

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

February 15, 2013

1:02 p.m.

MEMBERS PRESENT

Representative Eric Feige, Co-Chair
Representative Peggy Wilson, Vice Chair
Representative Mike Hawker
Representative Craig Johnson
Representative Kurt Olson
Representative Paul Seaton
Representative Geran Tarr
Representative Chris Tuck

MEMBERS ABSENT

Representative Dan Saddler, Co-Chair

COMMITTEE CALENDAR

HOUSE BILL NO. 72

"An Act relating to appropriations from taxes paid under the Alaska Net Income Tax Act; relating to the oil and gas production tax rate; relating to gas used in the state; relating to monthly installment payments of the oil and gas production tax; relating to oil and gas production tax credits for certain losses and expenditures; relating to oil and gas production tax credit certificates; relating to nontransferable tax credits based on production; relating to the oil and gas tax credit fund; relating to annual statements by producers and explorers; relating to the determination of annual oil and gas production tax values including adjustments based on a percentage of gross value at the point of production from certain leases or properties; making conforming amendments; and providing for an effective date."

- HEARD & HELD

SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 4

"An Act relating to the Alaska Gasline Development Corporation; making the Alaska Gasline Development Corporation, a subsidiary of the Alaska Housing Finance Corporation, an independent public corporation of the state; establishing and relating to the in-state natural gas pipeline fund; making certain information provided to or by the Alaska Gasline Development Corporation and

its subsidiaries exempt from inspection as a public record; relating to the Joint In-State Gasline Development Team; relating to the Alaska Housing Finance Corporation; relating to the price of the state's royalty gas for certain contracts; relating to judicial review of a right-of-way lease or an action or decision related to the development or construction of an oil or gas pipeline on state land; relating to the lease of a right-of-way for a gas pipeline transportation corridor, including a corridor for a natural gas pipeline that is a contract carrier; relating to the cost of natural resources, permits, and leases provided to the Alaska Gasline Development Corporation; relating to procurement by the Alaska Gasline Development Corporation; relating to the review by the Regulatory Commission of Alaska of natural gas transportation contracts; relating to the regulation by the Regulatory Commission of Alaska of an in-state natural gas pipeline project developed by the Alaska Gasline Development Corporation; relating to the regulation by the Regulatory Commission of Alaska of an in-state natural gas pipeline that provides transportation by contract carriage; relating to the Alaska Natural Gas Development Authority; relating to the procurement of certain services by the Alaska Natural Gas Development Authority; exempting property of a project developed by the Alaska Gasline Development Corporation from property taxes before the commencement of commercial operations; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 72

SHORT TITLE: OIL AND GAS PRODUCTION TAX

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

01/16/13	(H)	READ THE FIRST TIME - REFERRALS
01/16/13	(H)	RES, FIN
02/11/13	(H)	RES AT 1:00 PM BARNES 124
02/11/13	(H)	Heard & Held
02/11/13	(H)	MINUTE(RES)
02/13/13	(H)	RES AT 1:00 PM BARNES 124
02/13/13	(H)	Heard & Held
02/13/13	(H)	MINUTE(RES)
02/15/13	(H)	RES AT 1:00 PM BARNES 124

BILL: HB 4

SHORT TITLE: ALASKA GASLINE DEVELOPMENT CORP; RCA

SPONSOR(s): HAWKER, CHENAULT

01/16/13 (H) PREFILE RELEASED 1/7/13
01/16/13 (H) READ THE FIRST TIME - REFERRALS
01/16/13 (H) RES, FIN
01/30/13 (H) SPONSOR SUBSTITUTE INTRODUCED
01/30/13 (H) READ THE FIRST TIME - REFERRALS
01/30/13 (H) RES, FIN
02/04/13 (H) RES AT 1:00 PM BARNES 124
02/04/13 (H) Heard & Held
02/04/13 (H) MINUTE(RES)
02/06/13 (H) RES AT 1:00 PM BARNES 124
02/06/13 (H) Heard & Held
02/06/13 (H) MINUTE(RES)
02/13/13 (H) RES AT 1:00 PM BARNES 124
02/13/13 (H) Heard & Held
02/13/13 (H) MINUTE(RES)
02/15/13 (H) RES AT 1:00 PM BARNES 124

WITNESS REGISTER

JANAK MAYER, Manager, Upstream and Gas
PFC Energy
Washington, DC

POSITION STATEMENT: Presented a PowerPoint titled "Alaska Fiscal System," and answered questions during discussion on HB 72.

TERRY HINMAN
Community Advisory Committee for Alaska Stand Alone Pipeline (ASAP)
Healy, Alaska

POSITION STATEMENT: Testified in support of HB 4.

BILL SHEFFIELD
Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 4.

KEN HALL
Fairbanks, Alaska

POSITION STATEMENT: Testified in support of HB 4.

WILLIAM WARREN
Nikiski, Alaska

POSITION STATEMENT: Testified during discussion of HB 4.

RON LONG, Assistant City Manager
City of Seward

Seward, Alaska

POSITION STATEMENT: Testified in support of HB 4.

JIM PLAQUET

Alaska Industry Support Alliance

Fairbanks, Alaska

POSITION STATEMENT: Testified in support of HB 4.

RICK ROGERS, Executive Director

Resource Development Council

Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 4.

ALAN LEMASTER

Gakona, Alaska

POSITION STATEMENT: Testified in opposition to HB 4.

JASON HOKE, Executive Director

Copper Valley Development Association

Glennallen, Alaska

POSITION STATEMENT: Testified in support of HB 4.

MERRICK PIERCE

North Pole, Alaska

POSITION STATEMENT: Testified in opposition to HB 4.

BILL WALKER

City of Valdez

Valdez, Alaska

POSITION STATEMENT: Testified during discussion of HB 4.

ACTION NARRATIVE

[1:02:55 PM](#)

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

HB 72-OIL AND GAS PRODUCTION TAX

[1:03:24 PM](#)

CO-CHAIR FEIGE announced that the first order of business is HOUSE BILL NO. 72, "An Act relating to appropriations from taxes paid under the Alaska Net Income Tax Act; relating to the oil and gas production tax rate; relating to gas used in the state; relating to monthly installment payments of the oil and gas production tax; relating to oil and gas production tax credits for certain losses and expenditures; relating to oil and gas production tax credit certificates; relating to nontransferable tax credits based on production; relating to the oil and gas tax credit fund; relating to annual statements by producers and explorers; relating to the determination of annual oil and gas production tax values including adjustments based on a percentage of gross value at the point of production from certain leases or properties; making conforming amendments; and providing for an effective date."

