

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

January 21, 2013

1:02 p.m.

MEMBERS PRESENT

Representative Eric Feige, Co-Chair
Representative Dan Saddler, Co-Chair
Representative Mike Hawker
Representative Kurt Olson
Representative Paul Seaton
Representative Peggy Wilson
Representative Geran Tarr
Representative Chris Tuck

MEMBERS ABSENT

Representative Craig Johnson

OTHER LEGISLATORS PRESENT

Representative Andrew Josephson

COMMITTEE CALENDAR

OVERVIEW(S): DEPARTMENT OF NATURAL RESOURCES

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

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

POSITION STATEMENT: Provided an overview of the Department of Natural Resources.

JEAN DAVIS, Director
Division of Support Services
Department of Natural Resources (DNR)
Juneau, Alaska

POSITION STATEMENT: Answered questions during the overview of the Department of Natural Resources.

JOE BALASH, Deputy Commissioner
Office of the Commissioner
Department of Natural Resources (DNR)
Anchorage, Alaska

POSITION STATEMENT: Answered questions during the overview of the Department of Natural Resources.

ED FOGELS, Deputy Commissioner
Office of the Commissioner
Department of Natural Resources (DNR)
Anchorage, Alaska

POSITION STATEMENT: Answered questions during the overview of the Department of Natural Resources.

ACTION NARRATIVE

[1:02:21 PM](#)

CO-CHAIR ERIC FEIGE called the House Resources Standing Committee meeting to order at 1:02 p.m. Representatives Olson, Seaton, Tarr, Tuck, Hawker, Saddler, and Feige were present at the call to order. Representative P. Wilson arrived as the meeting was in progress. Representative Josephson was also present.

OVERVIEW(S): Department of Natural Resources

[1:02:49 PM](#)

CO-CHAIR FEIGE announced that the only order of business would be an overview of the Department of Natural Resources.

[1:03:56 PM](#)

DAN SULLIVAN, Commissioner, Department of Natural Resources (DNR), said his presentation would include introduction of DNR staff, an update on accomplishments of the divisions over the year 2012, and talking about the 2013 legislative session and beyond [slide 2]. He related that DNR's sense of optimism will be evident in the presentation. While Alaska has challenges, DNR's optimism is based on the state's abundant resources and financial ability to address the challenges. He then highlighted Alaska's size, pointing out that Alaska is bigger

than most countries and bigger than the state of Texas [slide 4]. He said land ownership is a huge issue, and it is important for the state to maximize its opportunity by working in partnership with federal and Native land owners.

1:09:34 PM

COMMISSIONER SULLIVAN stressed it is critical for legislators and others in the state to realize just how huge the state's oil and gas numbers are and that only the surface has been scratched [slide 5]. While the conventional oil and gas estimates are enormous, it is also important to realize the huge potential of unconventional resources, such as shale oil and hundreds of trillions of cubic feet of shale gas and gas hydrates, due to new technology. He pointed out that compared to most large basins, Alaska is relatively unexplored which bodes well for opportunity; for comparison, Wyoming's basin has 19,000 exploration wells and Texas has 250,000 [exploration wells] while the North Slope only has about 500. He added that recent U.S. Geological Survey estimates of Cook Inlet are also quite significant. Furthermore, if Alaska was its own country, it would rank in the top 10 in the world for important minerals, based on estimates of [coal, copper, lead, gold, zinc, and silver in the state] [slide 6].

1:12:00 PM

COMMISSIONER SULLIVAN then introduced the following division directors of DNR [slides 7-12]: Franci Havemeister, Division of Agriculture; Chris Maisch, Division of Forestry; Bob Swenson, Division of Geological & Geophysical Surveys; Brent Goodrum, Division of Mining, Land and Water; Bill Barron, Division of Oil & Gas; Ben Ellis, Division of Parks & Outdoor Recreation; Jean Davis, Division of Support Services; Eric Hatleberg, Gas Pipeline Project Office; Mike Thompson, State Pipeline Coordinator office; and Tom Crafford, Office of Project Management & Permitting.

COMMISSIONER SULLIVAN, regarding the Division of Agriculture, said the department has been highlighting the Alaska Grown program in an effort to get more demand-driven agricultural production from Alaska's own citizens [slide 7]. Regarding the Division of Forestry, he noted that its actions can be seen through the management of state forests and the firefighting that the division also provides [slide 7]. Regarding the Division of Geological & Geophysical Surveys (DGGS), he opined that DGGS is the top state geological survey team in the country

and pointed out that it is in its second year of implementing the statewide strategic and critical minerals assessment [slide 8].

[1:14:47 PM](#)

COMMISSIONER SULLIVAN, regarding the Division of Mining, Land and Water, stated this division is in many ways the heart and soul of DNR [slide 9]. He praised the division for making enormous progress on the permitting backlog and making the state's permitting systems more efficient, timely, and certain. Regarding the Division of Oil & Gas, he said the division is critical to Alaska's operation and did great work conducting two more successful oil and gas lease sales [slide 9]. Regarding the Division of Parks & Outdoor Recreation, he noted that Mr. Ellis has done a great job educating each legislator about the state parks in each legislator's district [slide 10]. He pointed out that Alaska has, by far, the largest state park system in the U.S., with one park - Wood-Tikchik - being twice the size of Rhode Island. Regarding the Division of Support Services, he said Ms. Davis has done a fantastic job of managing DNR's finances [slide 10].

[1:17:24 PM](#)

CO-CHAIR FEIGE, noting the reference to "eRecording" on slide 10, asked what it is.

JEAN DAVIS, Director, Division of Support Services, Department of Natural Resources (DNR), replied that the State Recorder's Office, a part of the Division of Support Services, has launched "eRecording," which will allow title companies, banks, lawyers, and anyone else to record documents electronically. In further response, she confirmed that this saves people a trip downtown. She added that a test program has been implemented in the Anchorage recording district, a couple of Anchorage's outlying districts, and Seward to see how it works.

