

ALASKA STATE LEGISLATURE
SENATE SPECIAL COMMITTEE ON IN-STATE ENERGY

March 21, 2013

7:32 a.m.

MEMBERS PRESENT

Senator Click Bishop, Co-Chair
Senator John Coghill, Co-Chair
Senator Peter Micciche
Senator Dennis Egan
Senator Bill Wielechowski

MEMBERS ABSENT

All members present

OTHER LEGISLATORS PRESENT

Senator Cathy Giessel

COMMITTEE CALENDAR

PRESENTATION: ALASKA GAS PIPELINE PROJECT OFFICE OVERVIEW -
COMMERCIALIZING NORTH SLOPE GAS

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

DAN SULLIVAN, Commissioner
Alaska Department of Natural Resources
Anchorage, Alaska

POSITION STATEMENT: Provided an overview of commercializing
North Slope gas.

ERIC HATLEBERG, Project Manager
Alaska Gas Pipeline Project
Alaska Department of Natural Resources
Anchorage, Alaska

POSITION STATEMENT: Provided an overview of commercializing
North Slope gas.

ACTION NARRATIVE

[7:32:32 AM](#)

CO-CHAIR CLICK BISHOP called the Senate Special Committee on In-State Energy meeting to order at 7:32 a.m. Present at the call to order were Senators Micciche, Egan, Co-Chair Coghill, and Co-Chair Bishop.

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CO-CHAIR BISHOP welcomed Senator Giessel to the committee meeting.

PRESENTATION: Alaska Department of Natural Resources- Commercializing North Slope Gas

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CO-CHAIR BISHOP announced that the order of business would be an overview from the Alaska Department of Natural Resources (ADNR) on the Alaska Pipeline Project (APP).

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DAN SULLIVAN, Commissioner, Alaska Department of Natural Resources, said his overview would address DNR's perspective on Alaska's gas commercialization efforts. He explained that the focus would not only be on APP, but on broader state initiatives that included the Alaska Gasline Development Corporation (AGDC), the governor's Interior Energy Plan (IEP), and the Liquid Natural Gas Trucking Plan (LNGTP). He stated that he would present important milestones, actions moving forward, and reasons for legislators to voice a unified gasline development message to the different stakeholders. He said ADNR had a sense of optimism, but recognized the fact that North Slope gas commercialization had been a quest for over 40 years. He declared that there were ways to break away from the skepticism and take advantage of new opportunities. He addressed Alaska's potential for getting gas to markets as well as in-state citizens.

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ERIC HATLEBERG, Project Manager, Alaska Gas Pipeline Project, Alaska Department of Natural Resources, introduced himself to the committee.

COMMISSIONER SULLIVAN stated that commercializing the North Slope would have to be steady and progress step-by-step. He

addressed Alaska's gas commercialization at the beginning of 2012 as follows:

- ConocoPhillips and British Petroleum (BP) folded the Denali-Alaska Gas Pipeline project.
- ExxonMobil and TransCanada continued to look at the Lower 48 market despite rising opportunities in Asia.
- Point Thomson (PT) was being fought over.
- Alaska was not in the discussion as a possible supplier to the Asian market.

COMMISSIONER SULLIVAN said all of that had changed, but Alaska still had a long way to go. He stated that it was important for the public to recognize that progress had been made in order to break the circular spiral of cynicism.

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He addressed North Slope gas commercialization benchmarks that were presented during the governor's 2012 State of the State address. He referred to skeptics who noted that the goals set by the governor had not been achieved in Alaska's history. He asserted that the first key principal was to get gas as quickly as possible to Alaskans at a cost that was not prohibitive. He noted that the focus of IEP, LNGTP, and AGDC was to provide Alaskans with affordable natural gas. He said the second key principle was based on APP's focus to maximize the value of the state's massive resource base that brought the most opportunity and the lowest cost. He affirmed that the two key principals were complementary and not conflicting. He stated that the ultimate goal was to have a project that incentivized both gas and oil exploration. He said ADNRC envisioned two large North Slope pipelines: Trans-Alaska Pipeline System (TAPS) and natural gas. He explained that the broader strategic scheme was to provide an outlet for future gas and oil exploration.

He declared that the governor's 2012 benchmarks had been met. He noted that the first benchmark to align the North Slope producers was an important achievement. He remarked that it was not impossible to commercialize North Slope gas without alignment, but it was easier to attain when the state and the producers were working together.

