

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

March 29, 2023

1:02 p.m.

MEMBERS PRESENT

Representative Tom McKay, Chair
Representative George Rauscher, Vice Chair
Representative Josiah Patkotak
Representative Kevin McCabe
Representative Stanley Wright
Representative Donna Mears
Representative Maxine Dibert

MEMBERS ABSENT

Representative Dan Saddler
Representative Jennie Armstrong

COMMITTEE CALENDAR

HOUSE BILL NO. HB 125

"An Act relating to trapping cabins on state land; and relating to trapping cabin permit fees."

- HEARD & HELD

HOUSE BILL NO. 95

"An Act relating to designation of state water as outstanding national resource water; and providing for an effective date."

- HEARD & HELD

PRESENTATION(S): ALASKA GASLINE DEVELOPMENT CORPORATION UPDATE

- HEARD

PREVIOUS COMMITTEE ACTION

BILL: HB 125

SHORT TITLE: TRAPPING CABINS ON STATE LAND

SPONSOR(S): RESOURCES

03/20/23	(H)	READ THE FIRST TIME - REFERRALS
03/20/23	(H)	RES, FIN
03/27/23	(H)	RES AT 1:00 PM BARNES 124

03/27/23 (H) Heard & Held
03/27/23 (H) MINUTE (RES)
03/29/23 (H) RES AT 1:00 PM BARNES 124

BILL: HB 95

SHORT TITLE: NATL. RES. WATER NOMINATION/DESIGNATION
SPONSOR(S): RAUSCHER

03/06/23 (H) READ THE FIRST TIME - REFERRALS
03/06/23 (H) FSH, RES
03/23/23 (H) FSH AT 10:00 AM GRUENBERG 120
03/23/23 (H) Heard & Held
03/23/23 (H) MINUTE (FSH)
03/28/23 (H) FSH AT 10:00 AM GRUENBERG 120
03/28/23 (H) Moved HB 95 Out of Committee
03/28/23 (H) MINUTE (FSH)
03/29/23 (H) RES AT 1:00 PM BARNES 124

WITNESS REGISTER

RANDY ZARNKE, President
Alaska Trappers Association
Fairbanks, Alaska

POSITION STATEMENT: Gave invited testimony during the hearing on HB 125.

AL BARRETTE, representing self
Fairbanks, Alaska

POSITION STATEMENT: Testified in support of HB 125.

RYAN MCKEE, Staff
Representative George Rauscher
Alaska State Legislature

POSITION STATEMENT: On behalf of Representative Rauscher, prime sponsor, co-presented a PowerPoint presentation, titled "HB 95: National Resource Water Nomination/Designation" and gave a sectional analysis of HB 95.

RANDY BATES, Director
Division of Water
Department of Environmental Conservation
Juneau, Alaska

POSITION STATEMENT: Gave invited testimony during the hearing on HB 95.

FRANK RICHARDS, President
Alaska Gasline Development Corporation

Anchorage, Alaska

POSITION STATEMENT: Provided a PowerPoint presentation, titled "Alaska LNG Project Update."

ACTION NARRATIVE

[1:02:35 PM](#)

CHAIR TOM MCKAY called the House Resources Standing Committee meeting to order at 1:02 p.m. Representatives Wright, Rauscher, Mears, Dibert, and McCabe were present at the call to order. Representative Patkotak arrived as the meeting was in progress.

HB 125-TRAPPING CABINS ON STATE LAND

[1:03:35 PM](#)

CHAIR MCKAY announced that the first order of business would be HOUSE BILL NO. 125 "An Act relating to trapping cabins on state land; and relating to trapping cabin permit fees."

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RANDY ZARNKE, President, Alaska Trappers Association (ATA), provided invited testimony. He said he was speaking on behalf of the 1,100 members of the association, and he urged the committee to support HB 125. He explained that the Department of Natural Resources (DNR) has had a system for granting permits for trapping cabins since the 1980s. He expressed the opinion that it has worked well for many years; however, recently fellow trappers have expressed concerns that the original legislation would not authorize DNR to renew permits. He explained that not all trappers need cabins, but those who trap in large remote areas do. He quoted an ATA member who said, "It's just one small warm place in a big cold space." He advised that even a cabin as small as 100 square feet can ensure survival. He offered to answer any questions about trapper activities and lifestyles.

