

ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE

March 27, 2013

3:31 p.m.

MEMBERS PRESENT

Senator Cathy Giessel, Chair
Senator Fred Dyson, Vice Chair
Senator Peter Micciche
Senator Click Bishop
Senator Lesil McGuire
Senator Anna Fairclough
Senator Hollis French

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

HOUSE JOINT RESOLUTION NO. 6

Relating to legacy wells and legacy well sites; urging the United States Department of the Interior, Bureau of Land Management, to open new areas of the National Petroleum Reserve - Alaska for environmentally responsible oil and gas development; and requesting the Office of the Governor to increase nationwide awareness about legacy wells and well sites.

- MOVED SCS HJR 6(RES) OUT OF COMMITTEE

SENATE BILL NO. 71

"An Act relating to the filing date for the final quarterly payment of, and to the assessment of penalties under, the fishery resource landing tax."

- HEARD AND HELD

PRESENTATION: Alaska Pipe Project (APP) Update

- HEARD

PREVIOUS COMMITTEE ACTION

BILL: HJR 6

SHORT TITLE: LEGACY OIL WELL CLEAN UP/AWARENESS; NPR-A

SPONSOR(S): REPRESENTATIVE(S) MILLETT

01/28/13 (H) READ THE FIRST TIME - REFERRALS
 01/28/13 (H) RES
 02/27/13 (H) RES AT 1:00 PM BARNES 124
 02/27/13 (H) Moved Out of Committee
 02/27/13 (H) MINUTE(RES)
 03/01/13 (H) RES RPT 8DP
 03/01/13 (H) DP: TARR, JOHNSON, P.WILSON, HAWKER,
 SEATON, TUCK, SADDLER, FEIGE
 03/04/13 (H) TRANSMITTED TO (S)
 03/04/13 (H) VERSION: HJR 6
 03/11/13 (S) READ THE FIRST TIME - REFERRALS
 03/11/13 (S) RES
 03/22/13 (S) RES AT 3:30 PM BUTROVICH 205
 03/22/13 (S) Scheduled But Not Heard
 03/25/13 (S) RES AT 3:30 PM BUTROVICH 205
 03/25/13 (S) Moved SCS HJR 6(RES) Out of Committee
 03/25/13 (S) MINUTE(RES)
 03/27/13 (S) RES AT 3:30 PM BUTROVICH 205

BILL: SB 71

SHORT TITLE: PAYMENT OF FISHERY RESOURCE LANDING TAX

SPONSOR(s): SENATOR(s) MICCICHE

03/11/13 (S) READ THE FIRST TIME - REFERRALS
 03/11/13 (S) RES, FIN
 03/27/13 (S) RES AT 3:30 PM BUTROVICH 205

WITNESS REGISTER

SHARON LONG, staff to Senator Giessel
 Alaska State Legislature
 Juneau, Alaska

POSITION STATEMENT: Explained that the Senate Committee Substitute (SCS) for HJR 6 reflects the committee discussion on March 25, 2013.

SENATOR MICCICHE
 Alaska State Legislature
 Juneau, AK

POSITION STATEMENT: Sponsor of SB 71.

JOHANNA BALES, Deputy Director
 Tax Division
 Department of Revenue (DOR)
 Anchorage, Alaska

POSITION STATEMENT: Explained how the tax in SB 71 is applied currently.

JULIANNE CURRY, Executive Director
United Fishermen of Alaska (UFA)
Juneau, Alaska

POSITION STATEMENT: Supported SB 71.

KATHY HANSEN, Executive Director
Southeast Alaska Fishermen's Alliance (SEAFSA)
Juneau, Alaska

POSITION STATEMENT: Supported SB 71.

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

POSITION STATEMENT: Delivered an Alaska Pipeline Update.

JOE BALASH, Deputy Commissioner
Department of Natural Resources (DNR)
Juneau, Alaska

POSITION STATEMENT: Highlighted issues related to the Alaska Pipeline Update presentation.