[1:03:46 PM](#)

JANAK MAYER, Manager, Upstream and Gas, PFC Energy, noted that PFC Energy was now in its second year consulting for the Alaska State Legislature on oil and gas taxation issues and fiscal reform. He explained that PFC Energy specialized in oil and gas consultancy, specifically with issues regarding above ground risk. He noted that PFC Energy did not audit reserves or design off-shore infrastructure, but, instead focused on questions of market risk, geo-political risk, commercial strategy, and other economic issues and fiscal terms analysis. He pointed out that his area of expertise was explaining how fiscal terms affected both government revenue and project economics.

[1:05:21 PM](#)

MR. MAYER declared that the discussion would first focus on the fundamental sensitivities of Alaska's future petroleum revenues to oil price, production decline, and fiscal terms, as it was important to differentiate short and long term revenue.

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MR. MAYER, directing attention to slide 3, "Oil Price is the Major Determinant of Alaska's Future Petroleum Revenue," declared that, although the price of oil was the most important issue, it was completely out of Alaska's control. He pointed out the difference in revenue to the state for various oil prices, declaring that the production of oil did vary with the price.

[1:07:49 PM](#)

MR. MAYER moved on to slide 4, "Decline Rate is the Other Major Determinant," declaring that the decline rate of current production was also a substantial determinant. He stated that the Department of Revenue (DOR) base forecast for average decline was 6 percent from 2017 - 2022, which included new producing areas. He theorized that a 3 percent decline or a 9 percent decline reflected a high magnitude of variation in revenue.

[1:08:50 PM](#)

MR. MAYER presented slide 5, "Fiscal Terms Changes and Investment Impacts," and stated, although fiscal terms were a significant determinant, they were a smaller impact unless they resulted in substantial new investment. He reported that an additional production of 20 million barrels each day would flatten revenues in real terms.

[1:10:23 PM](#)

REPRESENTATIVE TUCK asked for the amount of investment to reduce the rate of decline from 6 percent to 1 percent.

MR. MAYER replied that he would report back, but he likened it to annually bringing on-line a project similar in size to Niakuk.

[1:11:04 PM](#)

REPRESENTATIVE SEATON requested the price estimates for the annual increased investment be also forwarded to the committee.

MR. MAYER agreed to do so.

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MR. MAYER spoke about slide 6, "Context: Investment Competition & Global Oil Price Environment." He declared that the biggest sensitivity to Alaska's future revenues was the future oil price, and the questions for the price forecast by the Department of Revenue (DOR).

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MR. MAYER declared that another key driver for oil price was the competition for investment dollars, slide 7, "Fixed-Royalty Jurisdictions in US Lower 48 Are A Key Competitor to Alaska for Investment Dollars." He noted that "an extraordinary revolution in North American production" had reflected a shift in the last seven years ago from a source of cash flow for oil companies to finance projects elsewhere. He declared that North America was now a major region for re-investment of cash from other projects. He declared that this was relevant to the future of oil and gas production in Alaska, as the cash surplus was coming from fixed royalty jurisdictions with relatively low government take. The broader context of increased investment in North America was important to consider when discussing future drivers of oil prices and the structure of the fiscal system.

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REPRESENTATIVE SEATON, directing attention to slide 7, asked whether PFC Energy believed that the major oil companies had not targeted unconventional oil production in North America.

MR. MAYER replied that it was quite the opposite and it was rare for a major oil company not to be investing in shale production and other unconventional oil production in the Lower 48.

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REPRESENTATIVE SEATON asked if these missed opportunities in Alaska were a factor.

MR. MAYER replied that there was still a lot to be determined for the future of unconventional oil production in Alaska, and many other jurisdictions throughout the world. He declared that oil shale did have promise, but there were other questions for its development. He pointed out that tens of thousands of oil shale wells had been drilled in the Lower 48, however, no other country had drilled more than ten wells. He stated that the Lower 48 did have specific circumstances which combined small private land holdings which small oil companies could afford to buy so that an experimental solution could be attempted with small capital expense.

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REPRESENTATIVE TARR referred to slide 7, and asked about the capital expenditures from 2008 - 2010 in North America. She

asked if the largest percentage was represented by investment in the Lower 48.

MR. MAYER expressed agreement, and stated that it was a combination of investment in shale, oil sands, and other unconventional oil production.

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REPRESENTATIVE TUCK asked how Alaska would look in relation.

MR. MAYER replied that, although Alaska was now a cash surplus region, in 1980 it had been a cash deficit region. He noted that the cycle of cash deficit to cash surplus was a fundamental part of the dynamics of the oil and gas industry.

[1:20:08 PM](#)

MR. MAYER returned to the presentation, slide 8, "American Energy Reset." He declared that it was the great American energy reset, as the growth and forecast were a complete about face from the decades before 2005, and resembled the boom in oil production during post-World War II. He reported that there had not been such a steep increase in oil production in North America since, and, by 2020, the oil production would reach a peak similar to the mid 1960s.

[1:21:21 PM](#)

MR. MAYER moved on to slide 9, "Anatomy of the Physical Market for Crude Oil." He declared that the framework of the world market for crude oil was dictated by demand for final product consumption, which created the refinery demand for crude oil. He reported that meeting the demand came from either non-OPEC or OPEC (Organization of the Petroleum Exporting Countries) crude oil. He explained that the non-OPEC producers would only produce at capacity given the market economics; whereas, the OPEC producers functioned as a cartel, and played a balancing role for adjusting the crude oil output by increasing or decreasing the supply, thereby influencing the price of oil. He pointed out that the demand from OPEC would influence the non-OPEC supply, and the future price of crude oil.

[1:23:24 PM](#)

MR. MAYER pointed to slide 10, "Non-OPEC Liquids Will Show Substantial Growth," and stated that non-OPEC production was

increasing substantially from a wide range of supply, including Canadian oil sands, oil shale, and natural gas liquids and condensate projects. These projects would have a large impact on the OPEC producers.

[1:24:33 PM](#)

MR. MAYER discussed slide 11, "Shale Oil Major Factor in Reducing OPEC's Share." He declared that shale oil, mainly North American shale oil, was predicted to reach 4 million barrels per day by the end of the decade, which was twice the production of Alaska oil at its peak. He pointed out that this was also almost double the Saudi Arabian oil production swing, as its marginal production cost was so low, allowing for a profit at almost any oil price. He declared that shale oil was relevant because its supply was variable, as the sources were not large and were short lived. This variability made shale oil production very dependent on the price of oil. He reported that shale oil would join the ranks of substantial world oil supply balancers, thereby affecting the traditional role of OPEC producers, and the increased production of oil in Iraq.

[1:27:11 PM](#)

MR. MAYER explained slide 12, "Initial Output Implications for Major OPEC Producers." He pointed to three OPEC producers, Saudi Arabia, Iran, and Iraq. He stated that, although Iran production had dropped off as a result of sanctions, the increase of Iraqi production with the increase of non-OPEC producers, would force Saudi Arabia to drop its production from 9 million to 5 million barrels each day, in order to balance the global oil supply. He questioned, as this would not be tolerable to Saudi Arabia, how OPEC would manage the market to keep the oil prices up.