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He said the second benchmark met was the PT settlement. He explained that the PT settlement was strategic for three major reasons:

1. Opened up the North Slope's eastern region.
 - PT had never produced one molecule of hydrocarbons.
 - PT was located in one of the most prolific oil and gas regions in the country.
 - 70,000 barrel per day pipeline would connect to TAPS.
 - Smaller explorers and companies would have access to plug hydrocarbons into pipeline infrastructure.
2. Pre-investment for gas commercialization.
 - 25 percent of the North Slope's conventional known gas was at PT.
 - Companies were spending billions of dollars to develop PT as a down payment to commercial gas.
3. Strategic development for job creation.
 - Senator Bishop, former Commissioner for the Alaska Department of Labor and Workforce Development, made sure that the PT settlement included a strong Alaska hire provision.
 - Hundreds of high paying jobs would be created, peaking at over 2000.

COMMISSIONER SULLIVAN asserted that private sector money was pouring into the state and was critical for gas commercialization.

He said three different things were achieved in 2012 after the PT settlement as follows:

1. Explained the settlement to the legislature and public.
2. Permitted the settlement with the North Slope Borough and all of the other state agencies to make sure building occurred during the winter of 2012-2013.
3. Ice roads were built.

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He called attention to a PT map of the Permitted Field Layout. He addressed the PT-West Pad location on the map and noted that the site's well was required to be drilled pursuant to the PT settlement by 2016/2017. He remarked that the PT-West Pad was a

very big and complex well, but the producers announced that development would be moved up to 2015/2016. He said the development date change was good in terms of jobs and project development. He said the accelerated well development schedule was fast considering PT's remote location.

COMMISSIONER SULLIVAN addressed ExxonMobil's Initial Production System (IPS) at PT-Central Pad and noted the importance of the facility for the Point Thomson Export Pipeline (PTEP); a 70,000 barrel per day pipeline that would connect to TAPS. He said PTEP work was being farmed out to multiple Alaska companies and Alaska's citizens would benefit from the positive economic impact.

He stated that the governor's action-forcing benchmarks contributed to significant national and international press regarding positive news in Alaska. He called attention to third quarter benchmarks when the governor required hardened numbers and timelines. He noted a progress letter from North Slope companies that showed the benchmarks were being met. He commented on a front page article in Canada's Globe and Mail newspaper that addressed Alaska's assertive tact in its gas program. He noted that Canada was Alaska's biggest competitors and the article sent a message.

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He addressed attachments from the North Slope producers' letter submitted to the governor in March 2012. He said Attachment-1 addressed the Southcentral Alaska Liquid Natural Gas Integrated Team. He explained that Attachment-1 was important because it demonstrated that companies were integrating their efforts and areas of expertise. He explained that ConocoPhillips had expertise in liquefaction, TransCanada in pipeline building, and BP in operating North Slope facilities. He said the latest integration briefing showed that 200-plus people were working and tens of millions was being spent with important progress being made.

He addressed Attachment-2 that was presented in February and showed significantly more concept selection work in response to the governor's request for hardened numbers. He stated the combination of Alaska's massive resource and the numbers showed that the Liquid Natural Gas (LNG) project would be one of the largest in the world.

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CO-CHAIR BISHOP announced that Senator Wielechowski had joined the meeting.

COMMISSIONER SULLIVAN addressed Attachment-3 and the governor's request for an associated timeline. He explained that Attachment-3 laid out a stage-gated approach that any large scale development would need to go through. He noted that the governor's latest State of the State address laid out what would be required to happen in regards to commercial, engineering, and regulatory activity. He said since October, the project had gone through the Concept Selection stage-gate and ADNR was pushing companies to move into the Front-End Engineering and Design (FEED) stages by late spring or early summer; Pre-FEED and FEED. He noted the continued importance in focusing on gas for Alaskans, but the key stage-gate in the timeline was the Final Investment Decision (FID) sanction. He stated that FID was the go-no-go point and ADNR was pushing for a decision by 2015. He said it was in the state's interest for Alaska's policymakers to encourage the North Slope companies to accelerate the stage-gate timeline. He called attention to incentives that were put into the PT settlement for sanctioning prior to May 2016. He said from the state's perspective, pushing the North Slope companies through the stage-gate process was critical. He noted that the stage-gate process was a document that showed how the North Slope companies viewed the timeline through spending, personnel deployment, and ancillary activities.

