

**ALASKA STATE LEGISLATURE  
HOUSE SPECIAL COMMITTEE ON ENERGY**

February 21, 2023

10:16 a.m.

**MEMBERS PRESENT**

Representative George Rauscher, Chair (via teleconference)  
Representative Tom McKay  
Representative Josiah Patkotak, Vice Chair  
Representative Mike Prax  
Representative Calvin Schrage  
Representative Ashley Carrick

**MEMBERS ABSENT**

Representative Stanley Wright

**OTHER LEGISLATORS PRESENT**

Representative Jesse Sumner

**COMMITTEE CALENDAR**

PRESENTATION(S) UPDATE FROM ENERGY SUPPLIERS

- HEARD

**PREVIOUS COMMITTEE ACTION**

No previous action to record

**WITNESS REGISTER**

LUKE SAUGIER, Senior Vice President  
Hilcorp Alaska, LLC  
Houston, Alaska

**POSITION STATEMENT:** Gave a PowerPoint presentation, titled "Hilcorp: House Energy Committee."

LORALI SIMON, Vice President  
External Affairs  
Usibelli Coal Mine  
Fairbanks, Alaska

**POSITION STATEMENT:** Gave a PowerPoint presentation, titled "Hidden in Plain Sight: Alaska's Affordable Energy."

BENJAMIN JOHNSON, CEO and President  
Blue Crest Energy, Inc.  
Fort Worth, Texas

**POSITION STATEMENT:** Gave a PowerPoint presentation, titled "Cook Inlet Basin Overview and Characterization; Energy Supply/Demand Challenge; Cosmopolitan Tyonek Gas Opportunity."

JOHN HENDRIX, President  
Furie Operating Alaska  
Anchorage, Alaska

**POSITION STATEMENT:** Gave a PowerPoint presentation, titled "Furie Operating Alaska LLC: House Energy Committee Presentation."

#### **ACTION NARRATIVE**

[10:16:19 AM](#)

**CHAIR GEORGE RAUSCHER** called the House Special Committee on Energy meeting to order at 10:16 a.m. Representatives Patkotak, Carrick, Schrage, Prax, McKay, and Rauscher were present at the call to order.

[Chair Rauscher passed the gavel to Representative Patkotak].

#### **PRESENTATION(S) UPDATE FROM ENERGY SUPPLIERS**

[Contains discussion of HB 50.]

[10:16:44 AM](#)

VICE CHAIR PATKOTAK announced that the only order of business would be presentations on the updates from energy suppliers.

[10:18:27 AM](#)

LUKE SAUGIER, Senior Vice President, Hilcorp Alaska, LLC, gave a PowerPoint presentation titled, "Hilcorp: House Energy Committee" [hard copy included in the committee packet]. He began on slide 2 and showed a map of Hilcorp's holdings on the North Slope and Cook Inlet. He continued to slide 3 and stated that Hilcorp is the largest operator in Alaska. The company has approximately 1,500 employees, with 75 percent Alaska residents. He added that this percentage had decreased after Hilcorp acquired BP Alaska, and it is expected to increase with the company's policy of hiring Alaskans first. He stated that Hilcorp has 1,700 oil and natural gas wells in the state, and it

has over 700 partnerships with Alaska businesses, which has generated over \$750 million in spending with these businesses. He said that Hilcorp has contributed over \$17 million to different philanthropic causes in the state, and these causes were chosen by the employees.

MR. SAUGIER continued to a map on slide 4, showing Hilcorp's operations in Cook Inlet and the Kenai Peninsula. Hilcorp provides over 62 billion cubic feet (Bcf) of natural gas, which amounts to approximately 80 percent of the natural gas used in Alaska. He stated that ENSTAR Natural Gas Company operates two points of entry for natural gas into Anchorage. The four largest natural gas fields in Cook Inlet are in Ninilchik, Kenai, North Cook Inlet, and Beluga River. These produced a combined 45 Bcf of the natural gas produced by Hilcorp. He added that of the 17 natural gas platforms in Cook Inlet, Hilcorp owns 15.

MR. SAUGIER added that there are four natural gas storage facilities in Southcentral Alaska, three of which are owned and operated by Hilcorp, and one of which is owned and operated by the Railbelt utilities. He said that the Kenai Gas Field has a gas storage capacity of 540 Bcf. He stated that the two things to consider for natural gas storage are capacity and the speed at which the natural gas can be distributed. He continued that Swanson River gas storage facility has a capacity of 3 Bcf, and because of its increased ability to pump out gas at a faster rate it is the "emergency" storage facility. The third storage facility owned by Hilcorp is at Pretty Creek, and it is the only facility on the north side of Cook Inlet.