[1:28:49 PM](#)

MR. MAYER discussed slide 13, "Character of U.S. Growth Changing." He stated that the future volatility of oil prices would be influenced by the increased role of oil shale, noting that the production would compound just to maintain the prior year's supply.

[1:30:11 PM](#)

MR. MAYER, addressing an earlier question for the breakeven prices for Lower 48 shale oil, stated that it would vary

enormously by quintile, the initial productivity of the wells. He pointed to slide 14, "Bakken Quintile Breakeven PV 10," and explained that a first quintile well was "massively more productive in terms of initial productivity you get out of a well," than was a fifth quintile well. The result was a much greater profit from the first quintile well. He declared that almost 33 percent of the production from the Bakken oil field in North Dakota came from first quintile wells, and that drilling would continue as long as there was the reliability to produce a first quintile well. He acknowledged that other areas of Bakken were not currently economically viable for drilling. He pointed out that operating cost was the break-even price which determined production.

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MR. MAYER, responding to Representative P. Wilson, defined "quintile" as the inclusion of all of the wells drilled within a specific time period, and dividing them evenly into five "buckets." The top "bucket" was the most productive wells, with the bottom being the least productive by initial production rate. He pointed out that the top quintile, the top 20 percent, produced more than 33 percent of the oil in Bakken.

[1:33:26 PM](#)

MR. MAYER assessed slide 15, "Eagleford Quintile Breakeven PV 10," stating that the producers in the Eagleford shale oil field in Texas had an even greater variation in its well economics, as its first quintile wells were very profitable but its fifth quintile wells would most likely not be profitable in the foreseeable future.

[1:33:52 PM](#)

REPRESENTATIVE SEATON asked how the acreage costs by class, listed on the slide, related.

MR. MAYER explained that both the acreage costs by class and the royalty rates related to the quintile, specifically when negotiating the economics.

[1:35:16 PM](#)

MR. MAYER moved on to slide 16, "Granite Wash Quintile Breakeven PV 10," which was a significantly less economic producer in Texas. He pointed out that the most productive wells in the

Granite Wash oil fields in Oklahoma, the first quintile, were "only just worth drilling at current prices." He reminded the committee that a change in oil price potentially had a significant effect on drilling activity and future production.

[1:35:49 PM](#)

REPRESENTATIVE TARR asked how the information on shale oil development was used to compare with the oil development in Alaska, as the Alaska oil was so different.

MR. MAYER responded that there were a number of points of comparison. He agreed that a decision to drill in oil shale in Texas was very different than drilling on the North Slope. He said that price signals and fiscal terms could quickly affect behavior. He opined that the North Slope producers, as there was a concentrated industry structure with joint operating agreements, were economic and rational, and responded more slowly to market signals.

[1:38:30 PM](#)

CO-CHAIR FEIGE offered his understanding that, as oil prices drop, the oil shale investment would diminish.

MR. MAYER replied that this was correct up to a certain point, noting that the least productive oil wells and acreage would drop off, but that the most productive would continue.

[1:39:14 PM](#)

MR. MAYER reviewed slide 17, "Risks to Price Forecast," and stated that the upside price risk was that strong global economic growth and instability would increase demand and tighten the oil supply. He pointed to the downside price risk, which included the US production boom which left little room for additional growth from other countries, an economic slowdown, the challenge to OPEC to manage supply given the non-OPEC supply coming on-line, and the premium price given to West Coast crude over WTI, as the boom had created a greater supply than pipeline capacity in the Lower 48. He opined that as long as the United States was a crude oil importer, then the impact of price on the West Coast crude would be limited.

[1:42:04 PM](#)

MR. MAYER projected slide 18, "What Is the Potential Floor for ANS West Coast Crude?" He explained that the answer depended on the time frame. He said that prolonged low prices would use a lot of supply, and would eventually bring the price back up. He offered his belief that the global price floor for West Coast crude could be sustained as low as \$70-\$75 per marginal barrel if certain supply circumstances existed.

[1:44:12 PM](#)

MR. MAYER, in response to Representative Seaton, said that the US constrained price of \$55-\$60 per marginal barrel could be possible if the US met its own supply needs, and was not exporting any crude. He opined that \$70-\$75 was more likely if the marginal barrel was imported.

[1:45:25 PM](#)

REPRESENTATIVE SEATON asked to clarify that if North America becomes energy independent then the floor price would be \$55-\$60 per marginal barrel.

MR. MAYER indicated this was not a likely scenario and was merely used as an example of the disconnect for the global crude oil markets.

[1:46:10 PM](#)

REPRESENTATIVE TARR asked if that scenario was a result of no exports of crude because of increased production elsewhere, or the need to import to meet demand.

MR. MAYER replied that the scenario would result from a combination of the North American supply being sufficient to meet demand and ongoing restrictions on exports.

[1:47:01 PM](#)

MR. MAYER brought attention back to slide 20, "ACES: 5 key problems." He declared that Alaska's fiscal system, Alaska's Clear and Equitable Share (ACES), had five fundamental problems, which he listed: the high levels of government take reduce the competitiveness for capital investment, especially at high prices; high marginal tax rates reduce incentives for spending control; a complex system makes it difficult for meaningful economic analysis and comparison; significant state exposure in

low price environments and for high cost developments; and the substantial impact of large scale gas sales on tax rates.

[1:48:30 PM](#)

MR. MAYER explained slide 21, "Regime Competitiveness: Average Government Take At \$80 Per Barrel." He declared that the benchmark of Alaska's fiscal system in comparison with global fiscal systems for overall government take for oil at a range of prices was substantially higher, even with production sharing contracts (PSC) a bit over 70 percent. At \$80 per barrel, Alaska was substantially higher than the global averages. He pointed out that capital spent by an existing producer could be written off against the tax bill, whereas capital spent on new development attracted capital credit, but not the same reduction in rate. He stated that ACES was the second least competitive OECD regime for new development, after Norway.

[1:51:37 PM](#)

MR. MAYER addressed slide 22, "Regime Competitiveness: Average Government Take At \$100 Per Barrel," which identified that new development was now the highest government take regime in OECD. He acknowledged that it was lower for an existing producer.

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MR. MAYER moved to slide 23, "Regime Competitiveness: Average Government Take At \$120 Per Barrel," but, upon review, noted that there may be an error on this slide.

[1:52:55 PM](#)

REPRESENTATIVE TUCK asked to clarify that government take reflected total payout, as the private royalties were also included.

MR. MAYER expressed agreement, and reported that the system of private royalties was only in the United States.

[1:53:38 PM](#)

REPRESENTATIVE SEATON asked to clarify that a new development was a non-legacy producer.

MR. MAYER said this was correct when analyzed on a stand-alone basis, rather than a part of the portfolio of a base producer.

REPRESENTATIVE SEATON stated that this was not the Alaska tax regime, as everything on the North Slope was part of the company.