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He addressed the governor's other important stipulation that APP, comprising of TransCanada and ExxonMobil, work together with AGDC. He noted that a Memorandum of Understanding (MOU) for cooperating was signed in the third quarter. He said the relationship with AGDC was strong with great cooperation. He stressed that efforts between APP and AGDC had been complimentary without being duplicative. He explained that AGDC's in-state gas emphasis for Alaskans centered on regulatory permitting, Environmental Impact Statement (EIS), and rights-of-way. He stated that the progress made over the past year focused on alignment with the companies that had the gas leases and the technical engineering. He remarked that the state should be optimistic with the progress made over the past year. He said aggressively promoting Alaska's LNG project with APP and AGDC, had drawn attention from the global marketplace.

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He addressed Alaska's comparative advantages over other LNG projects. He noted that the governor and ADNR presented Alaska's

LNG advantages on briefings made in Japan, Korea, China, and large LNG conferences. He remarked that Alaska's biggest advantage was its huge resource base and explained that many gas projects, Russia and Mozambique for example, did not know the extent of their reserves. He emphasized that Alaska knew exactly that it had one of the largest known conventional gas resources in the world.

COMMISSIONER SULLIVAN said a lot of existing infrastructure was in place whether the gas commercialization project was done with AGDC, APP, or a combination between the two entities. He noted that existing rights-of-way would assist with the permitting process. He declared that Alaska was the only place in all of North America that had exported any gas to Asia. He cited Alaska's exceptional record of reliability with never missing cargo shipments to Japan and other parts of Asia.

He stated that Alaska had comparative advantages with regard to geographic proximity, political stability, legal stability, and cost competitiveness. He said two recent studies that the state was not involved with showed that a large scale Alaska LNG project would have very strong competitiveness relative to other projects. He disclosed that Alaska had LNG companies involved in the project, a very important attribute for potential buyers.

He noted possible opportunities to help move state and federal permitting forward. He said ADNR was looking at all permits required in addition to permits previously issued. He remarked that the proposed route was one of the most studied in the country in terms of EIS, previous permits, and authorization. He reported that federal regulators had been receptive to take into account previous studies and permits to allow the project to move forward without the need to start over. He stated that accelerated permitting would make the project more cost competitive by saving time and money.

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He addressed whether federal agencies would allow LNG export licenses for the Lower 48. He asserted that Alaska should not be part of the Lower 48's export debate. He stated that the U.S. Department of Energy (DOE) and the White House were advised that Alaska should not be included in any gas export restrictions. He explained that the concern for exporting Lower 48 gas could limit supplies and raise prices for domestic consumers. He noted that economic activity had increased and the reindustrialization of the Midwest was spurred by the low cost of gas. He stated that the dynamics with exporting Alaska LNG were actually

opposite to exporting Lower 48 gas. He explained that a large scale Alaska LNG or gas commercialization project would decrease gas prices and increase gas supplies to Alaskans, Hawaiians, Americans, and military operations.

COMMISSIONER SULLIVAN said ADNR was very confident that Alaska would not be caught up in the Lower 48 export debate. He noted that the DOE and the White House were shown a previous authorization from President Reagan that proclaimed Alaska natural gas exportation would not have a negative impact on the Lower 48 gas market. He said DOE and the White House were not aware of the [1988] Presidential Finding. He asserted that Alaska's lawyers believed that the presidential authorization set a precedent and was still valid.

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SENATOR MICCICHE noted that U.S. Senator Murkowski had been working on allowing Alaska to export natural gas for several years. He asked if Alaska was staying engaged in order for the state to avoid being involved in a "political football" discussion.

COMMISSIONER SULLIVAN replied that ADNR was staying very engaged and was in contact with Mr. Chris Smith, Acting Assistant Secretary for Fossil Energy for the Department of Energy. He explained that Assistant Secretary Smith was involved with oversight for issuing gas export licensing. He noted that ADNR stayed engaged by watching the Lower 48 export debate. He explained that companies like Dow Chemical, a strong free trade proponent, were asking for gas export limitations due to the impact on American competitiveness and jobs. He remarked that Dow Chemical was looking at building chemical manufacturing facilities back in the U.S. due to the lower cost of gas. He summarized that ADNR was staying in contact with companies that shared Dow Chemical's perspective to ensure their messaging recognized that Alaska was different.

He said LNG was a global market that was very competitive. He addressed Alaska's comparative advantages over the Lower 48 and Western Canada. He noted that Western Canada had to resolve significant issues with the country's First Nations. He explained that Alaska had resolved comparative issues surrounding the Alaska Native Claims Settlement Act (ANCSA) and TAPS.

