

**ALASKA STATE LEGISLATURE  
HOUSE SPECIAL COMMITTEE ON ENERGY**

January 30, 2013  
8:05 a.m.

**MEMBERS PRESENT**

Representative Doug Isaacson, Co-Chair  
Representative Charisse Millett, Co-Chair  
Representative Neal Foster  
Representative Pete Higgins  
Representative Shelley Hughes  
Representative Benjamin Nageak  
Representative Andrew Josephson

**MEMBERS ABSENT**

All members present

**OTHER LEGISLATORS PRESENT**

Representative Mike Hawker  
Representative Mike Chenault

**COMMITTEE CALENDAR**

OVERVIEWS (S): "WHO'S KEEPING THE LIGHTS & HEAT ON?" PROBLEMS &  
SOLUTIONS: PRESENTATION BY THE DEPARTMENT OF NATURAL RESOURCES

- HEARD

**PREVIOUS COMMITTEE ACTION**

No previous action to record

**WITNESS REGISTER**

DAN SULLIVAN, Mayor  
Municipality of Anchorage  
Anchorage, Alaska

**POSITION STATEMENT:** Provided opening remarks prior to the  
presentation by the Department of Natural Resources (DNR).

DAN SULLIVAN, Commissioner  
Department of Natural Resources (DNR)  
Anchorage, Alaska

**POSITION STATEMENT:** Provided a PowerPoint presentation entitled, "Cook Inlet Challenges & Opportunities," and answered questions.

PAUL DECKER, Petroleum Geologist  
Central Office  
Division of Oil & Gas (DOG)  
Department of Natural Resources (DNR)  
Anchorage, Alaska

**POSITION STATEMENT:** Participated in the PowerPoint presentation entitled, "Cook Inlet Challenges & Opportunities," and answered questions.

WILLIAM BARRON, Director  
Central Office  
Division of Oil & Gas (DOG)  
Department of Natural Resources (DNR)  
Anchorage, Alaska

**POSITION STATEMENT:** Answered questions during the PowerPoint presentation entitled, "Cook Inlet Challenges and Opportunities".

**ACTION NARRATIVE**

[8:05:10 AM](#)

**CO-CHAIR CHARISSE MILLETT** called the House Special Committee on Energy meeting to order at 8:05 a.m. Representatives Josephson, Higgins, Hughes, Nageak, Isaacson, and Millett were present at the call to order. Representative Foster arrived as the meeting was in progress. Representatives Hawker and Chenault were also present.

[8:05:47 AM](#)

**OVERVIEWS (S): "WHO'S KEEPING THE LIGHTS & HEAT ON?" PROBLEMS & SOLUTIONS: PRESENTATION BY THE DEPARTMENT OF NATURAL RESOURCES**

[8:06:02 AM](#)

CO-CHAIR MILLETT announced that the only order of business would be a discussion of Cook Inlet gas supply, beginning with remarks by Dan Sullivan, mayor of Anchorage.

[8:06:08 AM](#)

DAN SULLIVAN, Mayor, Municipality of Anchorage, stated his appreciation for the legislature's continuing efforts to meet the looming shortage of a supply of gas in Cook Inlet. It is clear that by 2014 or earlier, there will not be enough gas under contract to satisfy the needs of the local utilities, although many entities are searching for solutions to the situation.

[8:06:38 AM](#)

DAN SULLIVAN, Commissioner, Department of Natural Resources (DNR), stated that Cook Inlet gas supply is a "hugely" important issue and his intent is to provide DNR's and the administration's perspectives to the committee. There have been a lot of accurate and less accurate reports in the press recently on this issue; the goal today is to present information to the committee and dispel the major differences of opinion. Commissioner Sullivan acknowledged that there are different perspectives from the utilities and others, but opined there are not major disagreements.

[8:09:57 AM](#)

CO-CHAIR MILLETT said her constituents are asking whether there are any producers who are willing to sign a gas contract with the utilities at this time.