MR. MAYER acknowledged this, although a new development had to be looked at for information on capital allocation and investment decisions.

[1:55:16 PM](#)

MR. MAYER, returning to his presentation of slide 24, "Difference Between New Investment Versus Base Production is Critical," noted a frequent question for how there could be a reasonable profit. He directed attention to the net income per barrel, which was substantially higher in Alaska than the Lower 48 for ConocoPhillips in 2011.

CO-CHAIR FEIGE asked to clarify that this was per barrel of oil.

MR. MAYER replied that it was per barrel of oil equivalent.

CO-CHAIR FEIGE asked to clarify that this would include gas.

MR. MAYER agreed.

CO-CHAIR FEIGE asked to clarify that the distinction would be necessary if a company produced more gas than oil in one area, as the figures would be distorted.

MR. MAYER agreed.

[1:57:06 PM](#)

MR. MAYER, returning to slide 24, noted that the Alaska net income per barrel was "not particularly any higher than in many other parts of ConocoPhillips portfolio." He pointed out that ConocoPhillips had extensive gas holdings in the Lower 48. He pointed to the production taxes, which reflected the impact of ACES on the barrel of oil in Alaska, as the State of Alaska made more revenue per barrel than ConocoPhillips made from net income per barrel.

MR. MAYER, in response to Representative Tuck, said the columns reflected the breakdown of revenue, and added up to the revenue of a barrel of oil equivalent.

REPRESENTATIVE TUCK asked to clarify the Canadian income tax per barrel.

MR. MAYER explained that this was solely because, in that particular year in Canada, ConocoPhillips had a tax loss.

[2:00:17 PM](#)

REPRESENTATIVE TUCK asked to clarify that African nations received their revenue from income tax, and that the purple bar reflected the operating cost of doing business.

MR. MAYER replied "broadly speaking that's correct."

[2:00:56 PM](#)

MR. MAYER stated that the figures really did not clarify the competitiveness of the fiscal regime, because these were the result from existing base production, not the economics for a new investment. He explained that, although ConocoPhillips had a lot of gas production in the Lower 48 with a small revenue per barrel, it continued to invest more in the Lower 48 than in Alaska. He explained that there could not be a comparison of investment as the base portfolio was not indicative of the investments in the Lower 48. Those investments were in liquids, which had very different economics. He noted that the net income per barrel in Alaska reflected capital investment from many years ago, with fully depreciated assets, and now produced cash. He pointed out that any current investment in Alaska would not result in the same net income.

[2:03:03 PM](#)

MR. MAYER, in response to Representative Tuck, explained that DD&A was depletion, depreciation, and amortization. He agreed that, as this was a small amount, there could be postulation that old assets in Alaska were mostly depreciated as opposed to newer investment, and higher DD&A, in other places. He noted that only judging the net income per barrel did not reflect the economics of new investment.

[2:03:52 PM](#)

MR. MAYER addressed slide 25, "ACES: 5 key problems," and shared that the high marginal tax rates which reduced incentives for spending control was the second of the five key problems. He suggested taking the ACES production tax component and the

impact of progressivity to marginal rates. Under ACES, the initially steep component of progressivity, which eventually flattened out, created a jagged spike in marginal rates. He moved on to slide 26, "ACES: Average and Marginal Production Tax Rates," and explained that progressivity and marginal tax rates tapered off after a peak at \$92.50 per barrel of production tax value. He shared that the marginal tax rate was not necessarily a measure of competitiveness of the system, although it influenced the different price environments in after tax cash flow. He pointed out that oil at \$120 per barrel reflected reduced taxes for 95 percent of expenditure.

2:06:20 PM

REPRESENTATIVE SEATON asked to clarify that ACES was designed in this way to create incentive for reinvestment on the North Slope, although it appeared counter intuitive. He asked what incentive could be offered for reinvestment in Alaska.

MR. MAYER stated that this was an excellent question that leads to his next point regarding the complexity of the system, slide 29, "ACES: Standalone versus Incremental." He declared that there were many perspectives for understanding this problem. He explained that an economic analysis from an incremental basis took the cash flow from the base portfolio, and layered in a new development on top. At the end, the difference of the two would be determined, and the economics would be reviewed on the basis of the difference of the two cash flows. He declared that these incremental economics were crucial from the state perspective, as it determined how much the state would receive, or not receive. However, incremental economics were not as important to a producer for a large project, as its investment decisions were determined by cash flow, not tax equity or future tax liability. He expressed agreement that reduction of future tax liability was desirable, but not fundamental to an economic decision. He reported that economic decision making at the business unit level, or reinvestments of cash flow in short term decisions for tax reasons, was very different from investments for the long term which needed to have the fundamental economics for a sensible stand-alone basis. He noted that a review of the incremental basis could determine that a project move "further in front of the queue," although the decision was not made solely on the incremental economics. He declared that ACES was a system under which the state would forego significant revenue for investment, although that did not necessarily make a project more competitive for attracting capital. He opined that "in some ways you could argue it's the worst of all worlds, where

the state foregoes significant revenue but it doesn't actually get much more for the revenue that it foregoes."

2:12:58 PM

MR. MAYER presented slide 30, "Portfolio Efficiency: Return on Capital Employed (ROCE)," and said that this could be argued to be the most important metric for a large oil and gas company at the corporate level. He noted that this metric was not influenced by incremental analysis, or any return on investment through taxes. He explained that the economics was not based on the after tax cash flow, but simply on the return on the capital invested in the operation. He declared that this was an example whereby ACES would forego revenue for the state compared to what it might otherwise receive in return for investment, although it was unclear whether this would improve the economics for an investment.

2:14:18 PM

REPRESENTATIVE TARR asked if the credits were less reliable because of possible political change.

MR. MAYER replied that there were a number of components, and he referred to slide 29, which reflected the dramatic variation of the incremental economics dependent on price. He noted that this variation was sometimes counter intuitive, explaining that it was a better return at \$125 per barrel than at \$130 per barrel. He referred back to slide 26, which depicted the spike in the marginal rate. He speculated that, as an investment in a 20 year project did not know the future oil price, an investor would want to know performance in a range of scenarios, especially the long term cash flow generated and the upside of capital. He said that, looking solely at incremental basis, the internal rate of return (IRR) could be excellent at a particular price range, slide 29. Although this would take away future cash flow, it would eliminate the spending necessary to generate it. He stated that IRR was only a useful metric for standardizing things, and did not guarantee the creation of economic value. Creating economic value for a company required the use of large amounts of capital to generate large amounts of cash flow. He explained that this system, on an after tax cash flow basis, was to reduce the amount of necessary capital to justify a smaller future cash flow. He stated that a large investment needed large, long lived assets with a substantial future cash flow. He allowed that any tax benefit would be appreciated, although the tax bill was not the fundamental

driver of the investment decision. He explained that fundamental economics of the project would affect the global allocation of capital, and not the after tax cash flow, because the investment was not to buy tax equity. He compared this investment to those investments of property investors, who would not buy negative cash flow properties to reduce their tax bill. He said that large oil and gas companies were not looking to reduce their tax bills with investments in large projects.