[10:33:37 AM](#)

MR. SAUGIER continued to slide 5 and stated that Hilcorp has spent nearly \$1 billion on capital projects to build new wells and maintain and repair existing wells. He stated that Hilcorp's primary focus is natural gas in Cook Inlet, and all its new wells have been drilled for natural gas. He added that between 2012 and 2021 Hilcorp has drilled over 80 wells. He continued to slide 6 and stated that Hilcorp plans to spend a fourth of its budget on exploration to find new natural gas fields in Cook Inlet. He said that Hilcorp would use four different rigs in 2023 to drill new wells. He added that Hilcorp would also be plugging and closing 41 wells as part of its cleanup process.

MR. SAUGIER continued to slide 7 and stated that Hilcorp was the only bidder in the Alaska and federal lease sale in December 2022. He stated that Hilcorp will begin trucking natural gas from the North Slope to Fairbanks, which is a first. He expressed Hilcorp's interest in a natural gas pipeline from the North Slope and the potential for using its platforms for renewable energy generation.

[10:41:39 AM](#)

CHAIR RAUSCHER, in relation to HB 50, questioned whether Hilcorp would be interested in carbon dioxide sequestration.

MR. SAUGIER answered that Hilcorp would investigate using its oil platforms for sequestration.

[10:43:16 AM](#)

REPRESENTATIVE CARRICK asked whether natural gas would still be trucked to Fairbanks if a pipeline were built.

MR. SAUGIER answered that Hilcorp will move the natural gas to a storage facility on the North Slope, but it is not responsible for the trucking. In response to a follow-up question, he stated that Hilcorp's policy is to hire Alaska residents almost exclusively, and it has not faced many challenges finding Alaskan workers other than the occasional hire in a highly specialized position. He added that the biggest challenge to reaching 100 percent Alaska residency is because some employees move out of state, and this is because of the unique North Slope schedule of having 2 weeks on and 2 weeks off.

[10:47:18 AM](#)

REPRESENTATIVE MCKAY asked why Hilcorp would no longer sign any long-term natural gas contracts.

MR. SAUGIER answered that fossil fuels such as natural gas and oil are nonrenewable, and Hilcorp already has contracts for all the gas it can sell. He added that other companies have reduced their presence in Cook Inlet, and this has caused a drop in the supply.

[10:51:45 AM](#)

REPRESENTATIVE PRAX asked whether price ceilings on natural gas have created disincentives to new drilling.

MR. SAUGIER responded in the negative.

[10:53:29 AM](#)

The committee took an at-ease from 10:53 a.m. to 10:55 a.m.

[10:55:00 AM](#)

LORALI SIMON, Vice President, External Affairs, Usibelli Coal Mine (UCM), gave a PowerPoint titled, "Hidden in Plain Sight: Alaska's Affordable Energy" [hard copy included in the committee packet]. She maintained that coal remains "very strong" as a source of energy in the face of the declining natural gas supply. She continued to slide 2 and stated that UCM is the only coal mine in Alaska, and it has been operating for over 80 years with its third generation of family leadership.

MS. SIMON continued to slide 3 and slide 4 and stated that UCM produces 1 million tons of coal on an annual basis, and this powers all the state's coal-fired power plants. She stated that it spends over \$30 million annually with 300 different Alaska suppliers. She stated that a report from 2021 shows that coal saves ratepayers approximately \$300 million annually in Alaska's Interior. She continued to slide 5 and slide 6 and stated that coal powers half of the Interior's energy generation. She listed the six coal-fired power plants in Alaska: the University of Alaska Fairbanks, Fort Wainwright Army Post, Eielson Air Force Base, Aurora Energy, GVEA Healy 1, and GVEA Healy 2.

MS. SIMON continued to slide 7 and slide 8 and stated that the UCM is "hidden in plain sight." She stated that coal is plentiful, affordable, and reliable. She maintained that improving technology will allow the usage of coal while still meeting carbon reduction goals. She emphasized the importance of coal as an "Alaskan" source of energy because it is produced in Alaska and provides jobs for people in Alaska. She continued to slide 9 through slide 11 and argued that the primary factor in air quality issues in the Interior is from woodsmoke, and not coal-fired power plants. She added that burning drier wood would reduce the amount of polluting smoke, and UCM has created Aurora Energy Solutions to provide dry wood to the Interior.