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CHAIR MCKAY opened public testimony on HB 125.

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AL BARRETTE, representing self, described the five-year process and the numerous meetings with DNR concerning HB 125. He

explained that the proposed legislation would clean up the statutes so permits [for cabins] can be reissued and reauthorized. With urban sprawl and increased recreation, he said, trapping is being pushed farther into the bush where shelter and safety will be needed. He expressed support for the bill and asked the committee for its support.

CHAIR MCKAY, after ascertaining there was no one else who wished to testify, closed public testimony.

CHAIR MCKAY announced that HB 125 was held over.

[1:09:46 PM](#)

HB 95-NATL. RES. WATER NOMINATION/DESIGNATION

[1:09:53 PM](#)

CHAIR MCKAY announced that the next order of business would be HOUSE BILL NO. 95, "An Act relating to designation of state water as outstanding national resource water; and providing for an effective date."

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REPRESENTATIVE RAUSCHER, as prime sponsor, introduced HB 95 and provided the history of the Clean Water Act. He directed attention to the PowerPoint presentation, titled "HB 95: National Resource Water Nomination/Designation" [hard copy included in the committee packet]. He explained that this matter has been presented to the legislature in the past, and the purpose of the bill is to give the legislature the authority to designate a water body as Tier III, as seen on slide 2. He stated that Tier III waters are also known as the Outstanding National Resource Waters (ONWR). He showed slide 3, titled "Clean Water Act" and said the Act mandates that by 1983 the states implement water quality standards. These standards include designation and classifications, water quality criteria, and anti-degradation policies.

REPRESENTATIVE RAUSCHER moved to slide 4, which showed a graphic representation of the three tiers. He described Tier I waters as those which are polluted and do not meet state standards and accept additional pollution discharges. Tier II waters meet water quality standards but can also accept some pollution discharges. He described Tier III waters as "the best of the best," or ONWR.

REPRESENTATIVE RAUSCHER continued to slide 5, titled "40 Code of Federal Regulations 131.12(A)(3)," which read as follows [original punctuation provided]:

"Where high quality waters constitute an outstanding national resource, such as waters of the national and state parks and wildlife refuges and waters of exceptional recreational or ecological significance, that water quality shall be maintained and protected."

REPRESENTATIVE RAUSCHER explained that the U.S. Congress has empowered every state to protect its most outstanding water bodies with the highest levels of protection. He argued that the water quality must be maintained, and no new pollution discharges should be allowed. He reiterated that the U.S. Congress has said that some lakes and rivers are so unique and so important they should not be dumping grounds for mining and other types of waste.

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The committee took a brief at-ease.

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REPRESENTATIVE RAUSCHER continued the presentation on HB 95, moving to slide 6, which addressed the Department of Environmental Conservation (DEC), and the nomination process steps for Tier III. He stated that nominations are sent to legislators who would introduce legislation. He pointed out that the nomination would usually go to the legislator whose district contains the proposed Tier III body of water. Once the bill is introduced, it would go through the thorough legislative bill process, and if passed, it would be written into law and the body of water would be designated as Tier III.

RANDY BATES, Director, Division of Water, Alaska Department of Environmental Conservation, explained that providing for a Tier III designation would bring certainty to the process and would codify in statute a consistent practice on how lands and waters across the state are designated for conservation. This would be by legislative approval rather than by a director, commissioner, or judicial action; therefore, it would not be a political process. He emphasized that each body of water under consideration would go through the complete legislative process.

Nominations for Tier III waters would be brought to the district's legislator and travel through the legislative process just like any other bill. When the bill passes, the body of water is designated as Tier III.

REPRESENTATIVE RAUSCHER moved to slide 7, which showed a map of Alaska with the names and locations of five bodies of water nominated for Tier III status. He explained that these have not yet received Tier III designation; however, they are in line. He suggested that if the system being considered in this bill is incorporated, it would speed up the process.