[2:19:47 PM](#)

MR. MAYER returned attention to slide 31, "ACES: 5 key problems," and reported that the fourth key problem with ACES was for significant state exposure in low price environments, and for high-cost developments. He said that, for Alaska, the incremental analysis was the most important because it was all revenue to the state treasury, even as it presented risks in low price environments and high cost projects.

[2:20:54 PM](#)

MR. MAYER moved on to slide 32, "High state exposure for high-cost developments," which compared the economics of an incremental basis with the economics of no production tax. He said that the producer would get a reduction in the overall production tax liability, which, although it mattered to the state, did not improve the project economics for the investor.

[2:23:01 PM](#)

MR. MAYER explaining slide 33, "ACES: 5 key problems," and slide 34, noted the impact of large-scale gas sales on tax rates. He declared that this was not the ideal design for a hydro carbon fiscal system.

[2:24:05 PM](#)

REPRESENTATIVE SEATON asked to clarify that the offsetting expense against oil tax would not be a consideration for investment, even if it allowed more money to stay in the company. He asked if the project would be viewed on a stand-alone basis for cash invested and the return on capital.

MR. MAYER replied that a large scale investment over a long time horizon would require that the project "made sense on its fundamental economics in the broadest possible range of oil prices, of gas prices, of possible changes by the legislature to

the fiscal terms, of a very wide range of things." He declared that this required an assessment for the merits of the project on its fundamental economics, not on the tax treatment in any given year.

[2:25:36 PM](#)

REPRESENTATIVE SEATON asked to clarify that it was necessary to fix the oil economics over a long period in order to move forward on the gas project. He asked why there was a push for oil tax certainty, as well.

MR. MAYER apologized for any misunderstanding, stating that stability was absolutely essential because the fiscal terms determined the project economics. He declared that reductions in taxes did matter, but it was not the fundamental driver for investment in the project.

[2:27:23 PM](#)

REPRESENTATIVE SEATON asked if the economics for the return on capital invested for a gas line project would be analyzed on a stand-alone basis, and whether the idea of a fix for the oil system was separate and should not be part of the consideration.

MR. MAYER expressed his agreement for the return on capital employed, as it was a huge investment, and was not affected by incremental economics. He detailed that the investor was measured by the return of its capital employed, and that incremental economics did not help the project.

[2:29:23 PM](#)

MR. MAYER introduced slide 35, "ACES: 5 key problems - available solutions," which detailed solutions to the aforementioned five problems. He pointed to the high levels of government take, suggesting that either progressivity could be reduced, bracketed, or eliminated, or that the base rate could be reduced. For high marginal tax rates and the impact on spending control, he suggested, again, that progressivity could be reduced, bracketed, or eliminated, or that credits could be reduced, restricted, or eliminated. He pointed out that the complexity made meaningful economic analysis and comparison difficult, as it was often misinterpreted. He declared that the complexity was for which basis to assess the investment, and would look different to the state than to a company. He

suggested simplifying the overall system design, especially the interaction of progressivity with credits, and improving the economics for new development, as proposed in HB 72.

[2:33:21 PM](#)

MR. MAYER addressed the significant state exposure in low price environments, and suggested that some or all of the credits could be reduced or eliminated; the ability to claim credits from the state treasury could be eliminated; or the credits could be carried forward to production.

MR. MAYER spoke about the impact of large-scale gas sales on tax rates, and suggested to eliminate progressivity; levy progressivity on a gross, rather than net, basis; or use a progressive Gross Revenue exclusion.

[2:34:57 PM](#)

MR. MAYER directed attention to slide 36, "ACES: 5 key problems - SB21/HB72 Solutions," and addressed the solutions for each of the aforementioned problems. He suggested that the elimination of progressivity and some credits, while restricting that use of lost credit could only be claimed from the future, would resolve the problems. He moved on to slide 40, "Government Take under SB21/HB72 and ACES - Capex Sensitivity." He said that elimination of the capital credit in the following year would have a substantial impact on tax rates at current prices under ACES. He reported that extending the analysis out for 20 years would reduce the impact because progressivity was not linked to inflation under ACES. He announced that proposed HB 72 would have a range of points in a single year of production to move between a tax increase and tax decrease, with the fundamental point being the level of capital spending. He declared that this was the impact of the capital credit. He noted that the more spent, the higher the point of transition from tax cut to tax increase, and the higher the actual oil price when progressivity starts.

[2:39:27 PM](#)

MR. MAYER declared that the question was for incentives to development given the current wide range of capital spending. Those companies in the asset development stage, rather than harvesting the cash flow, had the highest levels of spending. He stated that companies with high spending would see a tax

increase relatively higher on the price scale, and he suggested giving this more consideration.

CO-CHAIR FEIGE declared that this area had received the most informal push back from the oil and gas industry.

[2:40:43 PM](#)

REPRESENTATIVE TUCK asked to clarify that this was a crossover between ACES and the proposed bill, and that as the capital expenses increased, the crossover moved to a higher oil price in order to equalize. He asked if this was due to the loss of capital credits, which were eliminated in the proposed bill.

MR. MAYER expressed agreement.

[2:41:36 PM](#)

CO-CHAIR FEIGE asked what affect the addition of credits for certain capital expenditures would have on the crossover points.

MR. MAYER replied that the addition of some form of capital credit would reduce those crossover points.

CO-CHAIR FEIGE noted that the crossover points at all levels would move to a lower price.

MR. MAYER offered his belief that they would shift closer together, with less sensitivity to capital spending.

[2:42:51 PM](#)

REPRESENTATIVE TARR asked what Mr. Mayer suggested for the low price point to reduce significant state exposure.

MR. MAYER replied that it would vary, dependent on the cost of the resources being developed.

[2:44:11 PM](#)

REPRESENTATIVE SEATON asked to clarify that the idea of adding capital credits back in was being proposed as a reduction of the state's liability at low prices, which would increase the state's liability at higher prices as there was no longer any progressivity to offset it during price swings. He pointed out that there was discussion for the addition of capital credits and the elimination of progressivity, which would reduce the

cash flow at high prices and maintain the exposure at low prices. He questioned the balance to the state.

MR. MAYER answered the original proposal was put together by Pedro van Meurs, and called for a flat 25 percent profit based tax with a 20 percent capital credit. He declared that this was different than the current tax regime, and recalled that these tax credits were not allowed to be claimed directly from the state treasury when there was not any tax liability. Progressivity actually creates some of the downside, without the question of the capital credit. He stated that the necessity for capital credit to only be claimed against future production would mitigate the problem. He opined that for an overall analysis of government takes with a baseline that was not an abstract design of a reasonable and competitive system when compared with the current system, both progressivity and maintenance of the credit would create a bigger delta in government revenue. He questioned whether this was an acceptable delta in revenues, and that a balance requiring some form of progressivity would be a fundamental question of policy direction.