[1:18:30 PM](#)

COMMISSIONER SULLIVAN, resuming his presentation, noted that in addition to divisions, DNR has [three] key offices. The Gas Pipeline Project Office oversees the work of licensees with regard to the Alaska Pipeline Project (APP); this office has cooperated and worked well with the Alaska Gasline Development Corporation (AGDC) over the past year. The State Pipeline Coordinator's Office has put in a lot of work and coordination

with the federal government to issue the right-of-way lease for the Point Thomson Export Pipeline. The Office of Project Management & Permitting (OPMP) is an example for both state and federal governments in regard to permitting. For large projects the permittees come to the state and OPMP coordinates all the permitting with state agencies; the state agencies are required to be part of that. Because this office is so effective the federal government has participated in the OPMP meetings even though that participation is not required, a testament to the leadership of director Tom Crafford.

[1:21:27 PM](#)

REPRESENTATIVE TARR inquired as to whether a report is available from the [2012] Alaska Strategic and Critical Minerals Summit.

COMMISSIONER SULLIVAN responded that there is no formal written report for this second annual meeting, but the summit is something DNR is very proud of and will be making an annual event in Fairbanks.

[1:22:36 PM](#)

REPRESENTATIVE TUCK inquired as to whether the AGDC project is still moving forward given the alignment that has occurred between the North Slope producers and the Alaska Pipeline Project.

COMMISSIONER SULLIVAN answered that while a lot of work needs to be done, significant progress was made over the past year. He said he will talk more about this later in his presentation.

[1:23:28 PM](#)

COMMISSIONER SULLIVAN reviewed key issues that the Department of Natural Resources is working on [slide 13]. He said the most critical near-term economic issue facing the state is [arresting the decline] of throughput in the Trans-Alaska Pipeline System (TAPS) [slide 14]. Throughput continues to decline despite there clearly being the geology and oil and gas on the North Slope to sustain the state in TAPS for decades if this potential is unlocked. Referencing discussions in the legislature over the past few years about "giveaway," he offered his view that the ultimate giveaway is the state continuing to lose production each year. For example, last year's decline was 40,000 barrels a day, a 6 percent decline, which equates to about 14.5 million barrels that were here last year but will not be this year.

That money is not circulating around the state or going to state coffers, it is gone and that is a giveaway [from] future generations. The focus needs to be on stopping this and turning it around.

1:25:44 PM

COMMISSIONER SULLIVAN stated that DNR's efforts over the last two years have been focused on the state's comprehensive four-part strategy to turn around the TAPS throughput decline [slide 15]. The governor has laid out a goal of 1 million barrels/day within 10 years. He allowed this goal is ambitious, but pointed out that North Dakota went from 100,000 barrels to approximately 500,000 barrels in about 5 years, Texas has turned around, North Sea places have turned around, Alberta has turned around, and so can Alaska. The most important element of Alaska's four-part strategy is making the state more competitive with regard to the capital it is competing for, and the cornerstone of that effort is the governor's tax reform proposal. The department has also been focused on the permitting element of this strategy, as well as the element of facilitating and incentivizing the next phase of North Slope development, such as smaller pools of conventional, more infield drilling, Outer Continental Shelf (OCS) opportunities in federal lands, and unconventional opportunities. Interest is starting to be seen, he reported. The fourth element is promoting Alaska's resources by talking to potential investors and targeting certain investors that would make great companies to come to Alaska. Positive aspects of this are starting to be seen, but the surface is only just being scratched.

1:28:28 PM

COMMISSIONER SULLIVAN reported that the last two lease sales, one on the North Slope and one on Cook Inlet, were very strong [slides 16-18]. This winter will be another busy exploration season. The department is excited about the diversity of plays, such as huge OCS plays, smaller pool plays, conventional and unconventional oil plays. Also exciting is the diversity of players, everything from some of the biggest oil companies in the world to mid-size and smaller companies. He reiterated that while these plays are positive, it is just the surface that is being scratched as far as the state's overall potential. Billions and billions more in investments on the North Slope are needed to turn around the TAPS throughput decline. Although there are challenges in Cook Inlet, he said a renaissance is currently occurring there in terms of rigs, exploration,

companies, spending, and important developments such as storage [slide 19]. He added that a lot of what the legislature did in 2010 is really helping in this area, plus DNR has been out pitching the Cook Inlet tax and investment incentives to companies. While the Cook Inlet basin is not yet turned around, a lot of activity is now occurring in what was once thought to be a dead basin. Top companies that focus on mature basins are now spending a lot of money in Cook Inlet and DNR will continue its focus on that.

[1:31:12 PM](#)

CO-CHAIR SADDLER inquired about a potential pipeline that would be in an undersea trench from the west side of Cook Inlet to the Kenai River.

COMMISSIONER SULLIVAN deferred to Mr. Balash.

JOE BALASH, Deputy Commissioner, Office of the Commissioner, Department of Natural Resources (DNR), clarified that the potential pipeline is an oil line, not a gas line. He related that Cook Inlet Energy, LLC, has applied to DNR for a right-of-way to move oil from the west side of Cook Inlet to the east side where the refinery is located for Tesoro, as well as some additional opportunities for export and deliveries. In further response, he explained that at this time it is an application, and thus it will go through the department's robust process of public notice and opportunities for comment and review by multiple agencies.

[1:32:43 PM](#)

CO-CHAIR FEIGE understood that Cook Inlet Energy runs the Osprey platform, the southwestern-most platform in Cook Inlet. He asked how the company is currently getting oil off its platform.