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RYAN MCKEE, Staff, Representative George Rauscher, Alaska State Legislature, on behalf of Representative Rauscher, prime sponsor, presented slide 8, titled "Alaska Constitution, Article 8, Section 2," which read as follows [original punctuation provided]:

"The Legislature shall provide for the utilization, development, and conservation of all-natural resources belonging to the state, including land and waters, for the maximum benefit of its people."

MR. MCKEE moved to slide 9, titled "Alaska Constitution, Article 8, Section 13," which read as follows [original punctuation provided]:

"All surface and subsurface waters reserved to the people for common use, except mineral and medicinal waters, are subject to appropriation. Priority of appropriation shall give prior right. Except for public water supply, an appropriation of water shall be limited to stated purposes and subject to preferences among beneficial uses, concurrent or otherwise, as prescribed by law, and to the general reservation of fish and wildlife."

MR. MCKEE concluded the presentation by pointing out that the proposed legislation would codify DEC's concurrent Tier III policy, expediting the nomination of current bodies of water.

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MR. MCKEE presented the sectional analysis [included in the committee packet], which read as follows [original punctuation provided]:

Section 1: Amends AS 46.03 by adding a new section that:

Establishes AS 46.03.085(a). Through statute, the legislature may designate water of the state as an outstanding national resource water.

Establishes AS 46.03.085(b). Unless the body of water has been designated as an outstanding national resource water can it be managed like so.

Section 2: Applies for an immediate effective date.

MR. MCKEE called attention to the zero fiscal note.

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MR. MCKEE, in response to a question from Chair McKay, stated that there are currently no Tier III waters in the state.

CHAIR MCKAY noted the five rivers which are the potential candidates for Tier III status. He expressed the assumption that these rivers are on state land; however, he questioned the effects if any of the rivers flowed on Native or federal lands also.

REPRESENTATIVE RAUSCHER deferred the question to DEC.

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REPRESENTATIVE DIBERT, referring to slide 7, questioned the application process.

REPRESENTATIVE RAUSCHER responded that any group or person can nominate a body of water and begin the process by contacting a local state legislator. Significant information must be provided to answer any questions the legislator may have. He expressed the belief that it is a duty for a legislator to follow through with such legislation.

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MR. BATES stated that DEC supports HB 95 in its current form. He explained that ONWR are commonly referred to as Tier III waters. They are defined as exceptional recreational or ecologically significant waters which shall be maintained and protected from degradation. A Tier III designation bestows the highest level of water quality protection under the federal Clean Water Act and restricts activities on the waters and adjacent land. The restricted activities include road building, seafood processing, recreational activities that require certain types of permits, wastewater and stormwater discharge systems, landfills, quarries, and other types of activities which would result in degradation of the waters. He stated that in 2018 Alaska created a process to designate Tier III waters, as required by the Clean Water Act, and, since this time, no new discharges have been allowed to Tier III waters. He added that this has long-term implications for both adjacent and upstream areas.

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MR. BATES stated that DEC supports HB 95, which formalizes the designation of Tier III waterways by statute. Outlining the three reasons for DEC's support, he read from a prepared statement, which read as follows:

1. The legislative process provides a full and public process, engaging all the interested and affected parties that might have an interest in this particular designation including communities, residents, users of the area, developers and conservationists. And as well, those agencies that may share responsibility for managing those areas and waters.

2. The legislative process allows for a full discussion of the consequences, restrictions, and impacts other of activities and potential activities by the designation for the future and foreseeable activities.

3. He commented that this was critically important. The legislative body in the process is the proper forum to establish land and water use designations. DEC is pleased to return that power to the legislature in this instance.

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MR. BATES maintained that providing for a Tier III designation, as structured in HB 95, would bring certainty to the process and codify a consistent practice on how lands and waters across the state would be designated for conservation by legislative approval, rather than by a director, a commissioner, or judicial action. To answer a previous question, he explained that there are no Tier III designated waters in Alaska, but there are five pending applications, with the first in 2012 and the most recent in 2017. He stated that DEC had responded to these proposals by suggesting the proponents contact their legislators to seek support. He offered to share copies of the five proposals with the committee. He described the proposals as ranging from a single-page letter to a 50-page document, which included the nominating group's research and water quality measurements.