[2:47:56 PM](#)

MR. MAYER continued his presentation with slide 42, "Assessment of DOR Price Forecast Methodology." He noted that he could not elaborate on the production forecasting methodology, as the revised risk approach appeared sound. He discussed price forecast methodology, noting that with any forecasting exercise, it was necessary to distinguish between the overall trend and the degree of volatility. He stated that it was important, especially with a flat forecast, to not be lulled into thinking that also implied little volatility. He declared that wild price swings were still possible, and he opined that it overwhelmingly appeared to be the case that volatility would be the norm in the foreseeable future.

[2:49:48 PM](#)

CO-CHAIR FEIGE remarked, "we're one silkworm missile away from a lot of money."

[2:49:57 PM](#)

REPRESENTATIVE TUCK, referencing an earlier comment for the ability of North America to self-sustain, asked to clarify that the norm for the price of oil would be \$70 - \$75 per barrel.

MR. MAYER clarified that this had been a specific answer for a specific question regarding a realistic floor price for oil, and it was not a likely forecast.

[2:50:33 PM](#)

MR. MAYER, resuming his presentation of slide 42, declared that with any forecast it was necessary to account for the volatility of any trend.

[2:50:50 PM](#)

REPRESENTATIVE TARR, asking if Mr. Mayer had determined that the new Department of Revenue (DOR) methodology for the most recent forecast was sound, questioned whether the methodology for previous DOR forecasts had been reviewed and compared to actual results. She offered her belief that, although there had not been significant deviation, DOR had desired even greater accuracy.

CO-CHAIR FEIGE asked to clarify whether the question was regarding price prediction or oil production prediction.

REPRESENTATIVE TARR replied that it was for oil production.

CO-CHAIR FEIGE stated that the discussion was for price prediction.

MR. MAYER clarified that he had begun his discussion with production prediction, prior to moving on to the price prediction. In response to Representative Tarr, he acknowledged that, although he did not have expertise for these predictions, he had judged these predictions to be sound from his review of the materials.

[2:52:06 PM](#)

REPRESENTATIVE SEATON expressed his curiosity regarding the importance of volatility, as the proposed tax payment was for the annual mean, without progressivity or a windfall tax.

MR. MAYER replied that it was the biggest determinant regardless of progressivity for future revenues.

REPRESENTATIVE SEATON asked to clarify that this was for volatility over many years, and not just for a single year.

MR. MAYER replied that he had considered the volatility for all time frames.

REPRESENTATIVE SEATON asked to clarify, if this was an annual tax with no monthly progressivity, what was the component of volatility between months, and how did that affect the annual revenue.

MR. MAYER explained that it was not a question of rate, but a question of the base revenue and its application on the income. He pointed out that in a low oil price environment, there was very little revenue to the state, but in a higher price environment, there was an enormous amount of revenue, even with a flat tax structure.

REPRESENTATIVE SEATON asked to clarify that the volatility within the year would generate a different return.

MR. MAYER replied that it would not.

[2:54:25 PM](#)

MR. MAYER continued his presentation with slide 43, "Assessment of DOR Price Forecast Methodology," explaining that a blended forecast was a good approach which provided a more accurate forecast. He expressed his agreement with DOR that WTI (West Texas Intermediate) was no longer a good global indicator of the oil market, and that consideration of supply, geopolitics, and the financial market was best for the projected forecast. He noted that the possible risks for the DOR methodology included the use of futures prices and the EIA (US Energy Information Administration) as forecast tools. He stated that group forecasting for a consensus view could result in a "herd" behavior, and that a flat price forecast should understand the fundamental question of volatility, and the difference between trend and movement around this trend.

[2:57:28 PM](#)

MR. MAYER turned to slide 44, "Global LNG Demand Driven by Asia," and explained that the potential future demands for Liquid Natural Gas (LNG) would be into Asia, the world's largest gas market. He declared that Asia was a desirable market for LNG as it had historically been priced with reference to oil, frequently to parity, which was dramatically higher than the gas price in North America. He pointed out that this high price

made the prospect potentially economic for getting North Slope gas to Asia.

[2:59:09 PM](#)

MR. MAYER declared that the project list for proposed LNG capacity was largest in North America, slide 45, "Proposed LNG Capacity by Country." He noted that some of the re-gasification plants were now converting to LNG export facilities. He pointed out that Australia had the next largest capacity for production of LNG, estimated at 100 million tons each year.

[3:00:47 PM](#)

MR. MAYER addressed slide 46, "PFC Energy Risked LNG Supply Outlook by Country," which reviewed the risk and projection for the main suppliers and the capacity to come on line before 2025. He compared this risk analysis for capacity with the contracted capacity on slide 51, "Share of Contracted Capacity by Country." He reported that LNG was sold on 20 year long term take or pay contracts, which allowed the capital for financing these enormous projects to be raised. He questioned the existing capacity in 2025, and how much would be contracted.

[3:02:57 PM](#)

MR. MAYER reviewed slide 52, "Share of Contracted Capacity by Country," which depicted the expected available capacity, especially in Australia, Canada, and the United States, for new un-contracted volumes.

[3:03:36 PM](#)

MR. MAYER explained slide 53, "Competitive Landscape for LNG Sales to Asia," and stated that PFC Energy projected a sufficient rising demand for LNG in Asia. He noted that the new liquefaction projects in North America, Australia, Qatar, and East Africa would be logical competitors. He stated that Alaska, factoring in all the required capital, would be a relatively high priced gas exporter. He noted that the economics for competitive pricing would be affected by a link to oil pricing, rather than the Henry Hub pricing.

[HB 72 was held over.]

The meeting was recessed at 3:06 p.m. to a call of the chair.

[3:40:05 PM](#)

CO-CHAIR FEIGE brought the committee back to order at 3:40 p.m. Representatives Seaton, Hawker, and Feige were present at the call back to order. Representative Johnson arrived as the meeting was in progress.