[11:04:38 AM](#)

MS. SIMON continued to slide 12 and slide 13 and stated that UCM is involved in efforts to study carbon capture, utilization, and

storage (CCUS). She stated that a "healthy" mining industry supports renewable resources, as the materials needed to create objects, such as solar panels, must be mined. She expressed the opinion that moving away from fossil fuels entirely is not "realistic" for Interior Alaska, as fossil fuels will be needed while waiting for improvements to renewable energy technology.

MS. SIMON moved to slide 14 and suggested that the use of coal would support military readiness. She stated that the supply of coal has 400 years of proven reserves, and there is enough coal stockpiled to supply energy for 90 days without any additional coal.

[11:08:19 AM](#)

REPRESENTATIVE PRAX questioned the percentage of the market that is being provided with wood from UCM's wood kilns.

MS. SIMON expressed uncertainty on the percentage but added that UCM provides 5,000 cords of wood annually. She expressed the hope that this would double with a second wood kiln. In response to a follow-up question, she answered that UCM is involved in the coal-gasification project occurring at the University of Alaska Fairbanks.

REPRESENTATIVE PRAX asked about the possibility of using smaller coal plants to power some of the remote villages.

MS. SIMON answered that it would be possible, but there would need to be more coordination between UCM and these communities.

[11:11:19 AM](#)

REPRESENTATIVE SCHRAGE questioned UCM's climate goals.

MS. SIMON answered that several of the past administrations have discussed carbon reduction goals. In response to a follow-up question, she expressed the understanding that coal power plants have relatively low effects on air quality in the Interior and mentioned the possibility of using waste steam from power plants to heat hot water.

[11:16:08 AM](#)

CHAIR RAUSCHER asked for the names of the six coal-fired power plants in Alaska.

MS. SIMON reiterated that they are the University of Alaska Fairbanks, Fort Wainwright Army Post, Eielson Air Force Base, Aurora Energy, GVEA Healy 1, and GVEA Healy 2.

[11:17:41 AM](#)

REPRESENTATIVE CARRICK asked what opportunities UCM sees in renewable energy.

MS. SIMON answered that even if coal were to stop being used for electricity generation, it would still be needed to create steel for wind turbines, for example. She stated that this is just one of the examples of mining minerals necessary for making renewable energy. She added that 37 percent of UCM's employees are multigenerational.

[11:22:22 AM](#)

The committee took an at-ease from 11:22 a.m. to 11:23 a.m.

[11:23:50 AM](#)

BENJAMIN JOHNSON, CEO and President, Blue Crest Energy, Inc., gave a PowerPoint presentation titled, "Cook Inlet Basin Overview and Characterization; Energy Supply/Demand Challenge; Cosmopolitan Tyonek Gas Opportunity" [hard copy included in the committee packet]. He began with slide 2 and showed a map marking the locations of oil and gas fields in Cook Inlet. He stated that the Cosmopolitan Tyonek gas field is proven but undeveloped. He said that production would fall below demand unless a new source of natural gas is utilized. He expressed the opinion that renewable energy development or importing natural gas would both be expensive options.

[11:25:54 AM](#)

MR. JOHNSON continued to slide 3 and slide 4 and pointed out the chart that shows natural gas in Cook Inlet running out by 2027 does not include the potential of the Cosmopolitan Tyonek gas field. He suggested that there would be 8 to 10 years of natural gas in this field, with the possibility of it lasting longer. He stated that the field includes oil and is three miles offshore. He added that the way the gas and oil would be recovered, spills would be very unlikely. He continued to slide 5 and slide 6 and showed a diagram on how Blue Crest would recover the oil and gas from the Cosmopolitan Tyonek field. He added that the wells providing this data have already been

drilled. He stated that this includes seismic data. In response to a committee question, he answered that the green dots represent oil tests, and the red dots represent natural gas tests.

MR. JOHNSON pointed out on slide 7 the three-dimensional map of the oil and natural gas sands in the Cosmopolitan Tyonek field. He moved to slide 8 and stated that a small platform would need to be built to access the natural gas in this field. He said that Blue Crest has already conducted the initial research and is working on the engineering for the project.