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CHAIR MCKAY asked why the 2012 application for the designation of a Tier III body of water has not been addressed 11 years later. He questioned whether DEC had not processed the designation.

MR. BATES explained that the 2012 nomination is for the Kuktuli River, which is one of the headwaters for Bristol Bay. He stated that the list of petitioners is extensive. He stated that DEC had most recently responded to the application in 2019, reaffirming the policy that Tier III designations are the purview of the legislature. He reiterated that it is not appropriate for a commissioner or a department to make these designations. He stated that the department supports the proposed legislation because it moves the power and authority to the legislature. He expressed the opinion that the legislature is the proper body for dealing with this matter.

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REPRESENTATIVE MCCABE mentioned that HB 95 had previously been heard in the House Special Committee on Fisheries where an amendment was offered to give authority to both DEC and the legislature. Opposing the amendment, he expressed the belief that this would politicize the process. He requested DEC's position on the designations and asked whether this should be the responsibility of the legislature.

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MR. BATES expressed agreement with Representative McCabe. He explained DEC's position, which is that this is a land use designation that exceeds the authority of DEC because state appropriations should exist in the legislature. Referring to the previous hearing, he said that there had been suggestions to include DEC in addition to the legislature. He described the challenges and how this would counter DEC's policies for consistency and predictability. He expressed the opinion that this could also politicize the process by creating a system where advocates for Tier III water bodies could go to the department's commissioner or director if they could not get a bill through the legislature. He argued that, if it is in the hands of a commissioner or a director, it may violate the separation of powers. In addition, this would more likely be subject to judicial review, leaving the courts with the final Tier III designation. This could potentially leave out the perspective of the legislature, the client, or the department.

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REPRESENTATIVE MCCABE speculated that if the bill were to include DEC as an alternate path to these designations, the legislature and DEC may be at odds. If this is the case, it would become necessary to bring in the judicial branch. He reiterated his belief that the process belongs with the legislature, and the process needs to be in place so these old applications can be addressed.

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CHAIR MCKAY asked for the explanation concerning water bodies which cross jurisdictions, such as Native, federal, and state boundaries. He questioned whether the river would maintain its Tier III status if, for example, it crossed from state to federal lands.

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MR. BATES responded that there are questions concerning ownership of bodies of water. He surmised that the state clearly asserts that rivers and navigable waters are under the state's authority and purview; therefore, this would be a legal issue. He explained that if a portion or entirety of a water body is designated as Tier III, it is going to be managed according to the federal and the state rules as a Tier III water body. He explained that if there is a state or federal wastewater discharge permit or water quality permit, these

permits would be implicated in the Tier III water body. He continued that proposed activities in or close to a Tier III water body would not be allowed to change, degrade, or lower the quality of water, regardless of land ownership.

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CHAIR MCKAY, using the Yakutat Forelands as an example, he suggested that most Alaska legislators have not been there, so the legislators from this district would need to provide the thorough justification for the Tier III designation. He questioned whether this is part of the rationale behind the bill.

MR. BATES expressed agreement with Chair McKay. He said that the Tier III designation needs information, relying on good science and compelling arguments, regarding why the body of water is special. He reminded the committee that they were talking about water bodies which are the "best of the best." He added that, nationally, Alaska's Tier II waters and the protections offered are second to none, as Alaska has a very comprehensive and rigorous regulatory program which includes all DEC sister agencies in the management of Tier II waters.

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REPRESENTATIVE DIBERT, concerning the Chandler River Tier III nomination, pointed out the 50-page report from the nominees. She questioned whether legislators could ask DEC or other agencies to help understand the science in the reports.

CHAIR MCKAY responded that most of the legislators are not wild land or river experts, so expert background is important for learning about these water bodies. He questioned whether a Tier III designation could be taken away by future legislation. He offered a scenario in which the Chandler River is designated a Tier III waterway, then what if the largest deposit of lithium ever found was on the banks of this river. He questioned what would happen then.