HB 4-ALASKA GASLINE DEVELOPMENT CORP; RCA

[3:40:16 PM](#)

CO-CHAIR FEIGE announced that the next order of business would be SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 4, "An Act relating to the Alaska Gasline Development Corporation; making the Alaska Gasline Development Corporation, a subsidiary of the Alaska Housing Finance Corporation, an independent public corporation of the state; establishing and relating to the in-state natural gas pipeline fund; making certain information provided to or by the Alaska Gasline Development Corporation and its subsidiaries exempt from inspection as a public record; relating to the Joint In-State Gasline Development Team; relating to the Alaska Housing Finance Corporation; relating to the price of the state's royalty gas for certain contracts; relating to judicial review of a right-of-way lease or an action or decision related to the development or construction of an oil or gas pipeline on state land; relating to the lease of a right-of-way for a gas pipeline transportation corridor, including a corridor for a natural gas pipeline that is a contract carrier; relating to the cost of natural resources, permits, and leases provided to the Alaska Gasline Development Corporation; relating to procurement by the Alaska Gasline Development Corporation; relating to the review by the Regulatory Commission of Alaska of natural gas transportation contracts; relating to the regulation by the Regulatory Commission of Alaska of an in-state natural gas pipeline project developed by the Alaska Gasline Development Corporation; relating to the regulation by the Regulatory Commission of Alaska of an in-state natural gas pipeline that provides transportation by contract carriage; relating to the Alaska Natural Gas Development Authority; relating to the procurement of certain services by the Alaska Natural Gas Development Authority; exempting property of a project developed by the Alaska Gasline Development Corporation from property taxes before the commencement of commercial operations; and providing for an effective date."

CO-CHAIR FEIGE opened public testimony on HB 4.

[3:40:37 PM](#)

TERRY HINMAN, Community Advisory Committee for Alaska Stand Alone Pipeline (ASAP), paraphrased from a prepared statement [Included in members' packets]:

I live north of Healy in the Denali Borough and represent Denali Borough on the ASAP Community Advisory Committee. My time and my expenses are borne by myself. I'm not funded by any entity or any affiliation.

I believe the Alaskan "Resident" pipeline is at this time the only real pipeline project with tangible substantial assets including route, right of way, and environmental impact study. Further, I feel we are at a critical time with energy costs, certainly in the Interior, and depending on the discovery and development of more gas in SouthCentral and the Cook Inlet Basin, potentially all of Alaska is at risk for excessive energy costs.

I believe the Alaska Stand Alone Pipeline project offers a long term, approximately 100 years, of solution for the largest number of Alaskans. True, the pipeline itself would traverse a relatively small portion of the state, but the pipeline would serve a large population. Also, with the lean gas scenario, which is now proposed for the Stand Alone Pipeline, which includes methane and propane, so the ability to deliver propane at a much lower cost via the river system, highway system, and ocean exists. Additionally, the ability to generate much lower cost electricity delivered via the grid. The energy situation in the Interior is critical. Some small businesses have closed due to excessive costs and more may also. Personally, I have seen my energy costs soar to the point I have to make a decision on how long I can afford to live here. I am retired so I live on a fixed income, yet with increasing light and heat costs I am at the juncture to go back to work or leave where I live. I'm fortunate that physically I can go back to work, for others that is not an option. Many who watch their savings and finances erode at an increasing rate just to stay warm are at the breaking point. When staying or leaving becomes solely cost driven with the largest expense being energy the math and decision become obvious. To some the loss of

retirees or other residents is of little consequence however more than the impact of the loss of a participant in the economy is the loss of the skill, knowledge, wisdom, and experience. The greatest loss is the hours of volunteering. HB 4 is a huge step in taking action to move forward with an energy plan.

[3:46:30 PM](#)

REPRESENTATIVE SEATON emphasized that the State of Alaska did, indeed, consider that seniors, and others, were valuable to the state.

MR. HINMAN clarified that it was difficult to place a value on those contributions to the communities and the state. He stated that there were many people who had to consider departure from Alaska because of the high cost of living.

[3:48:23 PM](#)

BILL SHEFFIELD declared that he was in support of the in-state gas line, and that he had spoken to many groups throughout the state in promotion of the gas line. He stated that it was important to Alaska and Alaskans. He reported that Alaska had been granted statehood more than 50 years ago because the state had resources to "take care of ourselves, and it's time we started to do it." He pointed to the importance of gas, and noted that Anchorage was "running out of gas." He listed some large businesses that had a shortage of gas, and shared the importance to the railroad of gas shipment on it. He suggested that more jobs would be created with manufacturing expansion, instead of shipping out gas. He announced that it was important to Alaskans, and that the legislature should appropriate the necessary \$320 million for the Alaska Gasline Development Corporation (AGDC), in order to move into the open season, at which point the questions would be answered. He opined that this commitment would result in a contract by 2016, with gas in Fairbanks by 2019. He stated that gas could be trucked, and propane could be made available on the river systems. He urged moving forward to get AGDC into the open season.

[3:52:50 PM](#)

KEN HALL declared that this was a tremendous opportunity for the gas line to move forward, and that proposed HB 4 was an improvement over previous proposals. He stated that it would be a travesty to not allow this to move forward, as it provided an

opportunity to get gas into Fairbanks and develop businesses. He offered his belief that the legislature had concerns for the amount of control to relinquish to the AGDC, and recommended that AGDC be run as a state operated corporation, similar to Alaska Housing Finance Corporation (AHFC). He opined that it would then run more smoothly. He expressed support for proposed HB 4, as it benefitted all Alaskans.

[3:55:51 PM](#)

WILLIAM WARREN stated that the past failure to bring natural gas to Alaskans had resulted in a "full blown crisis, not just a tough spot, but a crisis." He declared that he would need to import gas to run his ranch. He pointed out that the Cook Inlet natural gas supply was still an unknown. He listed the previous advocates and programs for a gas pipeline. He stated, "this is our way out." He announced that it was necessary to move to open season in order to better "know what we have" and that he supported a high pressure pipeline to transport the natural gas liquids (NGLs). He acknowledged his support for other forms of energy, including tidal and wind tunnels, but emphasized that it was now necessary to move forward with this program. He endorsed the proposed bill.

[4:00:43 PM](#)

RON LONG, Assistant City Manager, City of Seward, shared that he was also a member of the Community Advisory Committee for Alaska Stand Alone Pipeline (ASAP). He affirmed that Seward did not have natural gas, and that home heating costs were very high, often higher than a mortgage payment. He reflected that, although ASAP would not immediately bring gas to Seward, it would keep electricity costs from increasing so dramatically. He surmised that this project was "not incompatible with the governor's big line proposal... nor was it incompatible or a disincentive to the folks that are doing some pretty exciting things in Cook Inlet." He opined that this was the only solution for bringing Alaska gas to Alaskans first. He urged that this pipeline project be moved along toward an open season as expeditiously as can responsibly be done. He declared that many challenges existed to obtain low cost energy and prevent cost increases.

[4:03:43 PM](#)

JIM PLAQUET, Alaska Industry Support Alliance, declared that "Alaska needs energy and HB 4 provides the Alaska Gasline

Development Corporation to serve as Alaska's natural gas pipeline corporation, giving Alaskans the needed energy they need for space heating and economic survival." He cited that the proposed bill would direct AGDC to carry 500 million cubic feet of gas per day, at the lowest possible cost, from the North Slope to Fairbanks and SouthCentral Alaska. He commented that proposed HB 4 would also consider other in-state gas pipeline projects, as well as participation in a larger pipeline to tidewater with a liquid natural gas export component. He detailed that the proposed bill would avoid duplication of state efforts and spending, while calling on state and local agencies to assist and share information. He expressed that this legislation would reduce the rates paid for gas. He reported that proposed HB 4 would waive property taxes during pipeline construction, requiring that local resources be made available at usual rates, and not rolled into the costs Alaskans would pay for the gas. He summarized that proposed HB 4 was the vehicle to supply the energy needs for Alaskans.

