market is always a risk. Shippers will have to commit and hope they know best where the market will be ten and twenty years in the future.

Mr. Persily continued that the 4 bcf/d would have to be delivered all at once; the volume cannot be ramped up slowly over several years, and the influx could weaken the market and bring prices down short-term. Producers need long-term sales. Shippers have to commit to use the line in order to finance it; they would like to sell some of the risk to utilities through long-time contracts, but historically public utility commissions will sometimes second-guess the situation. For example, utility A could sign a contract to buy Alaska gas long-term; the market could weaken (with gas being available for much less than the contract) and public utility commissions might not allow the utility to charge more.

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Mr. Persily noted that it would help the project if state public utility commissions could be induced to accept long-term deals to share some of the risk.

Mr. Persily addressed "What would help Lower 48 line" (Slide 7):

- Economic recovery and demand build
  - U.S. gas consumption fell last year, especially industrial users
- Fuel switching from coal to gas-fired generation
  - Growth in electrical power is the key
  - CERA: Power demand 19 bcf/d 2009 to 35 bcf/d in 2030
  - Little growth expected in industrial, residential demand
- Promoting natural gas as transportation fuel
- Federal restrictions on CO2 emissions

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Mr. Persily turned to the subject of "The dreaded shale" (Slide 8):

- Yes, shale gas production 10% of U.S. supply last year
- Growing across U.S. and Canada, especially Alberta, B.C.
- Close to markets; easy to raise and lower production
- Drilling rig efficiency is up, and up and up
- States are hungry for revenues and jobs
- Shale gas will hold down price spikes; no more \$14 gas
- Like Flubber, it's a perfect product--but is it?

Mr. Persily emphasized that there is consensus in the industry that shale gas, which is abundant and easy to get at, will hold down price spikes without permanently depressing the market.

Mr. Persily spoke to "The darker shades of shale" (Slide 9):

- Fracking becoming about popular as an oil spill
- Water quality concerns
- EPA review: possible federal legislation
- More questions as it grows bigger, closer to urban areas
- One big environmental disaster could change the game
- Shale needs tens of billions of dollars of new pipelines
- Steep production decline curve; deeper wells cost more

Mr. Persily noted water quality concerns as shale gas extraction moves closer to urban areas. The Environmental Protection Agency has undertaken a review of "fracking" (hydraulic fracturing) and noted on-going debate about its safety. He pointed out that shale gas production has its own capital needs because it often comes from undeveloped areas without infrastructure and pipe.

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Mr. Persily discussed the option of liquid natural gas (LNG): "LNG is an option" (Slide 10):

- But we're not alone looking west to East Asia

- Papua New Guinea, Australia (including coal-seam), Indonesia, Sakhalin, Malaysia, and Brunei
- West African nations, Qatar, Oman, Yemen
- All either operating or building LNG plants
- Almost 10% Japans 2008 spot supply came from Atlantic
- Floating LNG; Shell's multibillion-dollar order with Samsung will access smaller fields in Pacific Basins

Mr. Persily detailed that Alaska is not the only gas-producing source, resulting in a surplus of LNG. Shell Oil has contracted with Samsung to build floating LNG plants with production, liquefaction, storage, and shipping capabilities.

Mr. Persily informed the committee that "LNG competition is strong" (Slide 11):

- New projects totaling 9 bcf/d online in 2009-2010
- An additional 7 bcf/d scheduled by 2015
- Once online they don't cut back; need to recover costs
- Mitsubishi forecasts potential Asia Pacific LNG supply could exceed demand by almost 20% in 2015
- Uncertain after that, but no shortage of Pacific options at tide water; no need for 800 miles of Arctic pipe

Mr. Persily detailed that the investment decisions have already been made for the new LNG projects. He pointed out that once an investor has made the capital investment, they will keep pumping to recover costs. After 2015 there is uncertainty because commitments have yet to be made for new projects in the 2015 to 2025 time frame; however, there are a lot of supply options in the Pacific that do not need an 800-mile pipeline through the Arctic to get the gas to a terminal.

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Representative Gara queried tide-water projects. Mr. Persily responded that tide-water projects are at water or very close.