ACTION NARRATIVE

[3:31:28 PM](#)

CHAIR CATHY GIESSEL called the Senate Resources Standing Committee meeting to order at 3:31 p.m. Present at the call to order were Senators Fairclough, Micciche, Bishop, McGuire, Dyson and Chair Giessel.

HJR 6-LEGACY OIL WELL CLEAN UP/AWARENESS; NPR-A

[3:31:45 PM](#)

CHAIR GIESSEL announced that HJR 6, which passed from committee on 3/25/2013, was again before the committee.

[3:32:00 PM](#)

SENATOR DYSON moved to rescind the previous action to pass HJR 6 [as amended] out of committee. There were no objections and HJR 6 was again before the committee.

SENATOR DYSON moved to adopt SCS HJR 6(RES), labeled 28-LS-270300\0 as the working document.

CHAIR GIESSEL objected for discussion purposes.

SHARON LONG, staff to Senator Giessel, Alaska State Legislature, Juneau, Alaska, explained that the committee substitute (CS) reflects the committee discussion on Monday. It incorporates the amendment that was adopted to the original version, correctly naming the BLM employee to whom the resolution is being sent. Further, the CS adds a new "Whereas" clause on page 1, line 13, stating that the term "legacy wells" doesn't adequately connote the legacy of negligence and environmental damage that is inflicted by the NPR-A wells and asserts that "travesty wells" better describes their nature.

She explained that language on page 3, line 14, asserts that the legislature's preference for the term "travesty" is preferable to "legacy" in light of the federal government's negligence. In the resolve at the top of page 4, line 2, a phrase is added noting a preference for an entity hiring Alaskans with Arctic expertise for any remediation efforts.

CHAIR GIESSEL removed her objection.

[3:34:36 PM](#)

SENATOR FRENCH joined the committee.

SENATOR DYSON moved to report SCS HJR 6(RES), version 0, from committee to the next committee of referral with individual recommendations and attached fiscal note(s).

SENATOR MICCICHE objected to add Ken Salazar to the list of people receiving the resolution.

MS. LONG explained that the resolution goes to Mr. Salazar, but the correction made to the amendment that was adopted to the original version and correctly identifies Neal Kornze as the Bureau of Land Management's principal deputy.

SENATOR MICCICHE removed his objection.

CHAIR GIESSEL found no further objection and announced that SCS HJR 6(RES), version 0, moved from committee.

[3:36:10 PM](#)

At ease from 3:36 to 3:38 p.m.

SB 71-PAYMENT OF FISHERY RESOURCE LANDING TAX

[3:38:23 PM](#)

CHAIR GIESSEL announced SB 71 to be up for consideration.

SENATOR MICCICHE, sponsor of SB 71, said this is just a bill about fairness. It really just repairs glitches in the landing resource tax statutes and regulations. It removes the potential for unfair penalties and interest by commercial fishermen by changing the current tax payment due date to align with the date the actual data they use for their report is due by making it due 30 days after.

He explained that Section 1 aligns the date that the resource landing tax is due with the date that the statewide average fish price report is released. Currently the report is due March 31 or the last day of the month following a month in which the state publishes the statewide prices, but in many cases those prices aren't even published when the report is due. So, the mismatch in time results in late payment fines and interest for well-intentioned producers. This measure would allow fishing families to spend time fishing and not waste time on unnecessary government regulation that has no value.

Section 2 also changes the timing of the estimated tax payments needed to avoid estimated tax penalty to either 90 percent of the amount calculated by multiplying the actual price paid at the time the fishery resource was landed by the appropriate tax rate or 100 percent of the taxpayer's liability for the prior year.

SENATOR MICCICHE explained that the current statute includes provisions for four equal quarterly payments, but that is not how fisheries work. SB 71 allows fishermen to pay their taxes in periods of time when they actually fished. It results in the same amount but without the fines for lateness they can't help; it creates a fair and equitable tax system by aligning the date of the tax with the actual report that is published by the Alaska Department of Fish and Game (ADF&G).