MR. BALASH offered his understanding that a pipeline runs from Osprey onshore on the west side. From that point, along with some other of the company's production that is onshore, the oil moves through the pipeline system down to the Drift River Terminal that multiple operators use for loading and moving oil either to market or to the east side. In further response, he confirmed that the [proposed] pipeline is brand new pipe from one side of the inlet to another, not the re-conditioning or re-sleeving of an existing pipe.

[1:33:38 PM](#)

REPRESENTATIVE P. WILSON asked whether Savant [Alaska] is a Cook Inlet operator.

MR. BALASH replied that Savant [Alaska] is the operator of the Badami Field on the North Slope, which is the field furthest east from Prudhoe Bay before reaching Point Thomson.

[1:34:15 PM](#)

REPRESENTATIVE TUCK recalled talk during the 2012 Special Session about the possibility of determining the decline curve and incentivizing for any production going down TAPS above that. He said the 6 percent decline mentioned in today's presentation seems really high compared to the 3.2 and 4.2 percent that were mentioned last year. He asked whether the decline curve is automatically reducing just from the nature of the fields or is more of a decline happening in the last five years.

MR. BALASH responded that the decline curve for the North Slope is an aggregation of multiple curves from all of the fields producing there. Some are declining more than others. The variation is a reflection of the level of investment that is occurring. While the current tax regime has had some braking effect on investment, a significant dollar amount is still being invested in additional and ongoing activity on the slope. He said the real question is what that decline curve would be without investment and assured members that it would be much, much more than 6 percent. Regarding specifics of total North Slope production, he said DNR has figures that can be detailed per individual fields that can be provided to members.

[1:36:26 PM](#)

REPRESENTATIVE TUCK offered his belief that the numbers in DNR's 2011 report were the averages and that the forecast was for flattening out to 3.2 percent per year on average through 2030. Therefore, he reiterated, the 6 percent seems like a big jump compared to what was reported before. He said the report also states that over the last 10 years the production decline rate was 4.2 percent per year on average. He inquired as to whether the 6 percent per year is based on the state's current tax structure.

MR. BALASH answered that the basis for the production forecast are numbers generated by the Department of Revenue. That department works with each individual taxpayer on a confidential

basis to understand what the taxpayer's expectations are for the next decade. The numbers in the production forecast are a reflection of those estimates by the producing companies with a certain degree of discounting/risk factoring for what would otherwise be called new production. The state is pretty good at identifying the level of decline that will occur in the existing fields from currently producing areas. Where the state's predictions have been historically off by a lot is in estimating new production more than four to six years out, and that is where DOR and DNR are working to get a more realistic view of what production is going to be for the next decade. He allowed that the state's error rate historically has been big. For example, returning to the Fiscal Year 2007 (FY 07) forecast for the current fiscal year, production should be about 685,000 barrels per day, which is off by 130,000. Steps are being taken to correct the problems in the old way of making projections so that policymakers will have reasonable information to make reasonable decisions.

[1:39:28 PM](#)

CO-CHAIR FEIGE recalled that the discrepancy between predictions and the result came as a major concern to the committee, and was a topic of debate on a previous bill. Although DOR has reportedly revamped its system, he asked whether the new forecasting methods have been tested and if assurance can be offered that the new method provides better accuracy.

MR. BALASH offered his understanding that testing was done in a double-blind manner. One method was conducted using statistics for estimation and analysis to compare with historical data. The second method was based on technical information provided by reservoir engineers to form projections and for risking out the likelihood of new production coming in. He reported that when those two methods were brought together there was a considerable overlap in the forecast for the ensuing decade. Confidence levels were bolstered by the outcome of the testing, as the blind spots that might cause projections to be off appeared to be absent. Feedback of the methodology has been positive; however, there are some naysayers who consider the outcome of the testing as overly optimistic.

[1:41:47 PM](#)

REPRESENTATIVE TUCK inquired as to whether the past history of the Prudhoe Bay field, for example, indicates that the decline curve is starting to flatten out or steepen.

MR. BALASH responded that the slope of the curve, depending on how it is measured, can vary wildly from month to month, quarter to quarter and year to year. Seasonal variances are inherent in the productive efficiency of the facilities, causing big swings from summer to winter data. For comparing on a year-to-year basis, he opined that the annual barrels produced data is the best method to employ as it eliminates the possibility of certain factors coming into play, such as seasonal differentials and maintenance periods. The degree to which that decline is accelerating or decelerating does not seem to have a hard and fast rule; it is a function of the activity in the field.

[1:43:39 PM](#)

REPRESENTATIVE SEATON asked about current shale exploration and development.

COMMISSIONER SULLIVAN first returned to Representative Tuck's last question and offered to have the department team meet with committee members to review the current methodology. He said it is a more responsible means for projection purposes, especially considering the inaccuracy of the past method. Ultimately, he continued, interest for debate should focus on the slope of the rise or increasing curve rather than how low it can go.

COMMISSIONER SULLIVAN, then addressed Representative Seaton's question, saying that the department plans to stay in front of the shale development. Consideration has been taken to ensure that policy and regulations are in place to encourage shale development, and it has been the topic at conferences. Great Bear is the main leaseholder in the area, but marketing to private investment groups and banks to pitch the opportunities in Alaska is ongoing. For further specifics on shale activity he deferred to Mr. Balash.

[1:46:30 PM](#)

MR. BALASH added that Great Bear was able to take advantage of the seasonal exploration season on the North Slope and obtained a rig for summer use. Their play is located close to existing infrastructure, which allowed for drilling without use of an ice pad or ice road. Two wells were drilled and core samples obtained for laboratory analysis. However, neither location was able to achieve a flow test; critically important to understanding the productive capacity of the rocks for initial production, as well as the decline rate. Initial production and

decline rate data are necessary for understanding whether a shale play on the North Slope can work. Costs for development in Alaska are much higher than in other locales. However, he opined that the tests will reveal the rocks in Alaska to be superior to those in other areas.