COMMISSIONER SULLIVAN responded that DNR shares the concern about "gas under contract" and does not believe that everything is fine. The presentation will show the actions DNR has taken - directly and tangentially - related to its responsibilities assigned by the legislature. He stressed DNR wants to talk about terminology and is aggressively seeking to bring more companies up to drill more wells and invest, which is the way to address the problem in the immediate term. However, he agreed, "the issue of timing is there."

[8:12:44 AM](#)

CO-CHAIR MILLET cautioned that there are mixed messages from the utilities' point of view and from DNR. She acknowledged that DNR sees a lot of activity in the inlet, but questioned whether her constituents should feel comfortable in thinking that "'tomorrow we'll have a gas contract' if that's not the truth."

COMMISSIONER SULLIVAN pointed out that gas contracts are an issue in the private sector between the utilities and the

producers; however, DNR is encouraging more investment and production so that gas contracts can happen. Although DNR cannot guarantee contracts are signed, its focus is to set up a favorable situation. He agreed that challenges exist and that the issue of gas not under contract should not be equated with the issue as to whether the basin is depleted. The presence of more resource will encourage security, more production, and more drilling, and DNR will continue to work with other entities to go forward.

[8:14:57 AM](#)

REPRESENTATIVE MIKE HAWKER observed that the presentation today is not new and there is no disagreement with DNR that the prospects of the inlet are strong. On the other hand, judging by a previous study by Petrotechnical Resources Alaska (PRA), the required level of drilling needed to meet the needs of the inlet is not adequate. He expressed his concern that DNR continues to say that there is plenty of gas and attracting more drilling is the answer; however, the utilities are responsible for keeping on the heat and lights, and their concern is that the present level of drilling is not likely to provide sufficient gas within the necessary timeframe. Representative Hawker said this is the area of different perspectives and he asked whether the utilities should be looking at alternatives to drilling to meet the needs of Cook Inlet.

[8:17:31 AM](#)

COMMISSIONER SULLIVAN opined one of the messages today is that everybody should be taking prudent measures to ensure energy security.

CO-CHAIR MILLETT warned that in the meantime the utilities will be importing liquefied natural gas (LNG) which would not be good for the basin or the state. In the short term, drilling will not equate to production and gas contracts.

[8:18:52 AM](#)

COMMISSIONER SULLIVAN advised this presentation and his experience confirm that more information and more experienced people working on a complicated issue is best. He restated that the reports that DNR is unconcerned are wrong; in fact, DNR is presenting the path to addressing a very significant challenge, - with immediate-term actions and longer-term implications - including importing gas. In addition, this is a problem many

years in the making, and his presentation will show some of the significant actions the state has taken. In response to the whole suite of issues that need to be addressed, one action DNR has taken is bringing in the utilities and the producers to discuss how to get more gas from the inlet and into storage. The department can play a problem-solving role and seeks to make the committee aware of its actions. Commissioner Sullivan stressed it is critical that all of the players involved work together, and said the utilities would agree that the best way to resolve the problem in the immediate term is to get more gas from the inlet. Regarding long-term solutions for the energy security issues in Southcentral or the Interior, DNR is 100 percent focused on a gas line from the North Slope. Although it was reported that DNR does not support a gas line, he clarified that was not the case.

[8:24:53 AM](#)

REPRESENTATIVE NAGEAK said, "I wish we had this ... discussion for our people in rural Alaska. This [problem of] access to gas, and the attention that it's getting from the state, because we have the same problems in our parts of the world where there is no attention given to the high price that they have to deal with in all of the villages." He expressed his hope that during the course of this session the legislature can talk about the cost of energy for all of the state's citizens.

CO-CHAIR MILLETT agreed that that is the intention of the committee.

COMMISSIONER SULLIVAN recalled that when the governor talked about the immediate energy plan of trucking LNG to the Interior he included the potential to bring energy to rural areas, and when the commissioner was attorney general the high cost of energy was the number one issue there. As an aside, he said DNR recently issued a report locating where resources such as gas, coal, and geothermal exist in rural communities, all of which are possible solutions to the energy problem in parts of rural Alaska.