[3:40:43 PM](#)

SENATOR FAIRCLOUGH said she wanted to know from the Department of Revenue (DOR) if the state actually has delinquent taxes that are being paid under this scenario.

JOHANNA BALES, Deputy Director, Tax Division, Department of Revenue (DOR), Anchorage, Alaska, answered yes and explained that the taxpayers try to estimate the payment and pay it by April 1, but they are often underpaid. However, the department does not assess the penalty, because they understand that it is

reasonable cause. But the taxpayers are subject to interest that is currently at 11 percent and that causes some hardship for some.

SENATOR FAIRCLOUGH asked if anyone has overpaid the tax that the state is paying back the 11 percent interest.

MS. BALES answered no that hasn't happened, because by statute even though they are required to pay interest, they are only required to if they don't issue a refund within 90 days and normally the department does that.

SENATOR BISHOP asked if she had the sponsor statement in front of her.

MS. BALES answered no, but that she had read it.

SENATOR BISHOP noted that the fourth paragraph says, "depending on the fishery, the current statute requires payment of 50 percent of the landing taxes before they have even left the dock to go fishing," and asked if a taxpayer is in arrears, does he have to pay 50 percent of that before being allowed to leave the dock to go fishing.

MS. BALES replied that could potentially happen, because right now the estimated payments are required in four equal installments that begin with the first of a fishing year, which would be of the calendar year of January 1. So, a first payment would be due March 15 and then June 15, September 15 and December 15. It is possible if a fishery hasn't opened yet that a taxpayer will have to make a payment.

SENATOR BISHOP remarked that they owe the money but they can't leave the dock to go out and make the money to pay the debt.

SENATOR MICCICHE said they are likely not in arrears; they are paying taxes on fish yet to be caught and that is unfair.

SENATOR FAIRCLOUGH wondered why the department hadn't brought it forward sooner, because it seems so unfair.

[3:44:45 PM](#)

MS. BALES responded that they have been aware of this concern by fishermen and have talked to different legislators about it before and nothing was done. But now seems to be a good time.

SENATOR FAIRCLOUGH asked if the administration supported the change.

MS. BALES said the department doesn't oppose it and had no issues with doing it.

[3:46:13 PM](#)

JULIANNE CURRY, Executive Director, United Fishermen of Alaska (UFA), Juneau, Alaska, supported SB 71, because it will change current statutes regarding the timing and requirement of four equal payments in estimated fisheries resource landing tax. SB 71 aligns the due date of paying the tax with the date the corresponding report is due. The report is due March 31 or the last day of the month following the month in which the state publishes the statewide prices that must be used on the return which generally is in May, but the tax is due on April 1. This mismatch in timing results in late payment fines and interest for well-intentioned producers as well as confusion, frustration, and wasted time that could best be spent harvesting and processing fish to increase revenue.

The current statute includes provisions for four equal payments, but with the seasonal nature of many fisheries and the variability in harvest, it's virtually impossible for resource landing taxpayers to accurately predict their full-year's harvest to calculate equal payments.

She concluded that SB 71 would create a fair and equitable tax system by aligning the date of the tax with the report.

[3:48:09 PM](#)

KATHY HANSEN, Executive Director, Southeast Alaska Fishermen's Alliance (SEAFA), Juneau, Alaska, said she is the one who brought this legislation to Senator Micciche's attention and thanked him for introducing it. She didn't know why it hadn't been brought forward earlier other than that there has been controversy over the landing tax in the past. This was brought to her attention by a couple of her members who didn't want to pay interest again on not having accurately calculated what they thought they owed. It is a fairness issue, but they wouldn't hear from a lot of people about it, because it only affects 67 landing taxpayers.

MS. HANSEN said they had received a letter from the Alaska Scallop Association, which industry doesn't even start fishing until the third quarter of the year. This is an example of someone paying two quarters worth of tax or just not paying it

because they don't know if they will even have an income, a season or how much they will make and then go back and pay the penalties. These are the ones that are currently paying the penalties.