MR. BATES stated that the Chandler River was nominated by the Venetie Village Council in 2016 and responded that when a Tier III designation goes into effect, DEC would need to know the specifics to manage it appropriately. If it is geothermal water or has exceptional clarity, appropriate management would have different costs. He referred to a letter concerning costs written in April 2022, when this was being considered by the

legislature. Addressing the issue of de-designating an area, he explained that currently the Environmental Protection Agency (EPA) has confirmed there is no rule prohibiting such an action.

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REPRESENTATIVE DIBERT questioned the number of other states that use their legislatures to designate waters.

MR. BATES, in response, expressed uncertainty. He added that he would follow up with this information to the committee.

REPRESENTATIVE RAUSCHER went into detail about why he sponsored the proposed legislation. He reminded the committee that it deals with very complex matters, such as fiscal situations, gas and oil leases and taxes, and future fiscal policy. He argued that waterway issues are not beyond the capabilities of the legislators. He explained the process he would use if a proponent for a Tier III waterway approached him with a nomination. He said he would take time during the interim, reading and studying the documentation to better understand the reasoning and science. He would communicate this with other legislators. The issue may seem daunting; however, he expressed the opinion that the legislature has worked on many important things, and if the legislature is tasked with an issue, there will be due diligence. He argued that the five nominations have not been dealt with for many years, and he expressed the desire to see this changed.

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REPRESENTATIVE MEARS expressed her concerns about the legislature's ability to deal with such matters without a formal background. She stated that the standards, science, and timelines were not conducive to the legislative process, and there should be a recommendation process by experts. She pointed to the financial burden on the applicants who gather the information. She expressed concern that the process would be deliberate.

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MR. BATES voiced DEC's objective to avoid court involvement with Tier III designations. He expressed the opinion that DEC's involvement should be part of the process which has the least potential for ending up in a courtroom. He expressed the opinion that if one of these designations is challenged in

court, not only will it delay the designation for years, but it will also put the decision in the hands of the court which does not have the background to make such decisions.

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CHAIR MCKAY announced that HB 95 was held over.

PRESENTATION(S): Alaska Gasline Development Corporation Update

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CHAIR MCKAY announced the final order of business would be the Alaska Gasline Development Corporation Update presentation.

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FRANK RICHARDS, President, Alaska Gasline Development Corporation (AGDC), began a PowerPoint presentation, titled "Alaska LNG Project Update" [hard copy included in the committee packet]. He explained the presentation would provide an update of the liquified natural gas (LNG) project, or Alaska LNG Project ("LNG project"), and AGDC's activities in moving the project to execution. He began on slide 2, which was an overview of AGDC. He stated that AGDC is an independent, public corporation owned by the state, and it was created by the legislature with the mission to maximize the benefit of the vast North Slope natural gas resources by developing the infrastructure necessary to move the gas to local and international markets. He stated that the AGDC is the current owner and developer of the LNG project; however, the project is transitioning to private ownership under qualified developers.

MR. RICHARDS explained that AGDC was formed by the Alaska legislature in 2014. He went through the points on the slide, stating that AGDC currently owns Alaskan LNG 100 percent, transitioned by the former partners at the end of 2017. He stated that the former partners were Exxon Mobile, BP, and Conoco Phillips.

MR. RICHARDS advanced to slide 3, addressing how the Alaska LNG Project has changed over the past 20 years. He stated that the project is competitive, will benefit the state, is environmentally friendly, will transition to the private sector, and has all major permits and authorizations.

MR. RICHARDS informed the committee that Alaska LNG has become a more cost-competitive project because of resources granted by the legislature. The design of the LNG project has been optimized, as well as its commercial structure. Led by the Federal Energy Regulatory Commission, the project has been moved through the environmental process, as authorizations were received in 2017. He stated that the LNG project will transition to private sector leadership, and this will move the project through construction and operation, leading to revenue resources for the state.