[8:28:14 AM](#)

CO-CHAIR ISAACSON observed that trucking LNG is not going to be economical for Cook Inlet and construction of the natural gas pipeline is a decade away. As the gas contracts are going to expire in 2014 or 2015, he asked whether the state has taken any

action to accelerate production out of Cook Inlet to "fill the gap between trucking of gas or a gas pipeline construction."

COMMISSIONER SULLIVAN responded that DNR will present a number of things and ideas to try to make the gap as small as possible and to push out the point where the gas supply is insufficient.

CO-CHAIR ISAACSON asked, "Can actions by the department result in gas under contract by 2015 in Cook Inlet."

COMMISSIONER SULLIVAN reiterated that gas under contract is a private sector transaction between utilities and producers; hopefully, the presentation will show that aggressive actions by DNR have increased the number of investors and activity. Much of this activity is also due to legislative action. He relayed that what is seen at this time is increased investment, exploration, and drill rigs, but not increased production yet. Tax and investment incentives through legislative action have helped in this regard.

[8:33:22 AM](#)

CO-CHAIR MILLETT asked whether DNR views what is happening in Southcentral as an imminent crisis, or does the department believe gas contracts will be secured within the next six months.

COMMISSIONER SULLIVAN said he did not know, but guaranteed the committee DNR will continue to do its part to help. The department sees the lack of gas under contract as a serious problem. He raised the importance of terminology and urged the committee to hear the testimony from the Division of Oil & Gas.

CO-CHAIR MILLETT restated her question.

COMMISSIONER SULLIVAN answered, "I would say we see ... the immediate concern ... of a lack of gas under contract as a significant problem that we're trying to address."

REPRESENTATIVE HAWKER added that failure is not an option.

COMMISSIONER SULLIVAN agreed.

[8:35:29 AM](#)

REPRESENTATIVE HIGGINS observed this problem has been known by DNR for 10 years. Everyone is aware of the shortfall, and he

questioned what has been done in the last 10 years to alleviate the problem.

COMMISSIONER SULLIVAN explained what has been done in the past two years: historical records have been searched to see what actions by the state, regulators, and others have been helpful, for example, actions by the Regulatory Commission of Alaska (RCA). In addition, the presentation will update DNR's recent activities such as bringing together all of the parties active in the basin.

[8:38:57 AM](#)

REPRESENTATIVE HIGGINS referred to one of the conclusions to DNR's presentation that read:

Long term energy security is also clearly achievable

REPRESENTATIVE HIGGINS opined gas is not a long-term solution because eventually it will run out. He urged the committee to look "outside the box" at wind and hydroelectric (hydro) for long-term solutions.

COMMISSIONER SULLIVAN explained the reference is to long-term energy security being clearly achievable with regard to Alaska utilizing all of its enormous available resources statewide.

[8:40:45 AM](#)

REPRESENTATIVE HAWKER called attention to another conclusion to the presentation, which was that importing gas could stifle the "Cook Inlet renaissance." He asked for the difference between importing gas from the south or from the north through a pipeline, and whether DNR would take action to prevent the importation of gas if the utilities choose to do so.

[8:42:02 AM](#)

COMMISSIONER SULLIVAN advised that this is an issue DNR needs to "look at hard," noting that the governor has said imports are a last resort. He pointed out there is a difference between short-term imports to address a shortage, and long-term large volume imports - the latter of which raises DNR's broader concern. Although the governor did not say no, this issue must be put before the state's policy-makers. He cautioned that under another scenario, long-term large volume imports could undermine the need for a gas pipeline. Commissioner Sullivan

reiterated the administration's 100 percent support for gas from the North Slope for all Alaskans, stressing the positive progress that has been made in the past year by both the Alaska Pipeline Project (APP) and the Alaska Gasline Development Corporation (AGDC). In fact, the two top issues DNR is concerned about regarding the state's energy needs are the decline in throughput and gas from the North Slope. In the immediate term, DNR also seeks more production in Cook Inlet. He restated his purpose to make the committee aware of the possible implications of the long-term large volume import option. In response to Representative Hawker's second question, he said DNR wants energy security and this is an open-ended question. It is important that all of the affected entities work together and make prudent decisions for energy security in the near-term. Commissioner Sullivan said, "So, I think it's just premature to ... answer that one way or the other, but I don't see us taking any action that would not be in the interest of making sure we have energy security."