[1:48:05 PM](#)

REPRESENTATIVE SEATON surmised that shale development flow testing requires accompanying hydraulic fracturing. He asked about the timing involved, when considering a potential flow test, and suggested that one hold-up may be the necessity for road access, pads, and gravel structures. He asked what is transpiring in the way of planning or legislative requests to bring about the necessary policies and road development to support shale exploration.

MR. BALASH replied that the specific plans that Great Bear and its partners have been working around include shortening the amount of time in which it takes them to answer the question, "can this work ... profitably?" The plan of operations will be reviewed when it comes into the division. However, nothing has come in recently to provide specific timing for the projected horizontal wells exploration.

[1:50:34 PM](#)

REPRESENTATIVE SEATON asked about the road and access needs and how that development is envisioned to take place in Alaska, if the aforementioned shale exploration proves viable.

MR. BALASH said that he hopes to speak with the Senate Resources Standing Committee regarding funding in the FY 14 budget to meet financial requirements necessary to do additional work in/with the Division of Oil and Gas, along with the Division of Mining, Land and Water, for areawide planning in order to minimize a "traffic jam in the permitting pipe."

COMMISSIONER SULLIVAN interjected that Representative Seaton is identifying some important issues in terms of year around access and permitting to make Alaska competitive. From the geological perspective, the state is bullish, he opined. The question is whether the state can compete with the costs. Great Bear is an example of one company that may realize benefits and the department is working to get the word out to inform people that Alaska may be the only place in the country where an explorer

seeking shale can also bump into significant pools of conventional [oil].

[1:53:59 PM](#)

REPRESENTATIVE TARR recalled that the Alaska Oil and Gas Conservation Commission (AOGCC) has issued fracking regulations and asked whether there is a relationship between these two topics.

MR. BALASH confirmed that in November [2012] the AOGCC published regulations regarding fracking in an effort to be in front of some of the issues that have confronted other states. However, he pointed out that the North Slope has had fracking operations for over 40 years. The commission is engaged in a public process, and the comment deadline has been extended. The AOGCC is an independent agency, he noted.

[1:55:07 PM](#)

MR. BALASH, returning to Representative Seaton's question, noted that in regard to the primacy of wetlands, any development of new fields is going to require 404 permits from the U.S. Army Corps of Engineers. The state is working to obtain purview over some of these permits.

CO-CHAIR FEIGE suggested such an action could save the federal government some money.

REPRESENTATIVE OLSON pointed out that the list of new players on slide 19 does not include Escopeta/Fury.

MR. BALASH explained that, shortly after the Cook Inlet stampede, Buccaneer became Escopeda/Fury and the absence of its name is strictly an oversight.

[1:58:03 PM](#)

COMMISSIONER SULLIVAN complimented Mr. Barron and his team for leveraging the state's ability to bring about drilling activity through lease negotiations and unit applications.

COMMISSIONER SULLIVAN, addressing Representative Tuck's earlier question, pointed out that a year ago the producers weren't aligned with regard to a gas project [slide 21]. In fact, the producers were not even talking. Exxon and TransCanada had yet to look toward Asia where [the department] thought the real

market was and ConocoPhillips and BP had recently folded Denali. However, on a positive note, the five benchmarks outlined in the governor's roadmap to the gasline were met. Although there is still a long way to go, it is hard to deny the progress, he opined. He characterized alignment as an important aspect of projects. Although he acknowledged that it is certainly possible to have a gas line without alignment, alignment is important. After a meeting with the CEOs from Exxon, ConocoPhillips, and BP in the first quarter of last year, there was alignment and focus on an LNG project. As mentioned in the letter presented on slide 22, the Point Thomson dispute was resolved. He then directed attention to the map of Point Thomson [slide 23], and highlighted that the infrastructure on the North Slope ends at the eastern end of the North Slope at Badami. This is despite the knowledge that the eastern end of the North Slope, Point Thomson and surrounding areas, is an area with a very prolific amount of hydrocarbons. Commissioner Sullivan opined that this area is a strategic development and investment for the state for a number of reasons, including opening up the eastern North Slope to hydrocarbon production. As part of the settlement, Exxon is building a 70,000 barrel per day common carrier pipeline. Therefore, small companies exploring in that part of the North Slope that find liquids can access that pipeline, whereas previously it would have required a very large company to develop the infrastructure to get those liquids into TAPS. He opined that such a common carrier pipeline will strategically open up that part of the North Slope for oil development, in particular. Point Thomson is a multi-billion dollar project and more importantly, significant elements of the Point Thomson infrastructure can be used for gas commercialization [slide 24]. Having pre-investment to gas while companies are spending multiple billions on this project will be important in terms of forwarding the gas project as well. Commissioner Sullivan emphasized that the other reason the Point Thomson project is such a strategic investment is jobs. The initial phase of development is estimated to create 600-700 jobs and possibly peak beyond 2,000 jobs. He offered to brief the committee in more detail regarding the various subcontractors that are now working. With regard to the settlement, since the last legislative session the Point Thomson project went through the following three phases of development in which the department and others were explaining and defending the settlement, permitting, and getting to work. In fact, construction began this winter season. He then directed attention to an excerpt of an article from the Financial Times of London regarding the progress made in the first quarter [slide 26].

2:06:09 PM

COMMISSIONER SULLIVAN, referring to the letters from the producers and TransCanada, highlighted that the third quarter benchmarks laid out by the governor in his "State of the State" address were met [slide 27]. In fact, the announcement of the third quarter progress stirred significant press, including articles in the Wall Street Journal and The Globe and Mail [slide 28]. The Globe and Mail article highlights that Western Canada, which Alaska views as one of the biggest competitors with regard to a large-scale LNG project, is noticing and perhaps a bit nervous. Alaska has to recognize how much it has to compete, he said.