MR. RICHARDS moved to slide 4, which highlighted the natural gas pipeline on a map of Alaska. He stated that the North Slope gas supply is 40 trillion cubic feet (Tcf) of natural gas stranded in Prudhoe Bay and Point Thomson, which equals to over 10 years' worth of Japan's total consumption. He stated that the Arctic Carbon Capture Plant is in Prudhoe Bay adjacent to existing gas plants, and it removes carbon dioxide (CO₂) from a raw gas stream for permanent sequestration. He stated that the natural gas pipeline would run 807 miles from Prudhoe Bay to Nikiski, following the Trans-Alaska Pipeline System and highway system, and it would provide gas to Alaskans, while the Alaska LNG facility would convert natural gas to LNG for export to Asia. He stated that the LNG project was founded on the North Slope natural gas resources, located in Prudhoe Bay and Point Thomson. He suggested that the gas supply is ready to commercialize but needs an economically viable project to move it forward.

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MR. RICHARDS said the gas contains some impurities such as carbon dioxide and hydrogen sulfide, which would be removed using the Arctic Carbon Capture Plant. After the carbon capture procedure, its form would be LNG. He explained that the carbon sequestration of impurities was part of the original design, so it has added value under federal tax credits enacted last year, equating to almost \$600 million a year.

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REPRESENTATIVE MCCABE expressed the understanding if CO₂ is returned directly back into the well, it would mean repeating this step, and this is one of the reasons for creating the Arctic Carbon Capture Plant at the North Slope. He asked whether, without carbon sequestration, the CO₂ would be released into the atmosphere.

MR. RICHARDS responded that other producers release CO2, and it is not recycled. He emphasized that releasing CO2 was never the design or intention of the LNG project. The captured CO2 will be reinjected into the formation in a hydrologically distinct area.

REPRESENTATIVE MCCABE asked whether the tax credits would be the final step in making the 43-billion-dollar LNG project economically viable.

MR. RICHARDS emphasized that it would be helpful in making the project competitive.

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REPRESENTATIVE RAUSCHER questioned who profits from the tax credit from sequestering the CO2.

MR. RICHARDS said LNG, the natural gas assets, and the impurities are owned by the lease holder. When the LNG project is sold, the gas treatment plant and the CO2 are owned by the plant owner who will also be able to claim the tax credit.

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MR. RICHARDS, in response to a question from Representative Wright, stated that the estimated total cost of the LNG project is 43.8 billion dollars.

REPRESENTATIVE WRIGHT questioned the cost overrun.

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REPRESENTATIVE MEARS questioned the capital and annual operating costs for the carbon capture plant.

MR. RICHARDS responded that the 43.8 billion includes potential cost overruns which equate to approximately 20 percent of the cost. In response to a series of questions, he stated that there is a cost estimate for the three components of the carbon capture plant: the carbon capture plant, the pipeline, and the LNG liquefaction facility. He stated that these numbers are currently not available at this time, but he would follow up to the committee with them. Concerning whether the operating cost is based on these three separate functions, he responded that he would explain this further in the presentation.

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CHAIR MCKAY stated the carbon capture bill, HB 50, which previously passed out of committee, could be critically important as the LNG project continues. He explained that during oil production, gas and CO2 have been injected into the oil wells to provide pressure for the continued production of oil, because oil had been the most valuable resource. He explained that, in time, an oil field reaches a point called "blowdown." At this point oil production is no longer feasible, and gas becomes more valuable, and it is converted to a gas field, making the carbon capture project much more important.

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MR. RICHARDS pointed out that the state wants to maximize oil and gas production. He stated that, recognizing the eventual depletion of oil in 2014 and to begin the migration from oil to gas production, ADGD authorized 3.6 billion cubic feet a day of gas off-take. He stated that the LNG project will be taking 3.3 billion cubic feet a day, making the carbon injection wells important from the outset. He offered that the committee's work on HB 50 is very helpful to the project because it would shift the regulation of the Class VI oil wells from the EPA to the state.