Mr. Persily noted "Other supply options for Asia" (Slide 12):

- We're not the only country with shale gas
- Shell signed a 30-year deal to help China unlock tight gas
- China and India are looking for more domestic gas
- China has pipeline gas options: Russia, Turkmenistan
- India looking for pipeline gas, too
- Tokyo Gas just signed a 20-year deal with BG Group for Australian gas to supply 11% of its needs

Mr. Persily noted that the pipeline from Turkmenistan to China is operational, the one from Russia will be operating next year, and Tokyo Gas will buy Australian gas starting in 2015.

Mr. Persily turned to Slide 13, "LNG pricing in Asia":

- The market is shifting away from near 100% reliance on long-term sales contracts tied to oil prices
- Spot market and short-term sales now comprise almost 20% of the volume in the Asia Pacific market
- Buyers like bargain spot prices in a down market: China paid \$4.30 for Russian LNG in June 2009 and \$3.48 for an Indonesia delivery that same month

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Mr. Persily pointed out that as Alaskans think about where Alaskan gas should go and available options, "Market size is important" (Slide 14):

- Global gas trade in 2007
- 73% of worldwide gas production was consumed within the producing country
- 19% of gas production was delivered to foreign customers by cross-border pipeline
- 8% of gas was delivered by LNG tanker
- The bigger the market, the more new gas it can absorb

Mr. Persily turned to Slide 15, "Don't forget the valuable liquids":

- North Slope gas has a high-value liquids stream
- Don't just think about the methane price
- Liquids can piggyback on methane for transportation

- Example: Qatar can sell methane at low price while banking profit from liquids for its petrochemical industry
- Alberta hungry for liquids to feed existing plants
- Alaska can keep propane for local use

Mr. Persily warned against looking at today's price for methane and giving up; other molecules add value, and the state needs to think long-term.

Mr. Persily concluded with Slide 16, "It's not easy, but it's possible":

- Open seasons for TransCanada/Exxon and Denali an opportunity to gauge market demand for Alaska gas
- Shippers asked to commit \$100 billion in binding, contractual commitments lasting 20 years or more
- At some point state, producers, pipeline owner and even the federal government will need to sit down and talk
- Pipeline to North America is possible if right things happen and if all parties are willing to contribute

Mr. Persily opined that the state has the largest private project ever in North America with national interests. He believed the federal government will need to be involved. He thought all the parties will have to sit down and figure out what the problems and the risks are and evaluate solutions to the risk. He believed those who are willing to take more risk should get more reward. He stated that a pipeline to North America is possible if market demand builds up, electrical generation switches to gas, and if everyone involved is willing to contribute to the solution.

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Representative Austerman referred to discussion about the petrochemical industry (Slide 15) and propane for Alaskan use. He noted talk in Alaska about sending jobs to Alberta instead of extracting in-state. Mr. Persily responded that the petrochemical industry will determine where they can extract the liquids and make the most money. He understood the desire to keep jobs in Alaska, but it has to be economical. The federal government will not stop the process, but it will not subsidize it either.

Representative Austerman asked whether there was potential for more jobs in the gas industry than with oil. Mr. Persily opined that processing hydrocarbons into a product is more labor-intensive than people in a control center running an oil pipeline.

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Representative Joule asked whether melting ice freeing up marine transportation [for LNG tankers] in the north would impact a big pipeline going down south. Mr. Persily responded that he had heard speculation about the subject. He thought the route would avoid the expensive cost of a pipeline, but lot of expensive infrastructure would also have to be built on the North Slope. He was skeptical that that much shipping traffic would be allowed in the Arctic because of environmental concerns. In addition, there has to be certainty about the ice if that much gas is going to be moved.

Representative Doogan referred to statements related to the gas pipeline from Alaska. He noted the complexity of the issues, including the political and economic issues of going through Canada. He queried the changing role of the federal government in the project. Mr. Persily agreed that there were many components to the project, including market and construction risk, state tax regimes, First Nations problems in Canada, land claims, and environmental permitting issues. He opined that in addition to the explicit statutory authority for the Office of Federal Coordinator to work with federal permitting agencies to make sure the project goes smoothly, the federal government will need to take a more active, assertive, and visible role in bringing all the pieces and players together.