2:06:56 PM

COMMISSIONER SULLIVAN specified that the letters from the producers discussed an integrated team [approach] in which about 200 people are working and tens of millions of dollars is being spent [slide 29]. He acknowledged that there is much skepticism in the state, some of which may be warranted given the 40-year history of trying to commercialize North Slope gas. However, after receiving briefings from the companies there is little doubt in the work these companies are doing. As the flow chart on slide 29 relates, Exxon is in the lead, BP is working the upstream issues, TransCanada and Exxon are working in the midstream, and ConocoPhillips is working the downstream issues. He reminded the committee that the governor, in his State of the State address, requested hardening the numbers within a month. The governor wants more detailed numbers than the ranges specified on slide 30. Even [with the existing numbers], it is apparent that this would be one of the largest LNG projects in the world. Combined with the state's massive North Slope resources, "we think that that's pretty ... important," he said. He then addressed the timeline/work plan provided by the companies [slide 31]. He informed the committee that he has told the companies that although the timeline/work plan looks good, he has told the companies they need to work to accelerate the timeline. The governor did so as well in his State of the State address. He acknowledged that the alignment is critical, but the project needs to continue to move forward. Commissioner Sullivan encouraged the committee members, in their meeting with the companies, to request that the timeline be accelerated. He then turned to the work and consolidation efforts the governor has envisioned with AGDC. Over the course of the last few years, the Alaska Pipeline Project (APP) has made progress with

alignment in regard to upstream producers. The upstream producers are the leaseholders and [the upstream] is the location of the gas supply and where the technical work lays. Although the work with the AGDC has made progress over the last years, its work has primarily been with regulatory, right-of-way, and environmental impact study (EIS) areas. The aforementioned illustrates the necessary parallel work that is occurring. The governor, he related, is reviewing ways in which to integrate those efforts. Although there has been progress in terms of the governor's 2012 benchmarks, the governor has expressed the need to accelerate the momentum. He then recalled the Meet Alaska/Alliance Conference during which a top ConocoPhillips official mentioned a sanction date sometime in 2015. The sanction date should be focused on because that is when the decision to move forward is made. As the process moves through the different stage gates, there is more spending and more people working on it, which he opined is necessary to continue to accelerate [the process].

[2:11:34 PM](#)

COMMISSIONER SULLIVAN expressed hope that the committee feels a sense of optimism from this discussion[slide 32]. Over the past year, the department has sought out different markets and potential buyers to discuss the comparative advantages of Alaska gas to other countries. Clearly, there is demand for gas in Asia, but it is anyone's guess as to how long that window will be open. He expressed the importance of relating how focused the state is and that there are two efforts. Slides 32-40 relate the comparative advantages the department discussed with various entities. The comparative advantages, include: a huge resource base, which means practically zero resource risk; co-location with existing infrastructure, which results in a limited environmental impact; and a strong record of reliability, which he attributed to ConocoPhillips' work. Although many do not know, Alaska is the only place in North America that has been exporting LNG to Japan for 40 years [slide 34]. With regard to reliability, he highlighted that Alaska does not use its gas supplies for political purposes as Russia does. He then directed attention to the comparative advantages due to geographic proximity and political/legal stability [slide 35]. He pointed out cost estimates price Alaska gas competitively with almost any other project in the world [slide 36]. Furthermore, Alaska already has world class businesses and great support services working in Alaska [slide 37]. In noting the comparative advantages related to export licenses and regulatory progress, he pointed out that Western Canada projects

have not resolved its First Nation and Native land claim issues, which are large issues that could take a long time to resolve [slide 38]. However, such issues have been resolved in Alaska. Although Alaska's previous receipt of export permission from the federal government is somewhat controversial with regard to export licenses from the Lower 48, he opined that Alaska is well positioned on additional permitting and export licenses relative to other projects. In fact, the Presidential Finding of January 12, 1988, found that exporting large quantities of Alaska gas would not have a negative impact on prices in the U.S. He then highlighted the upstream investment opportunities [slide 40].

2:15:32 PM

COMMISSIONER SULLIVAN directed attention to Alaska's advantages over other potential competitors [slides 41-42]. "Certainly, from the perspective here, we think we're back on the map," he related. In fact, [the department] was invited to present at the LNG Producer Consumer Conference that included all the ministers from all the main producing countries, companies, buyers, sellers, and government agencies. At the outset, the senior Japanese officials who introduced the conference highlighted the Qatar delegation as Qatar is the number one supplier of LNG in the world and assisted Japan during the Fukushima disaster when gas was needed quickly because the nuclear facilities were shut down. The only other delegation highlighted at the outset was the Alaska delegation. Alaska was lauded for being Japan's longest standing supplier as it was a pioneer in exporting LNG to Asia. The Japanese officials said they looked forward to new levels of cooperation and commercial arrangements between Alaska and Japan. Although the aforementioned demonstrates Alaska is "back on the map," Alaska must realize it is competing in an area where there will be steep competition.

2:18:01 PM

REPRESENTATIVE TUCK inquired as to the process required to obtain a long-term export license for natural gas.

COMMISSIONER SULLIVAN explained that the export license would come from the U.S. Department of Energy (DOE). Currently, the ConocoPhillips plant in Cook Inlet has a DOE export license. He then turned to the controversy in the Lower 48 regarding how much and to what degree exports of gas should be allowed from the Lower 48 shale plays. This is a big issue because in areas such as Ohio and Pennsylvania the huge increase in production

has ignited a manufacturing Renaissance such that steel factories are coming on line and chemical factories are now returning to the U.S. because of the availability of large amounts of gas at low costs. Yet, there is concern that exporting too much will result in an increase in prices and a decrease in volumes. Over the course of the past year, the department has been meeting with federal agencies to explain that Alaska should not be included in the Lower 48 debate regarding export licenses because if Alaska were to have a large scale LNG project, volumes to Alaskans will increase and prices to Alaskans, its military, and perhaps to Hawaiians would decrease. Therefore, Commissioner Sullivan opined that the regulatory risk in terms of obtaining an export license is much less than it would be for the Lower 48 and that has been highlighted with key members of Congress and potential customers.