[3:50:11 PM](#)

SENATOR DYSON stated that Ms. Bales said penalties weren't being paid just interest.

MS. CURRY agreed that is what she said, but she would have to check the background information she had received. She knew it was interest for sure.

CHAIR GIESSEL, finding no further comments, closed public testimony and held SB 71 in committee.

Alaska Pipeline Project Update

[3:51:52 PM](#)

CHAIR GIESSEL announced the next order of business was the Alaska Pipeline Project (APP) presentation.

[3:52:22 PM](#)

At ease from 3:52 to 3:53 p.m.

[3:53:03 PM](#)

DAN SULLIVAN, Commissioner, Department of Natural Resources (DNR), Juneau, Alaska, said both APP/AGDC (Alaska Gasline Development Corporation) are in a relatively good position now compared to a year ago and they want to accelerate that progress. One of the things they have been trying to do over the past few years is to get a better understanding of some of the history behind what has happened in the last 40 years in terms of the state trying to commercialize North Slope gas.

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He said Larry Persily's office [Federal Coordinator, Alaska North Slope Natural Gas Pipeline] had been doing a good job with regard to historical analysis, but one thing that has made commercialization more challenging despite efforts that date back decades is when the different stakeholders are not aligned. The different stakeholders are: Alaskans, the lease holders with the gas on the North Slope, the builders (whether producers or not) of a pipeline, the buyers (Alaskans and the potential, particularly with LNG, of foreign companies and governments or large volume buyers), regulators (state and federal permittees)

that can make or delay a project like this and a robust market into which gas can be sold.

COMMISSIONER SULLIVAN said it is not easy to align these interests, but one of his principle areas of focus in the last couple of years has been to work on this alignment and it is starting to come together. He had been getting out to Asia really aggressively in the last couple of years and talking to potential buyers and the Governor had met with the heads of KOGAS in Korea, as well. The commissioner said he met with them in Juneau when they told him they had an MOU with Yukon Pacific in the 80s and had been watching North Slope gas for decades. That project was focused on the regulatory permitting elements and only later did they realize that the producers, the gas leaseholders, weren't involved at all. They asked where the other stakeholders were and he was able to tell them all the stakeholders are starting to work together. That was encouraging enough to them that the CEO and his whole LNG team came to Alaska for three days to go into more detail.

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COMMISSIONER SULLIVAN said alignment is not always easy because everyone has very different interests and the Governor had put out benchmarks to try to drive alignment among the key stakeholders and the APP and AGDC are both working well together. AGDC had been making progress on regulatory and permitting issues and APP is working on alignment on the commercial issues and some of the technical issues.

Making the case for Alaska gas globally has been an important way to advance progress on the project, the commissioner said, so one of his strategic goals has been trying to create "demand pull" for an Alaskan gas project where one sees timelines, design work, and construction that can be accelerated because large buyers are very interested in the project. And they are starting to see some results on that.

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Finally, Commissioner Sullivan said, whether it's the APP or the AGDC or a combination of both, this gas line is one of the most studied permitted projects in U.S. history that has never materialized. So, he has been sitting down with the companies, federal government regulators and the state to see where there have been previous authorizations, rights-of-ways, and EISs (environmental impact statements) that relate to this and catalogue them; then sit down with the federal regulators, in particular, and say we don't have to start at ground zero. That

offer to them has been very positive. Larry Persily has said we have to start focusing on fighting for a gasline not over one.

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A year ago there was no alignment in terms of commercializing North Slope gas and Alaska was not considered a key potential project in Asia. The 25 percent of North Slope conventional gas was at Point Thomson was also still under dispute. In 2012, the Governor's State of the State laid out a pretty aggressive road map for work and set benchmarks.