[8:47:17 AM](#)

CO-CHAIR MILLETT relayed that her constituents want to know whether it is prudent to have both APP and AGDC projects going forward. She opined there is a fundamental disconnect between the administration and the legislature's desire for a gas pipeline. Focusing on one project will prevent the duplication of work and additional expense. She expressed her belief that there is a continuing struggle between what the administration and the public want. Although political power has been invested in the Alaska Gasline Inducement Act (AGIA), it is not a solution for DNR to continue to maintain that the two projects are complementary.

[8:48:57 AM](#)

COMMISSIONER SULLIVAN acknowledged that the state is on two parallel paths regarding the gas pipeline: AGDC and APP. However, important progress has been made and in fact, accelerating the gas pipeline is "a huge, huge part of our work." Last year the governor set benchmarks for APP which have been met. The parallel paths of the two projects have not been duplicative because AGDC work has been focused on regulatory issues, environmental impact statements (EIS), and rights of way. On the other hand, the APP project is focused on upstream issues, coordination between leaseholders, producers, and engineering work. He acknowledged that the work needs to be accelerated to meet benchmarks set for all four companies, and a

detailed report on the project is due within a month. Commissioner Sullivan turned attention to other successful actions by DNR during the last year, and described a very aggressive campaign through Asia - to market the state's gas and highlight the progress of both gas line projects - that has now made Alaska part of the conversation in Asia as a source of gas. For example, a team from the Korea Gas Corporation, the largest buyer of gas in the world, came to Juneau to discuss LNG. He expressed his interest in briefing the committee on these developments.

[8:54:49 AM](#)

REPRESENTATIVE HUGHES appreciated the efforts of the department over the last two years. Looking back over the last ten years, she asked whether DNR is missing the tools necessary to prevent the current mode of crisis management - not just regarding the situation in Cook Inlet - but to develop a statewide long-term energy plan "with teeth in it."

[8:56:33 AM](#)

COMMISSIONER SULLIVAN gave the example of the way RCA and Regulatory Affairs & Public Advocacy (RAPA), Civil Division (Anchorage), Department of Law (DOL), previously looked at energy issues in the inlet. Both agencies focused almost solely on price without considering long-term energy security. This is an area where the administration convinced regulators that the public interest is a combination of price and security of supply. At the same time, the legislature emphasized to RCA the duality of purpose, but he was unsure of whether that helped with the energy supply issue. He said, "We've been meeting with every player in the inlet for months, asking the questions that you are asking."

[8:58:54 AM](#)

REPRESENTATIVE CHENAULT agreed that energy is a complicated issue in the inlet, reminding the committee not to forget about the abundance of coal. He recalled there were a number of legislators raising red flags about the gas distribution system in Cook Inlet over the years. He confirmed that there would not be interest in Alaska from the Japanese, Koreans, and Chinese if not for the progress of the gas pipeline projects. Discussion of the gas pipeline goes back 40 years during many meetings. Representative Chenault gave Representative Hawker credit for the successful development of Cook Inlet Natural Gas Storage

Alaska (CINGSA), saying it was an example of recognizing, addressing, and solving a problem. On the other hand, the Healy Clean Coal Plant (HCCP) is a 50-megawatt power system that is not functioning, although every watt of power that moves up and down the line saves a molecule of gas that can be used in Cook Inlet and along the Railbelt. He expressed concern that his constituents do not have a feeling of security because the choice of heating for Cook Inlet does not have an alternative source to fall back on. He opined no one is considering the long-term importation of LNG; in fact, once LNG is imported "the problem will get fixed." However, a winter failure of the gas distribution system in Cook Inlet will cause billions of dollars in damages.