[2:21:34 PM](#)

REPRESENTATIVE TUCK related his understanding that obtaining an export lease and the inability to obtain long-term leases have been hurdles to selling gas to Japan.

MR. BALASH responded that the nature of the LNG trade and business is fundamentally different than that in the North American marketplace. The LNG business is all about contracts and the contracts are different than those associated with an over-land pipeline. In the North America context, the main concern was with shipping contracts that is firm transportation (FT) agreements between a shipper and a pipeline. However, in a LNG case one must make sure there are arrangements in place all the way from the well bore to the burner tip of the market destination. Mr. Balash said that Representative Tuck had hit on something important, the ability to off long-term contracts and firm contracts that are not interrupted. For example, in the winter of 2010-2011, ConocoPhillips announced that it was going to close the Nikiski plant, which was due to the market dynamic. The market dynamic was such that short-term spot-type cargos were selling at a price significantly lower than those under long-term contracts. However, in the wake of Fukushima the spot price in Asian markets, Japan in particular, rose and made the business of moving gas on spot pricing more attractive than in the past. In fact, it was attractive enough to keep the [Nikiski] plant operating. In the long term, those prices are not likely to remain higher than long-term contracts. Alaska, with excess of 30 trillion cubic feet (tcf) of reserves in the ground in the North Slope, has a volume of gas that can be used

to assure buyers of a very long and firm commitment of supply, which is a tremendous advantage over numerous competitors. In response to Co-Chair Feige, Mr. Balash confirmed that Alaska can guarantee that supply without short changing Alaskans.

[2:25:09 PM](#)

REPRESENTATIVE SEATON inquired as to whether DNR has been exploring the production of low-sulfur diesel from Alaska gas for sale and include the shipping.

COMMISSIONER SULLIVAN, referring to the governor's principles, clarified that the idea is large volumes for export as well as significant volumes to Alaskans and to Alaskans first and then export. He then recalled the initial design, concept, and work plan in which the state off-take would be 300-350 thousand cubic feet (mcf) per day on this project while the current state demand is about 250 [mcf]. From DNR's perspective, Alaskans receiving gas from Alaska is important for use as well as other value-added industry opportunities. In specific response to Representative Seaton, Commissioner Sullivan said that he did not go into that level of detail in terms of potential other uses or value-added within the state. With regard to gas commercialization, he said he forgot to mention that one of the positive outcomes of the aforementioned outreach is that interested parties are presenting in Alaska. For instance, the chairman, chief executive officer of Korea Gas, and its LNG purchasing team were in Juneau about a month ago. Very fruitful discussions were held, he said. Furthermore, a Japanese consortium, REI, has opened offices in Anchorage. Of course, the aforementioned is being encouraged. Over the past year, DNR has tried to align stakeholder interest as that lack of alignment seems to have created problems when trying to commercialize the gas. However, if that alignment cannot be achieved, there is the ability to move forward with or without partners. Again, Commissioner Sullivan opined although good strides have been made, there is a fair amount left to do. The hope is that meeting the governor's benchmarks within the next month will result in progress.

[2:30:10 PM](#)

REPRESENTATIVE TUCK, noting that there have not been many reports from TransCanada over the past couple of years, asked whether TransCanada is part of the negotiations and contracts with the discussions with Japan.

COMMISSIONER SULLIVAN informed the committee that TransCanada held a solicitation of interest, which was required by the state. In terms of the specific marketing in Asia, that's typically performed by the producers on a private sector project. He further informed the committee that the state is talking to potential buyers and governments urging them to diversify their supply sources and consider buying Alaska gas.

[2:32:08 PM](#)

REPRESENTATIVE TARR inquired as to the length of time that should be considered for the licenses in order to obtain the best value for the state.

MR. BALASH began by pointing out that the contracts that is the purchase and sale agreements between buyers and sellers of LNG vary. Alaska offers the opportunity for very long-term contracts. He highlighted that contracts are now seen as a bit of a precursor to authorizations for export licenses that are issued by the U.S. Department of Energy (DOE). Recently, the DOE has taken a harder look at whether an applicant has gas, contracts, or both before granting an export license. He noted that one cannot sell LNG to very many places without an export license, and therefore there are some steps being taken from a regulatory perspective that the state needs to be mindful of and careful of in order to ensure the state does not get stuck in a bureaucratic process as this project moves forward.

[2:34:16 PM](#)

REPRESENTATIVE TUCK asked what the governor would like to see in the concept he wants by February 15.

COMMISSIONER SULLIVAN informed the committee that the companies go through a process called concept selection, during which they do the engineering and review all the details of the project [slide 31]. The companies then proceed through the stage-gated process to the Pre-Front End Engineering and Design and continue forward. As the slide illustrates, as the process moves forward the spend level on the private sector side increases dramatically. The aforementioned is preferable as the more the private sector spends, the more likely [the project] will take hold. Commissioner Sullivan related that there is frustration that the concept selection work has not been finalized. The governor wants to have numbers, not ranges, on a specific project. Therefore, in the State of the State address the governor laid out some fairly specific details on the capacity

of the plan, the size pipe, the size of the volumes, and the location of the gas treatment plant. Once that information is available, then the project can move into the next phase with the commercial agreement in order to ensure that a summer season is not lost. He acknowledged that the aforementioned is coming up rapidly, but the deadlines help in terms of being an "action forcing event."

[2:37:21 PM](#)

CO-CHAIR FEIGE asked if making public the concept includes the location of the terminal.

COMMISSIONER SULLIVAN answered that given the sensitivities of that the governor did not include that in his State of the State address, but the hope is that it will available soon.