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Importantly, Commissioner Sullivan said, Point Thomson was settled and that was a strong settlement in the state's interest for three reasons: for one, it's a strategic development first because of the 70,000 barrel/day pipeline connecting Point Thomson into TAPS and you now have the ability of the eastern North Slope to be opened to development and exploration, which is one of the most prolific areas of the North Slope and it hasn't produced a drop of gas or oil ever since statehood.

SENATOR FRENCH said the road on Point Thomson that leaves Prudhoe Bay and stops at Badami was going to be an ice road every year and asked if that was part of the settlement negotiations, because it seems if you want to stimulate development out there a road that can be used year-round should be built.

COMMISSIONER SULLIVAN said it wasn't a big part of the discussion and he thought that was a great point.

SENATOR FRENCH remarked that it would be good if ExxonMobil built it.

[4:07:21 PM](#)

JOE BALASH, Deputy Commissioner, Department of Natural Resources (DNR), Juneau, Alaska, said there really isn't a road going out to Badami. It's a roadless development with a spine road from Deadhorse to Kuparuk in the west and on the way to Endicott on the east. Alpine and Badami are western most and eastern most roadless projects that have fundamentally constrained the state's and industries' reach for exploration and development. The reasons for those projects having been developed in a roadless fashion, while relevant, are certainly questions that are worth revisiting. They have had some passing conversations at different times with the operators in each place and for different reasons those conversations haven't moved very far. In the case of Alpine, it's been in part the delays associated with

CD-5 and crossing the Coleville River, which is a big deal. The residents in the village of Nuiqsut have raised in other contexts the prospect of having road access if a bridge were put in on the Coleville and not just a the Niglet Channel crossing for CD-5.

And then as you move to the east, Mr. Balash explained, Badami was first constructed by BP, but production was disappointing and the field was shut in for some time. Savant has come in and put some of the wells there into production and hopes to achieve more. The opportunity to build an all-season road would make a tremendous difference in both directions.

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COMMISSIONER SULLIVAN reiterated that it was a great question that is relevant for a number of areas on the North Slope including Point Thomson and that is one reason this is a strategic development for the state.

The second is that it's a multi-billion dollar development and a lot of that infrastructure will be able to be used for gas commercialization as well as for the liquids development.

The third is jobs and he showed some of the different elements of the project that were going on this winter. He explained that over the last years they had been very focused on permitting this with the Corps of Engineers and the North Slope Borough and got it permitted in time and put a lot of people to work. Senator Bishop, when he was commissioner for the Department of Labor and Workforce Development (DOLWD), was very instrumental in making sure we had a strong Alaska hire provision in the Point Thomson settlement; the estimates are 700-800 sustained jobs peaking at over 2,000. And throughout the course of last year as the Governor's bench marks were being met one saw a lot of big front page - Wall Street Journal, Financial Times of London, Toronto Globe and Mail - articles that were positive for the state.

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The Governor's third benchmark was putting the concept selection and the associated timeline in more detail. The western Canadian projects are some of Alaska's biggest competitors and in a letter to the Governor companies talked about the integrated team. This is important, because they hadn't been working together on a large scale gas commercialization project for a long time. This team is led by Exxon with the other companies bringing in their particular expertise and different work they

had done: BP is focused on the upstream, TransCanada and Exxon have been in the midstream, and ConocoPhillips focused on liquefaction and the downstream LNG. They are starting to consolidate their efforts through Denali and the APP project and that has not happened in a long time. These companies compete all over the world in different cultures and this is an important element.

SENATOR DYSON said he didn't want to sound pejorative, since he went to work for BP in 1971 and was skeptical, but once the unconventional gas started being developed seven years ago, why didn't the majors say go slow on building the line to Alberta? Why didn't they stop that process and nominate a line to tidewater once that became evident, because it was clear in AGIA that the producers could drive the solutions.

COMMISSIONER SULLIVAN responded that in this job he tries to not answer for companies and that you'd be crazy to not be skeptical. But from a public policy standpoint, in 2011 the governor was making speeches saying the opportunity is in Asia.

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SENATOR DYSON asked why the state kept spending money on TransCanada once it became clear that it wasn't a viable project. How much of the state's money got poured in as matching funds on that project?