[9:03:58 AM](#)

COMMISSIONER SULLIVAN stated his personal interest in the gas system in Anchorage. The presentation today lays out many other issues to consider about this situation, a variety of ideas for solutions, and actions taken by DNR. He spoke of DNR's part in getting CINGSA online and in time. Regarding coal, he said the situation with HCCP is "outrageous," and restated the urgency to commercialize natural gas from the North Slope. He reiterated that DNR is focused on Cook Inlet and is working in the state's interest on this and other issues; the ultimate message is the importance of all working together and that is why DNA questioned RCA on its role. Commissioner Sullivan urged the committee to hear the information from the knowledgeable representatives of DNR.

[9:09:05 AM](#)

CO-CHAIR ISAACSON appreciated DNR's desire to be specific on terms, but said he sees "a disconnect" between its desire and its vision. He observed that hard work is not always enough to ensure success and offered to provide the department any tools that it needs. Co-Chair Isaacson recalled the Alaska Gasline Port Authority (AGPA) was established by the voters over a decade ago and has urged for a business relationship with Asia ever since. He referred to slide 28 of the PowerPoint presentation that read, "Redouble efforts to continue increased investment," and asked for the meaning of redouble, and details on DNR's challenge to "continue to look for ways to incentivize." He also asked for the real action steps with actual customers that DNR has taken leading to real dollars, drill timetables, and production goals to get gas under contract. The public and the legislature seek a crystal-clear

decisive action used to "defining our timetables and of productions and whether or not we will even have to consider a scenario of anything other than a spot purchase of natural gas." Furthermore, information is needed about other alternatives in the mix - such as fuel oil and coal - that can circumvent any shortfall of Cook Inlet gas under contract.

[9:13:04 AM](#)

COMMISSIONER SULLIVAN answered that DNR - now, more than in the past - is very aggressive in seeking potential investors, companies, and gas customers like KOGAS and Mitsui for the "big line" or customers for Cook Inlet. The department and U.S. Geological Survey (USGS) do not believe Cook Inlet is a depleted basin. From the prospective of DNR, the solution to the problem of gas under contract in the Cook Inlet basin is to use the tools from the legislature and "make the case to potential companies, particularly companies that have a strong track record of turning around declining basins, and bring capital and expertise, and that's exactly what we've been doing." These efforts have been instrumental in bringing Apache Alaska Corporation and Hilcorp Energy Company to invest in Cook Inlet and bring its resource to market. In addition, there is a resurgent interest in lease sales.

[9:16:16 AM](#)

REPRESENTATIVE HIGGINS called attention to slide 6 of the PowerPoint presentation that read:

43 years of exporting LNG to Japan, (approximately 2.5 trillion cubic feet); have never missed a shipment

REPRESENTATIVE HIGGINS warned that to fill the shortfall of gas for the people of Alaska, eventually shipments will be missed. He asked whether the bureaucracy of DNR is holding up production, and if so, there needs to be a change, because DNR says there is plenty of gas and exploration, but there is no production.

[9:17:21 AM](#)

COMMISSIONER SULLIVAN stated that DNR has done the opposite of what has been implied and has expended great effort to get more investment, production, and rigs in Cook Inlet. He acknowledged that DNR is a big, bureaucratic organization; however, it has been focused for two years on making its permitting system more

timely, efficient, and certain. These are improvements that will require legislative changes. He guaranteed DNR's focus on the North Slope and Cook Inlet; for example, DNR is using leverage provided by statute against companies that want to apply for units by requiring certain actions to get a unit. This is the reason for the surge in activity referred to as the Cook Inlet renaissance. Commissioner Sullivan credited legislators for incentives that have attracted new interest, and for creating the gas storage facility. As an aside, he described DNR's part in expediting the regulatory approval and permitting processes for CINGSA.

[9:22:07 AM](#)

REPRESENTATIVE JOSEPHSON returned to the question regarding the lack of production in Cook Inlet and asked if the economics, the price, or difficulties in drilling were specific factors. He said he was ready to see DNR's presentation.