Representative Doogan wondered what the role of the federal government could become. Mr. Persily did not know; he stated that the federal government knew the project was complex but also that it would serve national interests. The question is when the federal government should get involved. He maintained that the federal government had no interest in telling the state how to run its tax regime or decide local issues, but it could help coordinate some of the complexity.

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Co-Chair Hawker also wanted to discuss the future role of the federal government in Alaskan projects. He noted that Senator Mark Begich had recently made a statement at the joint session of the Alaska Legislature that the federal government was willing and prepared to increase the amount of loan guarantee on any potential project. Mr. Persily explained that the current loan guarantee passed six years ago is \$18 billion plus inflation (\$21 billion total). He reported that both Senator Begich and Senator Murkowski were working on legislation (supported by the White House) that would raise the loan guarantee number to \$30 billion plus the inflation index. He added that the provision is sitting there; no one necessarily objects to it, but it has not come to the floor for a vote. The provision is tied up with controversial energy legislation. In general, people are supportive of increasing loan guarantees; for most borrowers, that would mean a lower interest rate, which would translate to a lower tariff to ship gas.

Representative Salmon queried when in the long Alaska Gasline Inducement Act (AGIA) process the state would have to decide whether the pipeline would be built or not. Mr. Persily responded that the Office of the Federal Coordinator does not care if the pipeline is built through AGIA, Denali, or another entity. Statutorily, the office is required to support and work with any project bringing gas by pipeline to North America. Once the open season is closed and the bids are in, under the Federal Energy Regulatory Commission (FERC) open season process, TransCanada, Exxon, or Denali will ask for proposals and potential shippers submit bids; the bids are confidential until there is a signed, binding agreement filed with FERC. The state will not know what the terms are unless a company releases the information voluntarily. He thought that the state should wait until the bids are in to see what is happening. Proposals might be too far apart, but they might come in and potential shippers and pipeline companies might be interested, although it would take time to negotiate fiscal terms and environmental issues. At that time, the state might see what it or the federal government can do to help the process.

Representative Salmon summarized that once the process is done, the state has to decide whether to change direction regarding what to do with the gas. He emphasized the need to act because of declining oil revenues. Mr. Persily responded that there is no clear way of predicting what

will happen. He agreed that after open season it falls back to the legislature and the governor to come up with another plan if there are no takers.

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Representative Gara expressed frustration about the constantly changing ideas regarding a gas pipeline. He was glad that Mr. Persily was focusing on one project. He wondered when it would be clear whether shale gas is a problem and there is a demand for a gas pipeline. Mr. Persily responded that it would become clear when pipeline producers or shippers are willing to sign firm transportation commitments and pay to build the line because they feel they will be able to sell the gas at a profit.

Mr. Persily reminded the committee that the market would respond once a place is staked out in the market; other projects will be delayed. The producers, the ones writing the checks, will have to decide if the opportunity is present; no one wants to oversupply the market and be the last one in with a new project that cannot be sold at a profit.

Representative Gara was optimistic about the project. He asked whether there was any danger of another pipeline outside of Alaska that might obligate gas and squeeze out Alaska gas. Mr. Persily responded that the cost would be affected. He stated that not all shale gas needs new pipe; existing pipe or small expansions can be used. Currently the industry consensus is that the additional supply of shale gas will dampen prices in the future; the people involved in the Alaska pipeline will have to look at the market price to determine how much money can be made. Producers will have to ask whether they can still make money even if the price is lower. The state may have to reduce expectations to match the market.

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Representative Kelly asked what three actions Mr. Persily would advise the legislature and governor to take related to oil and gas. Mr. Persily recommended separating emotions from the discussion, such as the feeling that the state was cheated on TAPS and should get payback through the gasline. He emphasized the complexity of the project and pointed out

that much work had been done and money had been spent. He advised not throwing already completed work away, but waiting for the open season. He urged patience and cooperation.

Co-Chair Hawker invited questions from the public.