[2:38:12 PM](#)

REPRESENTATIVE P. WILSON asked if it is known whether the LNG plant will be located on the North Slope and [staff] will be transported to work or elsewhere. She expressed interest in the cost of transportation. She further asked if that's what is being worked on now.

COMMISSIONER SULLIVAN replied yes, the key issue is the gas treatment facility. He acknowledged that Representative P. Wilson is correct in that the location of the plant could reduce costs in terms of where workers are located, but it would also be transporting large amounts of H₂S through the state and off-take points would need a way to clean the gas. Therefore, there are pros and cons.

[2:39:39 PM](#)

COMMISSIONER SULLIVAN, returning to his presentation [slide 43], stated that there has been a lot of progress with strategic and critical minerals in the mining sector. A little over a year ago, the governor laid out the strategy the state has undertaken, with strong legislative support. The legislature funded a little under \$3 million for a statewide assessment. He highlighted that other elements [with regard to mining] are not dissimilar to the strategy on oil, whether it is permitting or marketing the state. In the past year, there has been continued economic value in terms of the producing mines in Alaska of which there are only seven large-scale mines [slide 44]. As the slide relates, the mines are producing significant value in

terms of Alaska's total exports. It is also important to know that mines are a huge job engine, in terms of construction as well as the operation. From a visit to Fort Knox mine a couple of years ago, he recalled that there was an average of 700 workers with an average wage of \$100,000. Such operations have enormous impacts not only for jobs but also for economic and social wellbeing, which is important to keep in mind. He then pointed out that it is the second year in a row that about one-third of the total U.S. exploration investment occurred in Alaska [slide 45]. The aforementioned is the result of 30 exploration projects, not just the Pebble Mine that spent over \$1 million in 2011. The issue is that the Pebble Mine has not yet moved into the permitting phase with DNR or the federal government. However, since the legislature last met, Donlin Creek Gold Mine has moved into the permitting phase.

[2:43:24 PM](#)

COMMISSIONER SULLIVAN then highlighted that the second annual "Alaska Strategic & Critical Minerals Summit" was held in Fairbanks on November 30, 2012 [slides 46-47]. During the first summit, the governor laid out the statewide strategy to a huge turnout of folks and the process received very favorable national press coverage. The 2012 summit was more about putting together partners, whether they are investors, companies, or private industry [slide 47]. In fact, a representative from the Japan Oil, Gas and Metals National Corporation (JOGMEC), this is similar to the Alaska Industrial Development and Export Authority (AIDEA) except that it has a \$45 billion balance sheet, attended and spoke at the summit. The summit, he opined, drew a lot of attendees and it will continue to be held. He further opined that it is just scratching the surface. He then directed attention to the agenda from the November 30, 2012, summit from which there was a very positive outcome [slide 48].

[2:45:06 PM](#)

REPRESENTATIVE P. WILSON recalled that she went to the first summit and she was very impressed. Therefore, she expressed her regret at being unable to attend the second summit.

COMMISSIONER SULLIVAN said the credit goes to Mr. Swenson, Elizabeth Blooming, the university, and many others as well as the great presenters.

[2:45:56 PM](#)

REPRESENTATIVE SEATON inquired as to the anticipated impact of the international treaty on the prohibition on mining mercury or use of it in industrial mining in terms of Donlin Creek. He further inquired as to whether alternative methods for recovery had been developed.

COMMISSIONER SULLIVAN said he didn't know the answer.

ED FOGELS, Deputy Commissioner, Office of the Commissioner, Department of Natural Resources (DNR), said that he is not very familiar with that treaty. However, he offered his understanding that Donlin Creek will not be using mercury in its processing, although there will be issues of mercury in the ore that will have to be addressed in the permitting process, the EIS, and federal and state regulations. He further offered to review the treaty and inform the committee if there are any other ramifications.

REPRESENTATIVE SEATON related his understanding that Donlin Creek was going to use a cyanide process.

MR. FOGELS clarified that to his knowledge Donlin Creek will not be using cyanide either but rather will roast its ore, which oxidizes it, and will use various other procedures to obtain the gold.

[2:47:50 PM](#)

COMMISSIONER SULLIVAN remarked that the state has had issues with regard to making the state's permitting system more timely, efficient, and certain [slide 49]. He acknowledged that DNR has had issues as the committee is likely familiar with the 2,500 backlogged permits. However, he emphasized that good progress has been made in terms of reducing almost 40 percent of the backlog while continuing to receive new permits and revamping the system. Brent Goodrum, Director, Division of Mining, Land and Water, and his team have done a good job and are aiming to have no backlog within three years. He reminded the committee that last legislative session, the department made some statutory changes that helped with regard to permitting issues and recently the governor introduced a number of other areas he believes are important to address. Although the idea is not to cut corners on environmental protection because the department takes great pride in how well the state has responsibly developed its resources, it should not take 20 years to permit a mine, he said.

2:49:56 PM

CO-CHAIR FEIGE recalled that a couple of years ago, the legislature appropriated to the Division of Mining, Land & Water extra funding and positions to address the backlog. He inquired as to when the department anticipates that it will complete the backlog and be caught up.

COMMISSIONER SULLIVAN responded that the goal was to have it done in three years from when [the cleanup of the backlog] started, which means the division has about a-year-and-a-half left. He expressed the department's appreciation for the legislature's strong bipartisan support through the additional funding to hire additional staff and fill vacant positions in the division [slide 50]. All the staff allocated through that funding has been hired and are being trained and there is an impact.

2:51:10 PM

REPRESENTATIVE P. WILSON asked then whether the division would be able to handle what's coming after the backlog is done.

COMMISSIONER SULLIVAN replied yes.

CO-CHAIR FEIGE questioned whether there will be any surplus.