COMMISSIONER SULLIVAN replied that a significant amount of the state spending and work on Alberta is very relevant to this project - at least through Livengood. He didn't know the exact amount of the state's spending or the work that was done.

SENATOR DYSON said when ANGDA was trying to get the North Slope producers to release a little bit of propane for the transportation sector on the Slope the company said "no way" the clear implication being that any molecule sold to run trucks on the North Slope would mean less oil to be able to produce. It seems so disingenuous and then that leads to the question of why in the world we ever think that they are going to release gas to be sold until they are ready to do it.

MR. BALASH replied in terms of the company's willingness to sell a given product or product stream, they have been selling natural gas locally to Norgasco for decades and he was aware of at least two contracts from individual producers at Prudhoe Bay for sale to companies that transport that gas to Fairbanks. In those cases, the expectation is there will be some amount of

propane that will drop out in the liquefaction process that would be available for sale. As to the reasons why the operators did not pursue the ANGDA option on propane, that is probably better left to the record and the AOGCC maneuver to try to force something on the order of pushing on a rope as opposed to driving these things commercially in a way that allows everybody to move forward together.

On the question of shouldn't we have seen the shale wave coming, Mr. Balash said, in 2008 when the legislature was voting to approve the license the price of natural gas in North America was more than two times higher than it is today. In some ways we were following the lead of the big sophisticated companies with long term views. All the way through the open season that occurred in 2010, he recalled that ExxonMobil was partnered with TransCanada and APP, and that Denali was sponsored by ConocoPhillips and BP. All three of the big North Slope lease holders focused on projects headed to North America and that was the case until late in the second quarter of 2011 when ConocoPhillips and BP folded the tent on Denali, at which point the state had to consider very carefully what the future of commercialization was for the North Slope resource.

It was in late summer or early fall that the Governor called on all four parties - TransCanada, ExxonMobil, BP, and ConocoPhillips - to examine whether the Pacific market was the place to go and that is when they turned the corner. We have been in a bit of a transition since, but details are emerging here and the promise of what can happen.

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SENATOR DYSON said he appreciated their initiative in taking a time out to re-evaluate.

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COMMISSIONER SULLIVAN said the Governor also requested hardening the project numbers and on this issue two things are important: an LNG project of this size would be one of the largest in the world with huge job numbers, but there is also a focus on gas to Alaskans. And one of the elements under pipeline slides talks about off-takes to Alaskans. That is a key component of this project, because the volumes - estimated to be 300-350 mmcf/day - wouldn't be just for export.

MR. BALASH agreed and added that would also assume some additional demand growth largely for some of the mines that are very interested in using natural gas.

COMMISSIONER SULLIVAN said this bill was a relatively broad hardening of the numbers as the Governor asked, but they also needed an associated timeline for this project, which hadn't been done as a group together. He meets with the companies almost daily and tries to get them to accelerate this timeline.

His slide 21 detailed the "stage-gated" approach that all the large scale resource development walk through and he said that he has been pressing the companies on moving into the pre-front engineering and design phase. This is when you start getting into significant investments by the companies as well as significant numbers of employees. That would take them within a year (essentially half way) through the stage-gated approach. He said one of his messages to the legislature is in their meetings with the companies to remind them of the urgency of moving into pre-feed this summer.

MR. BALASH added if you think about the steps that are necessary to bring the parties together, some take longer than others. The steps associated with marketing LNG and the process that is undertaken in identifying the reserves, the buyers, the pre-agreements, the agreements themselves, and what the contract terms are; these are key to the state's position as the lessee royalty owner. The state continues to strive to understand the (royalty in kind/royalty in value) RIK/RIV decision it has to make; the default being to just sit in value and allow the companies to take the lead and use their expertise and relationships (with the state playing its conventional and traditional role as the royalty collector not the royalty marketer).