COMMISSIONER SULLIVAN called attention to slide 4 and stressed that there is a transition in Cook Inlet from larger producers, such as Chevron and Marathon, to mid-size and smaller companies, which have different expertise. This is a positive trend, but this type of transition can slow activity and increase uncertainty. Furthermore, during the transition between Hilcorp and Marathon, the Federal Trade Commission (FTC) intervened, which affected progress for months. He advised that the big companies are "kind of done with Cook Inlet" thus getting investment from other companies that are motivated to explore is important. Another common theme to remember is that many different stakeholders must be brought together, and having the legislature involved is critical. Slide 5 indicated the most critical goal is energy security for Alaskans - keeping lights and power on - along with redundancies, different ideas for solutions, and jobs; in fact, production and investment in Cook Inlet is creating many good jobs. Another key issue to consider is that decisions made now can impact longer-term energy security goals, which are to accelerate the construction of the gas pipeline, jobs, and more Cook Inlet production. The committee should be advised that the challenge of gas under contract is not the same as a basin that is depleted.

[9:28:40 AM](#)

REPRESENTATIVE JOSEPHSON asked for details about the LNG contracts with Japan.

COMMISSIONER SULLIVAN said that is a question for ConocoPhillips Alaska. He added that the LNG terminal was built because there was originally more gas than needed for the demands of the local market; now the discussion is about ways to address the immediate concerns and to incentivize more production, which may mean larger scale projects such as gas for Agrium, Inc. or Donlin Creek gold mine.

[9:30:24 AM](#)

PAUL DECKER, Petroleum Geologist, Central Office, Division of Oil & Gas (DOG), Department of Natural Resources (DNR), informed the committee he leads the Resource Evaluation team of physicists and engineers whose jobs are to objectively understand the resource base in Alaska and how that impacts the management of state land. Slide 8 displayed USGS estimates of the undiscovered volumes of technically recoverable resource in Cook Inlet. He advised that these volumes do not correlate with gas under contract or gas reserves available for contract, but are a big picture look of the basin's remaining potential. The most recent assessment indicates 19 trillion cubic feet (TCF) of natural gas and about 650 million barrels of oil and natural gas liquids (NGLs). These resources may not be in large fields thus are technically recoverable, but not necessarily economic to recover. Mr. Decker advised that resources are a much broader category of oil and gas, and include everything that is undiscovered, and everything that has been discovered but has not yet been determined to be economic to produce; only after resources have demonstrated commerciality can they be placed in the reserves categories of proved, probable, or possible.

[9:33:11 AM](#)

COMMISSIONER SULLIVAN stated that DNR ensures oil and gas companies are aware of the USGS report.

[9:33:45 AM](#)

MR. DECKER continued to slide 9, explaining that peak deliverability differs from annual average demand, and Southcentral power demand is cyclical with summer volumes much lower than in winter. The department works to understand the volume of resources but does not address the question of peak deliverability.

COMMISSIONER SULLIVAN said the utilities are focused on deliverability.

MR. DECKER continued to slide 10, explaining that DNR - as a land management and resource management agency - has a responsibility to understand all of the resource in the state thus the information DNR needs is inherently different than what the utilities need; also, DNR has a different perspective than the producers. Because of that difference, the DNR study of Cook Inlet gas incorporates additional analyses beyond what PRA has undertaken. He acknowledged that the PRA study is "great work," and relevant to the need of the utilities, which was for a decline curve analysis. Although the DNR study is in agreement with the PRA study at that point, the DNR study goes further, looking at material balance and geologic volumetric analyses. The PRA report serves the purpose to help the utilities understand proved reserves and gas available for contract.

[9:36:44 AM](#)

COMMISSIONER SULLIVAN restated the different perspectives of utilities, producers, and DNR; in fact, DNR is presenting the broadest analysis of the resource, which is what the department - as the state's land and resource manager - should see.

