

**ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE**

January 23, 2015

3:29 p.m.

MEMBERS PRESENT

Senator Cathy Giessel, Chair
Senator Mia Costello, Vice Chair
Senator John Coghill
Senator Peter Micciche
Senator Bert Stedman
Senator Bill Stoltze
Senator Bill Wielechowski

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

OVERVIEW: OFFICE OF THE FEDERAL COORDINATOR FOR ALASKA NATURAL GAS TRANSPORTATION PROJECTS

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

LARRY PERSILY, Federal Coordinator
Alaska Gas Line Projects
Washington, D.C.

POSITION STATEMENT: Presented information on the Alaska Natural Gas Transportation Project.

ACTION NARRATIVE

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CHAIR CATHY GIESSEL called the Senate Resources Standing Committee meeting to order at 3:29 p.m. Present at the call to order were Senators Costello, Coghill, Micciche, Stedman, Wielechowski, and Chair Giessel.

**Overview: Office of the Federal Coordinator for Alaska Natural
Gas Transportation Projects**

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CHAIR GIESSEL introduced the presenter.

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LARRY PERSILY, Federal Coordinator, Alaska Gas Line Projects, Washington, D.C., offered a handout on oil and gas-related acronyms.

CHAIR GIESSEL noted the arrival of Senator Stoltze.

MR. PERSILY pointed out that the 56th anniversary of the first liquefied natural gas (LNG) shipment by tanker on January 28, 1959, which left Louisiana for the United Kingdom. He provided the history of the joint venture between Union Stockyard and Transit Company of Chicago and Continental Oil - now Conoco. He described how they converted a WWII liberty ship to be able to carry LNG. He emphasized how much the gas industry has grown since then.

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MR. PERSILY began the update by relating Federal Energy Regulatory Commission (FERC) efforts. In order to build a gas terminal in the U.S., FERC must build and operate it. The FERC has named an environmental project manager, two deputy directors, and a third-party contractor to work on the Environmental Impact Statement (EIS). The project sponsors have indicated they will submit the first draft environmental resource reports next month and FERC will issue a formal Notice of Intent in the federal register, starting the EIS scoping process. He explained that the scoping process involves holding public meetings statewide to discuss baseline data and the effects of the project on things like water, soil, wetlands, and habitat. FERC wants to hear from the public and agencies what issues to address in the EIS.

CHAIR GIESSEL asked if two draft reports had been turned in already.

MR. PERSILY said yes - they were preliminary project descriptions. The detailed reports will follow.

CHAIR GIESSEL asked where the public scoping meetings will be held.

MR. PERSILY said the schedule has not been released; the meetings will not be limited to the Railbelt, but rather, held throughout the state. The goal is to build an EIS that does not get challenged.

MR. PERSILY discussed the Department of Energy's (DOE) obligation to export the gas. The project sponsors applied for export authority last year and on December 21 DOE granted export authority to free-trade nations; however, there are no free-trade nations other than South Korea that are interested currently. Non-free trade nations such as China, Japan, India, Thailand, Vietnam, and Indonesia are the customers pending. He said when DOE posted the notice in the federal register there were 27 responses, a small number, with only one in opposition from the Sierra Club which has opposed every LNG export project. He pointed out that since the law says the presumption is that exports are good, unless someone can show DOE it's not in the public interest, he expects approval sometime in 2015. Approval would be conditional on final FERC approval of the EIS.

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SENATOR STOLTZE did not share the opinion regarding the Sierra Club's lack of relevance to the process.

MR. PERSILY pointed out that none of the approved export applications have been held up by DOE so far this year. One of the Sierra Club's complaints is that upstream and downstream environmental impacts should be included. He said it is not FERR's job to do a "cradle to grave" analysis and DOE agrees.

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MR. PERSILY relayed that the Office of the Federal Coordinator for Alaska Natural Gas Transportation Projects was not funded and will close March 1. The office was created in 2004 when there was concern about running out of LNG. Their authority was only for domestic projects and no longer qualifies. He said the agency is working to preserve the work that has been done with a contract with the Alaska Resources Library Information Service (ARLIS) at the University of Alaska - Anchorage. There will be a searchable, digital library of documents from the past 40 years. He said he is looking for a federal home for information services.

CHAIR GIESSEL said she found the POD files in the digital library very informative.

She welcomed Representative Kreiss-Tomkins to the meeting.

MR. PERSILY addressed make-or-break factors for Alaska's LNG project. He said that it comes down to market demand for LNG whether the world economy continues to grow at a sufficient rate and whether countries turn to natural gas and away from coal and other sources. It depends on China, which now imports about 30 percent of its gas and would like to clean up its air. Japan is currently the biggest importer of LNG, but that could change to China by 2020. Brazil, Qatar, Thailand, Vietnam, Indonesia, and Egypt are also importing LNG.

He said that Alaskan needs to be cost competitive and to be realistic about profits; LNG is not as profitable as oil. At today's LNG prices in Asia, for a new project, it costs about 75 percent to 80 percent of its value to move it from the North Slope.

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SENATOR COSTELLO asked if there were any competitive advantages of the quality of Alaska's gas.

MR. PERSILY noted a disadvantage of the higher prices of Alaska's LNG. He said there were also advantages: a higher BTU value than coalbed methane gas in Australia, Asia, and the U.S. Gulf Coast, significant shorter shipping distance, and proven reserves.

He addressed risk and price as they relate to Alaska LNG. There are dozens of proposed, potential, possible projects that are making pitches to the same buyers as Alaska. There is no shortage of gas. Companies that lack experience and financial backing are at a disadvantage. Certainty and dependability have value.