COMMISSIONER SULLIVAN remarked that the department has been frustrated with the federal government regarding a number of permitting issues that overlap. Point Thomson is a great example. Although Point Thomson is on state land, the permitting delays were caused by the federal government, but cost the state. He reminded the committee that the state had an agreement with Exxon to have Point Thomson producing two years from this winter, but that had to be pushed back due to the lost season. He informed the committee that the department has been working closely with the U.S. Army Corps of Engineers and has offered to provide them help when they need it. Cook Inlet is a good example, he stated, because many times the problem with permitting is not the state slowing things down, but rather the federal government. Commissioner Sullivan said that the department is working hard to maintain the relationship with the U.S. Army Corps of Engineers as it is sometimes difficult to get the U.S. Army Corps of Engineers moving expeditiously.

MR. FOGELS added that if all goes as planned the backlog will be knocked off in a year-and-a-half. The division has a lot of

excess capacity, which the division plans to use to reduce the processing time further. The aforementioned might be achieved by using the OPMP model.

MR. FOGELS then corrected his earlier response to Representative Seaton by specifying that Donlin Creek does use cyanide in its process.

[2:53:56 PM](#)

COMMISSIONER SULLIVAN, in response to Representative P. Wilson, specified that Colonel LaStoke (ph) is the [U.S. Army Corps of Engineers] district engineer for Alaska. He noted that he was very helpful with the Point Thomson permitting.

[2:54:28 PM](#)

REPRESENTATIVE OLSON, returning to the backlog, inquired as to how the platform abandonments are coming along. Will those be completed by the end of session, he asked.

MR. BALASH responded that drafting and reviews are underway. Although a team is working on the platform abandonments, he opined that he is reluctant to commit to a date certain.

REPRESENTATIVE OLSON recalled that it has been about five years.

[2:55:04 PM](#)

COMMISSIONER SULLIVAN, returning to his presentation, directed attention to some of the other efforts the department is focusing on to create efficiencies [slide 52]. This focus goes beyond the department as it is a statewide effort to create efficiencies with permitting.

COMMISSIONER SULLIVAN pointed out that wherever [the department] has discussed how the state has been promoting opportunity and targeting potential companies to enter Alaska, it has also highlighted related the importance of meeting the state's very high environmental standards and the need for companies entering Alaska to uphold that [slides 53-54]. The department also highlights that the state has been a laboratory for innovation in different areas of resource development. Many of the innovations through the country and world that shrink the footprint of exploration while increasing the ability and area underneath the ground to access hydrocarbons have been developed in Alaska [slide 55]. As an example, one only has to compare

the footprint size of Prudhoe Bay versus that of Alpine or Liberty; the surface to underground surface developed is dramatic.

[2:57:25 PM](#)

COMMISSIONER SULLIVAN then turned to the 2013 legislative session and beyond and said that the department believes oil tax reforms are critical to the state's efforts [slide 57]. Per the International Energy Agency, the U.S. is ranked to be the number one oil and gas producer in the world by 2020. He characterized the aforementioned as amazing. Commissioner Sullivan stressed that Alaska needs to be part of that effort, not an anchor on that effort. The department has worked hard to implement its comprehensive strategy, but tax reform remains key to achieving it. Companies continually point out that although Alaska has a tremendous resource base, its costs are too high, which inhibits investment. He then highlighted the core principles of tax reform listed on slide 57 and the governor and department's belief that the status quo is unfair to Alaskans and unacceptable. He refuted the "declinist view" and expressed hope for an optimistic view.

[2:58:56 PM](#)

COMMISSIONER SULLIVAN moved on to gas commercialization, which is one of the governor's new benchmarks in 2013 [slide 58]. The broader message is the need to stop fighting over the gas line and start fighting for it. He, again, highlighted the efforts with regard to permitting reform and promoting the state. He noted that he had provided the committee [a December 2012 special report entitled "Alaska, Envisioning a Bright New Era" produced by Star Communications for distribution with the] Oil & Gas Journal, which 30,000 CEOs receive. In conclusion, Commissioner Sullivan opined that although there is a lot of work to be done, there is a lot of cause for optimism in moving the state forward.

[3:00:21 PM](#)

CO-CHAIR SADDLER referred to Article VIII of the Alaska State Constitution, which addresses the maximum use of resources consistent with public benefit. He inquired as to how the time element factors into the determination of whether the department is managing the resources for the public benefit.

COMMISSIONER SULLIVAN said the department views maximum benefit as a broad declaration of policy that includes both short- and long-term thinking, which he likened to the view of the current oil tax debate. Whether it is economic opportunity driven by resource development, access to the state's lands, or conservation, DNR thinks the idea of public interest stated in the constitution is important. However, it also relates to using the state's resources, whether for enjoyment or for the benefit of communities, in a broader sense. Again, the Red Dog Mine is a great example of using the state's resources for jobs as well as social programs. He acknowledged the controversy last year when DNR tried to define its mission more along the lines of the constitutional mandate in a broad sense that covers a number of generations.

[3:03:16 PM](#)

REPRESENTATIVE SEATON, referring to slide 55, related his understanding that the Liberty drill site has been sold.

COMMISSIONER SULLIVAN said [the inclusion of the Liberty drill site] was a mistake and DNR can get back to the committee on the matter.

[3:03:46 PM](#)

CO-CHAIR FEIGE recalled that two years ago one of the main issues brought to him was the attention the commissioner's office was paying to agriculture. He then commended the commissioner and his staff for its attention to agriculture over the past two years while also addressing oil and gas issues.

COMMISSIONER SULLIVAN thanked Mr. Fogels and Ms. Havemeister for their great work in this regard. The agriculture committee has been contributing to the state's economy as well as the food security of Alaskans. He urged Alaskans to purchase Alaska-grown products in grocery stores and restaurants as it benefits everyone.

[3:06:01 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 3:06 p.m.