[9:37:54 AM](#)

MR. DECKER called attention to slide 12 and further explained that the PRA study relies exclusively on decline curve analysis which is complicated to do in a non-steady state production environment with dynamic swings in demand from summer to winter. As this non-steady environment may cloud the production from the reservoir, in 2009, 2011, and 2012, DNR augmented the decline curve analysis with material balance analysis and geologic volumetric mapping data from four fields that had sufficient well-data available. When looking at the material balance engineering approach, DNR identified about one-third more gas in 28 existing fields. In addition, the geologic volumetric analysis identified even more possible undeveloped gas. He again stressed that this is gas believed to be available, but not necessarily available to put under contract immediately without further investment. Slide 13 explained material balance analysis is an industry standard engineering approach that uses the change in reservoir pressure over time to estimate how much gas is contained in reservoirs that are in pressure communication with existing producing wells. He explained that this is similar to gauging how much air was in a tire by measuring changes in air pressure as the air leaks out. This

process increased estimates over those identified by decline curve analysis by about one-third in the reserves category. Further, after DNR mapped sands into categories, the geologic volumetric analysis data suggested that with additional investment of drilling new wells, infill drilling, work on or recompletion of older wells, or adding compression, "we end up with significant volumes of gas resource, some of which is going to be commercial to exploit, we believe, portions of it may not." Slide 14 indicated that the PRA study predicts a shortfall in gas production under contract within the next few years, and Mr. Decker said:

It is obviously a concern for all of us, we're deeply concerned about it, we don't want that to be misconstrued, but it really must not be construed to mean that the gas resources in the basin are depleted, rather it reflects the fact that not enough new wells are being drilled to keep pace with the declining production from the existing wells.

[9:44:03 AM](#)

MR. DECKER continued, saying because Cook Inlet is isolated from the North American spot market, the amount of gas available for delivery at any given time is a function of sales contracts. Thus, until companies are assured of a market, there is no commercial incentive to identify reserves. He restated the point that two of the major producers in Cook Inlet, Chevron and Marathon, were in "exit strategy mode" and made alternative investments.

COMMISSIONER SULLIVAN informed the committee that DNR has sought to replace incumbent producers with motivated companies that want to produce more.

REPRESENTATIVE JOSEPHSON said, "Unless Chugach Electric and [Matanuska Electric Association] are just fibbing, I could guarantee these operators that there is a demand, so ... I don't understand how they're feeling vulnerable about whether there could be a contract for sale."

[9:45:40 AM](#)

WILLIAM BARRON, Director, Central Office, Division of Oil & Gas (DOG), Department of Natural Resources (DNR), stated that these are very complex business decisions. A company may not have the volume of gas that is required for a long-term commitment. What

the Cook Inlet market has created is "just-in-time deliverability." Thus companies drill only enough to produce for a closed market with a 200 percent difference in deliverability from summer to winter; in fact, the economics of drilling a well just for 10 to 20 extremely cold winter days - with the remainder of days idle, but accruing expenses - does not add up for a producing company.

COMMISSIONER SULLIVAN reminded the committee of the importance of storage, which is a tool to address deliverability issues and the economic alignment between producers and utility companies.

CO-CHAIR MILLETT pointed out not enough gas was produced this summer to fill CINGSA to capacity.

[9:48:45 AM](#)

MR. BARRON advised that those are commercial issues between independent private parties. He stated that many parties sold to CINGSA this summer and this winter, and, "many parties also sold to the LNG contract during this summer ...." Five or six producers are trying to satisfy five or six utilities, each one of which has its own perspective and business drivers.

COMMISSIONER SULLIVAN observed that DNR was an atypical but significant influence in resolving some storage issues between producers and utilities.

CO-CHAIR MILLETT opined there is no lack of interest in gas contracts but production is continually the problem. The legislature has created incentives with credits, and still there is a decline in production.

COMMISSIONER SULLIVAN agreed, adding that behind pipe assets that were "frozen" are now approved.