MR. BALASH said that he needs to be on top of evaluating how to derive the dollar amount for the state's gas that comes through that very complicated series of contracts from the buyer all the way through up to the wellhead and that the state is certainly familiar with how to deal with pipelines and tariffs, marine transport and tankerage, but it doesn't have a good handle on the valuation associated with liquefaction.

The method that might be employed to determine how much value gets backed out of that market price for the liquefaction service is a blank spot. It's not a regulated activity. It is typically done in a very strict commercial sense and for lack of a better term - a profit center for the project. Striking a right balance there is going to be a struggle advancing through

the pre-feed stage. The state will have to understand in that context which path leads to the best value for the long term.

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SENATOR BISHOP asked if the Federal Energy Regulatory Commission (FERC) is in or out on the liquefaction plant.

MR. BALASH replied that the FERC will be very much involved in the siting of the liquefaction facility, the safety reviews, and the environmental considerations, but they aren't involved in rate setting for liquefaction services.

SENATOR BISHOP asked Commissioner Sullivan if in his former career at the State Department and taking trips to the Far East he had any assets he was leaning on to talk about commercial terms on liquefaction. Was he at liberty to say?

COMMISSIONER SULLIVAN said they had principally been talking about getting buyers very interested in Alaska gas on these trips, but hadn't gone into a lot of detail. They are attracted to Alaska gas because of the comparative advantages over other projects. Getting out there and explaining it has gotten interest going.

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SENATOR DYSON remarked that it seemed like a chicken and the egg thing for a couple of decades.

COMMISSIONER SULLIVAN answered when he talked about interests aligning that the state had not done a lot of this previously. He tells the companies exactly what the state is doing and he has been going out to all the potential buyers and their governments, which is critical in Asia, and walking them through why this makes sense for them. He emphasized that there is huge demand in Asia and stated that it's going to be filled by companies operating in Alaska now.

He recognizes that Asia has resources in Qatar, Australian, Russian, Western Canada, and the Gulf, and he is trying to get the buyers to say they want to diversify to Alaska gas. The more he can get potential buyers to doing that the more this project will be accelerated from the demand side, and he is starting to see a lot of interest.

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COMMISSIONER SULLIVAN said he is focused on getting a project sanctioned because a project is hardly ever dropped once it is sanctioned.

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He said the advantages of using Alaska LNG are compelling. He received an invitation several days ago from LNG 17, the largest LNG conference in the world, to present a version of this there. Typically, he will mention both the state's efforts.

SENATOR FRENCH asked him to compare and contrast the economics of both projects, what they do for the state and ask whether the state is going to have the financial resources to make a significant contributions to both projects or it should just pick one.

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COMMISSIONER SULLIVAN responded that they get Asia's attention by listing these issues: having a triple-A partner with a strong balance sheet, explaining the royalty issue, and giving a sense that the state of Alaska is very motivated to commercialize gas, and, oh, as a matter of fact we have two projects going now.

SENATOR FRENCH said it's worth reminding folks that the gross revenue from a large diameter pipeline at \$5mcf is about \$15 million/day versus the [TAPS] pipeline, which is one-third full pumping 500,000 barrels of oil a day, but it is worth \$55 million (over three times the value in an aging pipeline over what you'll get from a brand spanking new huge volume gas line). It's worth remembering that the economics of gas are still very challenged.

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COMMISSIONER SULLIVAN said resource risk in Alaska with regard to conventional gas is essentially zero - we know what we have and it flows 8 bcf/day - and a lot of buyers are interested in that. Thirty-five tcf of known reserves is co-located with existing infrastructure on the North Slope depending on the route. Alaska's reliability for exporting gas is well received in Asia; we are the only place that has exported gas in North America and we have done it for 40-plus years.

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Recent studies have shown that the Alaskan large volume project competes very favorably globally against other projects. Compared to the Gulf, Alaska brings more regulatory certainty in

terms of LNG projects than any other place in the U.S. that wants to export gas; that goes for the export license as well.