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He addressed some of the disadvantages that emanated from different LNG sources: Russia, Australia, and Qatar. He explained the use of advocacy and the demand-pull strategies to garner interest in Alaska LNG from multiple companies and countries. He detailed that presentations to global buyers centered on portfolio management and energy security through supply diversity. He said Alaska was seeing results with interest shown from Tokyo Gas; Matsui; Kogas, the largest LNG buyer from Korea; and Resources Energy, Inc., a Japanese consortium that has set up shop in Anchorage.

COMMISSIONER SULLIVAN revealed that Alaska was getting invited to speak at some of the biggest LNG conferences in the world. He noted a recent conference in Tokyo where the Alaskan delegates were recognized by Japanese officials as Japan's first and most reliable supplier. He explained that only the delegations from Qatar and Alaska were mentioned, a sign that Japan was interested in the next LNG relationship phases. He mentioned that Alaska was asked to speak on North American export opportunities at the upcoming LNG 17, the world's largest conference and exhibition on LNG. He summarized that Alaska was an LNG pioneer and was back on the map, both would have a positive impact on the project's pace and success.

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He noted the governor's 2013 State of the State address and the additional benchmarks set forth for commercializing North Slope gas. He explained that the governor asserted that a lot more had to happen. He revealed that the North Slope companies came back on February 15 with a Concept Selection. He remarked that it was important that summer fieldwork be completed and the companies moved into the Pre-FEED stage-gate. He emphasized that the state's two pipeline efforts remained closely aligned while avoiding redundant costs.

He summarized that Alaska was back on the global stage through its efforts for a large scale gas commercialization project. He declared that good progress was being made with APP, AGDC, the governor's IEP, infrastructure build out, and LNGTP to get gas to Interior Alaska as soon as possible. He noted that regulatory and permitting issues would be critical. He said continued alignment of key stakeholders was important for the project to progress. He remarked that attaining the Pre-FEED phase would be an important milestone with regard to the key stakeholders aligning around a project where the companies would be spending hundreds of millions of their own dollars on moving the gas project forward. He asserted that the gas project's opportunity

would not be open forever and the focus had to move from fighting over different gas lines to fighting for a gasline. He said the state had multiple pieces moving together in an important way and were not in conflict with each other. He declared that the key message for Alaska's policy makers was to encourage the North Slope companies to accelerate their progress.

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CO-CHAIR BISHOP asked to verify that ADNR was advertising for an LNG person.

COMMISSIONER SULLIVAN answered yes. He said the LNG position would address and build on the progress made on the advocacy front in Asia.

CO-CHAIR BISHOP addressed TransCanada and their part in the integration team. He asked if TransCanada was getting engaged in the project.

MR. HATLEBERG replied that TransCanada's involvement in the technical part of the project was through APP. He noted that the same individuals that had been working on the project were still providing information for the Southcentral LNG. He noted that key individuals from TransCanada had recently provided a progress presentation. He reported that TransCanada's focus was on the mid-stream.

COMMISSIONER SULLIVAN confirmed that TransCanada's focus was on the mid-stream.

CO-CHAIR BISHOP addressed the summer field season and asked where the biggest amount of work would be.

MR. HATLEBERG replied that the significant work would be north of Livengood.

CO-CHAIR BISHOP noted that TransCanada's labor schedule projected a workforce in excess of 15,000. He detailed that TransCanada's project would be done in phases, but noted that the project had become an in-state project and timing was an issue. He asked for an update as the project transitioned from planning to commencement. He stated that preparation was important and money would have to be spent for training.

COMMISSIONER SULLIVAN replied that he would welcome the opportunity to provide a brief. He expressed hope that the state

would have the workforce challenge for the jobs associated with the project. He called attention to APP's projected cost of \$45 billion to \$65 billion and stressed that it was critical to keep the costs in the lower range in order to keep the project competitive in a fierce global market.

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CO-CHAIR BISHOP remarked that it was expensive to convert an import LNG terminal into an export terminal. He asked Senator Micciche for his input.

SENATOR MICCICHE replied that import terminals were lower cost and noted tank construction accounted for the majority of the cost. He explained that a gas liquefaction facility was expensive.

CO-CHAIR BISHOP thanked Commissioner Sullivan and Mr. Hatleberg for their presentations.

[8:22:18 AM](#)

There being no further business to come before the Senate In-State Committee, Co-Chair Bishop adjourned the Senate meeting at 8:22 a.m.