[9:52:12 AM](#)

MR. DECKER directed attention to slide 15, saying "this may be the source of some of the misinterpretation of our message here," because it is a hypothetical production forecast that assumes substantial investment, redevelopment activity, and some exploration success in the basin. He stressed that the actual years in which the estimated produced volume would come to the surface and hit the market are entirely hypothetical. Slide 16 illustrated the categorization of Cook Inlet gas volumes using terminology from the globally-accepted international petroleum

management system to define resources and reserves. The categories shown were in three tiers with the undiscovered resources at the bottom. These are sometimes called prospective resources and were identified by USGS in Cook Inlet. If a well is drilled and there is discovery, but the discovery is not shown to be commercial, the resources are categorized in the middle tier as contingent resources. After a company is "board-sanctioned to develop those resources," and the resources are clearly shown to be economic to produce, the resources are categorized in the top tier in one of three subcategories: proved - those that are essentially 90 percent certain to produce; probable - those with a 50 percent chance to produce; and possible - those with a 10 percent chance to produce. He explained that the colors of categories match the colors of the resources and reserves identified in DNR's study [slide 15], some of which are in the contingent resource category, but "clearly a lot of it is in the proved or probable or possible reserves category." Mr. Decker concluded, saying DOG's updated estimates of probable - or 2P - reserves are about 1.1 trillion cubic feet (TCF) [of gas] in the remaining 28 fields. Also, about 355 billion cubic feet (BCF) [of gas] were identified as undeveloped gas resources: 233 BCF in the Beluga River Unit; 72 BCF in the Grayling Gas Sands Trading Bay Unit; and 50 BCF in the North Cook Inlet Unit.

CO-CHAIR ISAACSON asked how much of the 1.1 TCF of reserves is destined for markets outside of Alaska, following the 2.2 [TCF] that has already left the state.

MR. DECKER was unsure.

CO-CHAIR ISAACSON then asked whether DNR has asked the producers for their projected sales plans.

MR. BARRON interjected that the LNG export licenses are due to expire in March, and the operator has not requested an extension. Therefore, at this time, none of the 1.1 TCF is committed to outside contracts.

MR. DECKER redirected attention to slide 17 and pointed out that since DNR's study, new wells have been drilled in some of the existing fields, most of which have been commercially successful, and confirming that the resource is there.

[9:59:16 AM](#)

COMMISSIONER SULLIVAN continued to slide 18, entitled, "State's Actions Regarding Cook Inlet." He acknowledged that DNR has not done a good job of explaining the point that the shortage of gas under contract does not equal a depleted basin, and what is needed is to get more gas out. Slide 19 listed the actions the state has taken that are directly within DNR's core responsibilities, such as leases and investment. For example, DNR has been "making the case on this basin" to companies that are interested in assets that are behind pipe or in exploration. This is accomplished by the continued dissemination of good news to new companies and aggressively using leverage over lease terms "to get more wells being drilled." In addition, DNR has improved timely and efficient permitting and issues with federal permitting, the legislature has improved the RCA process, and DNR's geological survey team has been gathering and publishing new data on the basin. He reiterated that DNR fast-tracked the permitting of CINGSA, worked closely with the utilities, reoriented RAPA, and is reviewing areas affecting energy security such as HCCP, underground coal gasification (UCG), hydroelectric, and the Eva Creek wind farm. Other areas not directly within DNR's purview include expediting the Hilcorp/Chevron transaction and FTC issues.

[10:04:09 AM](#)

COMMISSIONER SULLIVAN continued to slide 23 which illustrated recent activity in Cook Inlet. He stated it is important for the legislature to understand the positive activities that have taken place in Cook Inlet over the past two years which include: many new players; approximately \$500 million has been invested in 2012; resurging interest in lease sales; increasing number of rigs; expanded 3D seismic program; and gas storage. In addition, DNR is focused on oversight to ensure that all of the new activities and development are without accident. Regarding the idea that the industry is exploring for oil and not gas, Commissioner Sullivan said the companies have indicated that if gas is commercial, it will be developed; however, whether that development will be enough or in time is unknown. He referred to publications that have recognized the resurgence of oil and gas activity in Cook Inlet and assured the committee DNR will redouble its efforts. Commissioner Sullivan closed, saying DNR is a strong team that operates at the highest level of integrity and will provide straight answers and information.

[10:10:26 AM](#)

CO-CHAIR MILLETT appreciated DNR's straightforward presentation. She stated the importance of providing Alaska's gas for Alaskans.

10:11:34 AM

**ADJOURNMENT**

There being no further business before the committee, the House Special Committee on Energy meeting was adjourned at 10:11 a.m.