[11:34:14 AM](#)

REPRESENTATIVE PRAX asked about the State of Alaska's role in the permitting process.

MR. JOHNSON answered that Blue Crest has been working on the permitting process for three years and expects things to continue without any issues. In response to a follow-up question, he said that the whole process has been ongoing for eight years.

[11:35:46 AM](#)

REPRESENTATIVE MCKAY asked if either the bill involving carbon storage [HB 50] or carbon credits would be helpful in attracting investment for the project.

MR. JOHNSON answered that environmental concerns are a hurdle in attracting investment, and the bills could potentially play a role in alleviating these concerns.

[11:36:54 AM](#)

REPRESENTATIVE CARRICK asked whether a gas shortage could be avoided if the project could be completed in time.

MR. JOHNSON stated that the project would be completed in time if an investor were found. In response to a follow-up question, he stated that there is natural gas available in the current oil sands being worked by Blue Crest, and this could add several years to the amount of natural gas available. He expressed the opinion that the combined efforts of different companies should prevent a natural gas shortage.

[11:39:51 AM](#)

REPRESENTATIVE PRAX questioned the conditioning needed for the natural gas produced by this project.

MR. JOHNSON answered that the gas is very clean and would require little conditioning.

[11:40:54 AM](#)

REPRESENTATIVE SCHRAGE asked if carbon sequestration legislation would help with investments for natural gas projects.

MR. JOHNSON answered that, based on conversations with investors, this legislation would make natural gas projects "safer" investments.

[11:43:34 AM](#)

The committee took an at-ease from 11:43 a.m. to 11:44 a.m.

[11:44:18 AM](#)

JOHN HENDRIX, President, Furie Operating Alaska, LLC, gave a PowerPoint presentation titled, "Furie Operating Alaska LLC: House Energy Committee Presentation" [hard copy included in the committee packet]. He began on slide 3 and slide 4 and stated that Furie is Alaska's only locally owned and operated natural gas exploration and production company. He provided background information on the operations of the company, which included that the headquarters are in Anchorage.

[11:47:40 AM](#)

MR. HENDRIX continued to slide 5 and slide 6 and gave an overview of potential new explorations and developments for Furie. He stated that a large portion of 2023 will be spent on repairing two of the current wells owned by Furie. He added that production is planned to be increased in 2024; however, shipping could cause delays, along with rising costs, unpredictable weather, and the sand in Cook Inlet.

[11:53:13 AM](#)

MR. HENDRIX continued to slide 7 displaying a map comparing natural gas and oil activity in 2015 versus 2022. He continued to slide 8 and gave an overview of different actions the legislature could take to help natural gas production. He

pointed out that Furie pays 12.5 percent of gross revenue in royalties on top of existing taxes. He recognized that the state has taken too long to interpret and make available seismic data. He recommended that Alaska accelerate the permitting process for oil and natural gas production.

MR. HENDRIX continued to slide 9 through slide 12 and gave an overview of natural gas prices in Alaska and around the U.S. He stated that natural gas prices are roughly the same as they were in 2009, even without adjusting for inflation. He acknowledged that the proximity of the natural gas being produced keeps the price from increasing greatly, and this is because of transportation costs. He observed that there are no overarching plans to make a complete switch to renewable energy.

[12:01:48 PM](#)

REPRESENTATIVE PRAX asked where the property tax number comes from for natural gas platforms.

MR. HENDRIX answered that the number is issued by the state. In response to a follow-up question, he said that any workforce issues come from the service company side. He added that one of the companies employs only Alaskans, while the other flies some people up from the contiguous U.S.

[12:03:55 PM](#)

REPRESENTATIVE MCKAY asked if any imports being made by Furie were because of the unavailability in Alaska.

MR. HENDRIX answered in the affirmative.

[12:05:16 PM](#)

REPRESENTATIVE SCHRAGE commented that he appreciates Furie's work to provide natural gas to Southcentral Alaska. He suggested that oil and natural gas demand will peak in the next decade; however, it will start to decrease as more renewable energy technologies are adopted at a faster pace.

REPRESENTATIVE PRAX expressed the belief that, more than any other factor, the demand for renewable energy is because of the federal subsidies.

[12:10:01 PM](#)

## **ADJOURNMENT**

There being no further business before the committee, the House Special Committee on Energy meeting was adjourned at 12:10 p.m.