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COMMISSIONER SULLIVAN said he also highlights some of the risks and drawbacks of our competition and that he is planning on continuing this advocacy.

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MR. BALASH said the key point in laying out the path forward in 2013 was getting to concept selection in mid-February. The companies met that milestone and importantly, the location of the gas treatment plant decision was made. It had an impacted on what kind of pipe would be pursued. Had the treatment plant decision been to locate it in the south as opposed to the north, that would have had impacts on the type of pipe one would design in terms of materials and capacity, because one would be moving excess volume - CO2 and other contaminants - in the methane stream and that would require an even bigger pipe and additional hurdles for in-state use. It also would impact commercial issues in terms of what happens to those contaminants when they are pulled off (where will it go and who is responsible for it?). So, getting the companies over the hurdle of where to locate the treatment plant was a big step relative to being able to continue to advance the work necessary in the pre-feed stage that would allow the technical and regulatory work to continue.

He said they are now focused on pressing the companies to ensure the summer field season is utilized; if the necessary field data isn't fed into the ERL work that will be necessary for applications to be filed when one gets to the feed stage, you could potentially lose a whole year just with the seasonal nature of things.

At the same time, Mr. Balash said, the Governor in his benchmarks called on the parties to reach a commercial agreement on advancing the pre-feed stage. So, the ERL step could be a little bit of an interim effort. The pre-feed stage is an important precursor to allowing the state to take some measure of confidence in the work going forward. He added that the budgets associated with the pre-feed stage begin to match the state's financial contribution through the AGIA license and that basic parity - a similar commitment on the part of the lessee's to match the state's commitment in pursuit of this project - is what he is looking for.

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COMMISSIONER SULLIVAN said these benchmarks have been helpful, because there wasn't all kinds of alignment on getting to the concept selection before. Working together is key having recognized this is a window of opportunity that won't stay open forever and that a whole lot of other states are trying to get there before us.

MR. BALASH said the Alaska Gasline Development Corporation (AGDC) had accomplished great work to date and had avoided duplication. Part of the reason is when it was formed three years ago as part of HB 369, this project was focused on a North American destination. As the big commercialization effort has shifted its focus there is a little more opportunity for synergy and outright collaboration (he hopes). But at the present time AGDC is hamstrung in its ability to participate in a meaningful way in any conversation with any of the parties because of confidentiality. The vulnerability that creates for any of the other private parties - TransCanada, ExxonMobil or ConocoPhillips - is if they discuss any of their plans with AGDC those then become susceptible to a public records request which all the other competitors would have the ability to request. So, something needs to be done to address the aspect of confidentiality in AGDC's business.

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SENATOR BISHOP said he was encouraged by the 42-inch diameter, because that can be rolled in North America, which means more jobs, but he wasn't certain the X-80 spec could be met.

CHAIR GIESSEL asked them if they track progress other projects are making and does that push our producers forward to get Alaska gas to market quicker.

COMMISSIONER SULLIVAN answered yes; Australia, for instance, has close to 10 projects moving toward sanction in the next 12-18 months, but the labor costs are skyrocketing, so some companies are pulling back from there. It's always difficult to tell, because some of the North Slope producers participate in these other projects. The state pays close attention and doesn't wait for producers to go out to other serious buyers and tout Alaska. For instance, British Columbia is a big competitor, but they have some issues that we don't. The resource risk, for one: most of their plays in Western Canada are shale gas plays and they are not developed yet. They will need hundreds of rigs to develop them and they have huge problems with First Nation's issues.

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SENATOR MICCICHE said he appreciated their tenacity and hoped they continue. He said they are on the right track but Alaskans are impatient and advised to not ever underestimate the value of having a second option. Keeping AGDC alive is a lever that lets other folks know that Alaskans are serious.

COMMISSIONER SULLIVAN said he couldn't agree more.

CHAIR GIESSEL thanked the presenters for the update.

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Finding no further business to come before the committee, Chair Giessel adjourned the Senate Resources Standing Committee meeting at 5:00 p.m.