[4:06:42 PM](#)

RICK ROGERS, Executive Director, Resource Development Council, pointed out that the Resource Development Council (RDC) was a statewide business association which represented the forestry, oil and gas, mining, tourism, and fishing industries, with a mission to grow Alaska's economy through responsible resource development. He affirmed that RDC supported proposed HB 4, and he reflected on the diversity of RDC, in order to appreciate the significance of its support. He explained that RDC represented the producers of energy resources, and included development and exploration companies of all sizes. He noted that RDC also represented rural, urban, commercial, and residential energy consumers. He reported that RDC closely reviewed proposed HB 4, to ensure that the bill "did not pit one energy resource against the other." He established that the best energy solutions for Alaskans were the ones that provided the best value for consumers, and balanced low cost with reliability over the long term. He offered that the "invisible hand of the free market" would result in the best energy solutions for Alaskans. He indicated that the proposed bill would supply the necessary organization structure, tools, and resources to advance an in-state gas project to an open season. He declared that the open season would allow a project to succeed or fail on its economic merits. He expressed hope for a large diameter pipeline to tidewater, which would render the stand-alone gas pipeline unnecessary. He noted that proposed HB 4 would then allow AGDC to assist with expansion of intrastate gas transportation. He

suggested that the AGDC enabling legislation be modified to consider sunset language should its mission become obsolete. He ascertained that the project viability would be uncertain until it reached an open season. He observed that the deliverance of reliable and cost effective energy to Alaskans was critical to future prosperity, and he declared support for the proposed bill. He referenced a letter of support from RDC, dated February 1, 2013 [Included in members' packets.]

[4:10:44 PM](#)

ALAN LEMASTER reported that his business operations costs had increased every year, "most of which can be directly attributed to the ever increasing cost of energy, both heating oil and electrical power." He described the ad hoc organization, the Alaska Natural Gas Pipeline Coalition, which had formed to bring to the attention of the legislature that the best route for providing the lowest cost energy to most Alaskans was the Trans-Alaska Pipeline System (TAPS) along the Richardson Highway corridor. He listed the members of this coalition to include the Cities of Valdez, Delta Junction, North Pole, and Fairbanks, as well as the North Star Borough, Copper Valley Chamber of Commerce, Copper Valley Electric Association, the Alaska Municipal League, and the Copper Valley Development Association. Each member had written a resolution which stated support for an All Alaska Natural Gas Pipeline from the North Slope to Valdez, with a spur line to Anchorage, to supply 80 percent of the population of Alaska with low cost energy. He declared that it would be necessary to export a significant amount of the natural gas in order to make the project economical. He opined that these profits could exceed the value of the Permanent Fund. He endorsed continued opposition to any efforts for developing a natural gas line along the Parks Highway corridor, and stated support for the route along the aforementioned Richardson Highway corridor.

[4:13:46 PM](#)

REPRESENTATIVE SEATON requested copies of the aforementioned resolutions.

MR. LEMASTER agreed to send in the resolutions.

[4:14:57 PM](#)

JASON HOKE, Executive Director, Copper Valley Development Association, declared that the proposed bill would advance

Alaska, and was the first in many incremental steps to move all the regions of the state into development and prosperity. He clarified that the Copper Valley Development Association was in support of an in-state gas pipeline, and "we are agnostic about placement." He suggested that this "is the first domino for the state that will set off a bunch of other energy solutions for Rural Alaska." He declared support for proposed HB 4, suggesting that it was time for "getting something done; I think we all need to stop bickering about who controls what and where it's gonna go, and let's just get 'er done."

[4:16:43 PM](#)

MERRICK PIERCE declared that "the bullet line is an uneconomic boondoggle. The project does not have economy of scale and seeks to convey gas to a region of Alaska that has a 200 year gas supply." He pointed to the abundance of dry natural gas, 19 trillion cubic feet in Cook Inlet, as estimated by scientists at US Geological Survey (USGS) and the Department of Energy, which was perfect for home heating and electrical generation. Based upon the use of 240 million cubic feet of use per day, this would last for more than 200 years. He compared the PFC Energy capital expenditure estimate of \$2 billion over ten years for drilling out Cook Inlet with a high end cost estimate for the bullet line of \$10 billion. He reported that a bullet line supplying 500 million cubic feet of gas per day would envision no more natural gas from Cook Inlet, and that in-state gas consumption would double in the near future, which he stated was "ridiculous." He shared that the AGDC had privately stated it would export any surplus gas, but he pointed out that the Henry Hub price for gas was very low. He declared that money should not be wasted on this project as it was "patently uneconomic," and, instead, focus on a short term solution for Fairbanks, which was to pipe natural gas from Big Lake and an existing Enstar pipeline with unused capacity. Using a publicly owned right of way traded by AGDC from Big Lake, a pipeline could be built within a year for \$200 million, which was half the cost the proposed bill was seeking solely for studies. He spoke about a big pipeline, and noted that there were almost 19 LNG export projects in North America either under review or under construction, which would compete with Alaska. He declared that the key to success were a pipeline and tankers big enough to have economy of scale. He explained that the deep water, ice-free Port of Valdez had the existing infrastructure. He opined that it was better to invest in an All-Alaska gas line, if the 20 year LNG contracts could be secured. He summarized that, instead of spending the money from proposed HB 4, the same

amount of money should be used to build the aforementioned small bore pipeline from Big Lake to Fairbanks, while a large pipeline should also be started so that Alaska did not lose the world market contracts.

[4:21:20 PM](#)

BILL WALKER explained that proposed HB 4 had morphed into a \$7 - \$10 billion, 36 inch mega-project, which would be the largest pipeline project built in America. He reported that it was estimated to take 10 years to build, but that Fairbanks needed gas much sooner. He declared the need for a more efficient, quicker project and referred to an earlier study which projected the cost for LNG to Cook Inlet to be about \$80 million, and completed within 18 months. Mr. Walker expressed his concern that an earlier open season on September 14, 2012 had not generated any response [from the legislature], as there had been a focus, instead, on the proposed HB 4 project. He suggested that more immediate options for gas to Fairbanks from Cook Inlet were ready to move forward, and did not require \$400 million of studies. He declared that a 10 year construction project did not resolve the immediate needs for Fairbanks or Cook Inlet. He asked that all other options be considered prior to funding another mega-project.

[HB 4 was held over.]

[4:25:52 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 4:26 p.m.