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MR. PERSILY addressed the odds for Alaska. He said it's the best it's been in 40 years, the timing is good for Alaska, and the market is growing. Natural gas is increasingly the fuel of choice. LNG demand is growing; it's just a question of how much demand. Turning North Slope gas into cash would extend the life of oil operations, which is crucial for Alaska's future. By 2020's and beyond, gas sales could begin without ruining North Slope oil production numbers.

MR. PERSILY spoke of staying on a schedule that is based on filings by the project sponsor with FERC, and the schedule that was laid out by the previous administration in presentations on

SB 138, in the Heads of Agreement with the producers, and in the Memorandum of Understanding (MOA) with TransCanada and the state. The project sponsors would begin to turn in their draft resource reports to FERC next month and continue with preliminary engineering and design field work in the summer of 2015. That would position them to make the Front-End Engineering and Design (FEED) decision in early 2016, the draft EIS in 2017, the final EIS in 2018, and Final Investment Decision (FID) in 2019. He concluded that the federal perspective is to stay on schedule, but he recognized that there are issue that the state and its partners have to resolve.

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MR. PERSILY talked about Alaska's competition, the first being Canada. He said none of the 18 proposed Canadian projects have gone to FID. He gave an example of some of the projects that are just on paper. Petronas, an example of a project that is far along in progress, is trying to develop a terminal near Prince Rupert, but is delayed until costs are cut down. There are First Nations issues in Canada and environmental issues for coastal LNG plants.

He describe competitors in the U.S. Gulf Coast, noting that four export terminals are under development. The first project was to start up the end of 2015; two more are under construction on the Gulf and one on the East Coast. He discussed "brown field" developments - already developed import terminals that are under used - that can be turned into export terminals. They have a cost advantage. These LNG projects are called "tolling models" and are not built by producers, a different business model. The market risk is not there. He predicted that the gas will end up in the Atlantic Basin, Europe, and elsewhere.

He said the U.S. does not have enough pipeline capacity to meet the growing demand and move the gas. It is difficult to get approval for new pipelines and very expensive.

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MR. PERSILY discussed Russian competition. Russia has one LNG terminal on Sakhalin Island and there is one LNG terminal under development called Yamal LNG, but it is under duress. There are Western sanctions over Ukraine that are hindering financing, technology, equipment, and expertise. The Russian government is investing \$2.5 billion in the "Wellbeing Fund," and is building a port, an airport and icebreakers. He described the Russian plans for shipping and the expectation that Yamal will miss the 2018 start-up date.

MR. PERSILY turned to the global pricing debate. Asian buyers, led by Japan, have been pushing to delink LNG pricing from oil since at least 2012. High oil prices, growing LNG demand, and lack of new supply pushed prices to \$17 - \$20 per million Btu; now they are at \$10 per million Btu. New supply is coming on in Papua New Guinea, Algeria Oil, Australia, and in the U.S.

He stressed that today's price do not affect the future price of gas. What is important is supply and demand, long-term prices, and contract terms. Price and contract terms for 2020 and beyond will determine the success or failure of the Alaska gas project. Buyers are signing shorter contracts until the market settles. He gave an example of a recent five-year contract in Korea.

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MR. PERSILY said that future pricing is unknown. Lower prices will lessen the push for a new price formula. The LNG consumption continues to grow. A downside of falling prices is current over supply and some projects may be cancelled. There will be a supply deficit in 2020 if too many projects are cancelled.

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MR. PERSILY addressed the topic of confidentiality. He said there is an inherent conflict with state ownership - with the state a partner in a business venture. It is a very competitive environment. Confidentiality is a financial and a political conflict when a public entity is a partner with private business. As a democracy, Alaskans want to be informed. The final governance agreements will be public, but during negotiations there must be a balance that works for public and private interests.

SENATOR COSTELLO asked how de-linking oil and gas prices works.

MR. PERSILY explained that LNG is priced at U.S. Henry Hub, plus 15 percent more gas, which is the cost of production, plus \$3 per million Btu liquefied. Sellers want price certainty; buyers are looking for a diversified portfolio with blending or hybrids. He concluded that the new norm has not been defined.

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SENATOR COGHILL thanked Mr. Persily for his work. He asked about the international need to get gas to market. Over-land pipelines and over-water LNG tanks seem to be on a collision course in

some areas. He inquired about the clash over the expense of building a pipeline versus shipping.

MR. PERSILY said it depends on the geography. China gets about half of its LNG by pipeline from Central Asia and half by tanker. Russia and China signed a gas pipeline agreement last year, but they have not begun construction. It will be a 2,500 mile pipeline with a \$50 billion pipeline and field development cost. There is some speculation that China would help finance it and is using this to force better prices from others.

He reported that Japan has no pipeline options. Qatar has built very large LNG tankers, but only certain terminals can accept those massive ships.

SENATOR COGHILL referred to the advantages of Alaska's conditions such as closeness to market and an established pipeline. He questioned if shipping would be more economical with larger ships.

MR. PERSILY reported that Alaska developers have said that they are going to use standard-sized tankers. Alaska has shorter transit runs to Asia, dependable deliveries, proven reserves, and higher Btu. Europe gets some pipeline gas from Norway and North Africa and some LNG, depending on pricing. He reported on Lithuania's contract with Norway and the use of a floating LNG receiving terminal storage unit. Lithuania would like to become a hub for the Baltic and make a political statement.

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CHAIR GIESSEL voiced concern over the marketing of Alaska's gas. She requested information about oil company marketing versus state government contract marketing.

MR. PERSILY said there are not that many companies that market gas because it is very risky. He suggested the state could negotiate a contract with reasonable terms with a marketing company and avoid politics, rather than trying to set the state up as international commodity expert.

CHAIR GIESSEL thanked Mr. Persily for his presentation.

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There being nothing further to come before the committee, Chair Giessel adjourned the Senate Resources Standing Committee at 4:23 p.m.