Co-Chair Hawker commented on the history of hearings on the subject and queried global changes that had taken place during the past period of time. He wondered what critical environmental changes could be anticipated in the next four years. Mr. Persily opined that changes included the growth of shale gas production and the decline in production. When people were mapping prospects for an Alaska gasline starting the winter of 2000 and 2001 when prices spiked, everyone anticipated increasing demand. However, growth not only stopped, but decreased. One challenge would be to increase growth in the face of shale production. He thought natural gas would have to be marketed to the country; challenges would include the strong coal lobby.

Mr. Persily maintained that Alaskans could get a lot of benefit from a natural gas pipeline, including gas and propane for Alaskans, petrochemical industry jobs, and public revenues. Profits might not be as high as once hoped, but there could be many other benefits. He opined that the cheapest way to get gas as well as propane and petrochemicals to Alaskans would be tapping into a big pipeline with an economy of sale; profits would be significant, even if the price of the commodity was lower.

[9:58:20 AM](#)

Representative Austerman recalled 1995 discussions about natural gas. He stated that he believed now what he had believed then: when the industry can see the profitability of natural gas flowing out of Alaska, there will be a pipeline.

Mr. Persily referenced the Gorgon LNG project with a \$40 billion investment in Australia; the government there was requiring carbon sequestration [long-term underground storage of carbon dioxide to mitigate global warming]. Producers are concerned about the carbon dioxide staying underground and future liability; the Australian government responded by agreeing to take the liability and risk related to carbon sequestration rather than putting it on

the companies. Other countries are considering what needs to be done to attract investment dollars.

Representative Austerman asked whether Alaska should secede from the country and handle the issue itself. Mr. Persily believed the country was doing "pretty well" on a lot of things.

Co-Chair Hawker queried changes that would be made in the federal coordinator's responses to the issues. He wondered whether Mr. Persily would function as a mediator rather than as an advocate of one side or the other. Mr. Persily responded that he hoped to get more involved with communicating the situation to Alaskans. He believed the project could get done with the right players negotiating the right terms, and he proposed that a federal presence could help. He did not necessarily think of himself as a mediator.

[10:02:52 AM](#)

Co-Chair Hawker recalled Mr. Persily's experience as an ombudsman. He asked whether Mr. Persily would spend more time in Alaska actively involved in discussions. Mr. Persily replied that he planned to spend a lot of time in the state. He noted that there are issues that have to be overcome in spite of the upcoming open seasons.

Representative Fairclough asked whether the legislature could send a message to Washington D.C. supporting international cooperation between Alaska and Canada to secure North American energy. She pointed out that nearly 20 percent of continental U.S. natural gas is currently coming out of the Canadian market. Mr. Persily responded that the project is as important to Canada as to the U.S., whether the subject is natural gas liquids and/or petrochemicals entering the infrastructure. He underlined that there is a huge North American pipeline grid starting in Alberta and running nationwide; as conventional production in the Western Canadian sedimentary basin declines, the spare capacity of the pipes will increase. He thought it was in Canada's best interest to have Alaska gas enter the system. He reported that he had met with the Canadian ambassador and Canadian Consul General and would continue to work closely with them.

Representative Fairclough referred to concerns in Canada and hoped Mr. Persily could speak to that with the administration. Mr. Persily responded that he would.

10:06:44 AM

Representative Gara queried TransCanada's assessment regarding Alaska gas and the oil sands. Mr. Persily reported that he had met with environmental groups in Anchorage; one has asked whether the federal government could give assurance that Alaska gas will not get burned at the Alberta oil sands. He had responded that there could be no such assurance; there is no law dictating where someone can sell carbon molecules. He opined that the oil sands have thrived without Alaska gas and will thrive whether Alaska gas is there or not. He noted that every manufacturing plant wants to get the lowest-priced commodity possible, so of course would use whatever gas is cheapest. He believed the market for Alaska gas would be electrical generators and consumers in the Lower 48, which he hoped would bring a better price. He believed that as gas got more expensive, the oil sands plant would use less and less of it.

Co-Chair Hawker welcomed Mr. Persily to come before the committee in the future.

#

ADJOURNMENT

The meeting was adjourned at 10:09 AM.