MR. RICHARDS continued to discuss slide 4. He described the 807-mile pipeline route, pointing out the off-takes for an Alaska LNG plant, which would make the gas available for Alaskans. He stated that the terminus of the pipeline is at a liquefaction plant located in Cook Inlet. Proceeding to slide 5, he explained the economics of the project. By comparing the price of oil with gas, he projected that Alaska LNG's cost of supply would be below the market price. He stated that the numbers on the slide were verified by Wood Mackenzie. He added that counting for recent construction inflation, tax credits, and financial return expectations, the estimates remain largely unchanged. Discussing the cost estimates, he explained that the purpose of the analysis was to find out how the costs of the LNG Project compared with other markets, and it was concluded that the \$6.55 cost of supply would be competitive on the world market, primarily in Asia, so investments will be profitable.

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MR. RICHARDS, in response to a question from Representative Wright, explained that Wood Mackenzie is a natural resources consulting firm specializing in analysis of the world cost of competitiveness trends of oil and gas. In response to a follow-up question, he stated that the most recent report was done in 2022.

MR. RICHARDS, moving to slide 6, pointed out that the LNG project would reduce greenhouse gas (GHG) emissions by more than 77 million tons of CO2 per year. He expressed the opinion that Alaska LNG would have one of the greatest GHG benefits of any project in the world. He noted the graph comparing LNG to GHG impacts, which showed that Alaska LNG will have the same GHG impacts as eliminating 19 coal power plants or constructing 16,000 wind turbines. He moved to slide 7, which outlined Alaska's energy security. He noted that Cook Inlet gas supply is uncertain, and with the utilities evaluating potential for LNG import, the LNG Project would be the best option to replace Cook Inlet gas because it is secure. He concluded that Alaska LNG would ensure priority natural gas supply for Alaskans. He reinforced the insecurity of Cook Inlet natural gas supplies by showing a headline from the Anchorage Daily News on slide 7. He reiterated that the project's development would ensure Alaskans will have long term supplies of natural gas.

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MR. RICHARDS continued to slide 8 and said that Alaska LNG is designed to provide system capacity to ship natural gas to Alaskans. He stated that the 500 million cubic feet per day of pipeline is in excess of the LNG plant's current needs, as now the demand is about 220 million cubic feet per day. This is prioritized for Alaskans and allows for long-term Alaska natural gas demand growth.

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CHAIR MCKAY asked if Alaskans get "first call" and questioned whether local and state uses could be denied at a future date.

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MR. RICHARDS, in response, continued with slide 9 and discussed the utility supply agreements. He said that AGDC offered agreements to utilities to ensure that the Alaskan utilities would receive preferential terms for gas supplies from Alaska LNG, and this would supply residential, commercial, and small

industrial customers. He stated that these agreements will also bind future investors and developers in the state's LNG market. Other terms include that the price will be no higher than that paid by the LNG facility for the natural gas; in the event of an interruption, Alaska utilities will be prioritized over LNG exports; growth up to 500 MMcfd would be ensured; and there will be the ability to adjust take-or-pay commitments in response to changes in demand or new renewable sources of energy. He stated that the agreements were offered so the utility companies would have priority and could guard against cost escalation.

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CHAIR MCKAY questioned whether the agreements would stay in place when AGDC moves Alaska LNG to the private sector.

MR. RICHARDS responded that this is the reasoning behind the agreements. He moved to slide 10, which addressed the lower cost of energy for the state. He estimated the Alaska LNG in-state price to be between \$4.00 and \$5.00 per one million British thermal unit. He expressed the opinion that Southcentral households can expect to save up to \$1,000 in heating and electric costs per year, while Interior households could save much more.

MR. RICHARDS moved to slide 11 and explained that rural communities will be able to apply for funds to use for energy needs. He stated that, per AS 37.05.610, the purpose is to provide a source of funds for appropriation to develop the infrastructure to deliver energy to areas of the state which do not have direct access to the Alaska LNG pipeline. He stated that, after payment into the Alaska Permanent Fund, the Alaska Affordable Energy Fund will receive an annual deposit of 20 percent of state royalty revenues. He moved to slide 12, which showed a world map with proposed trade routes. He pointed out that the war in Ukraine has disrupted the European natural gas supply, so other supplies have been diverted to keep the heat and power on in Europe, and this dynamic has increased the need for the U.S. supply from Alaska to meet the long-term energy security needs of Asia. He added there is also a great push by Asian countries to shift toward net-zero targets, because LNG is being used as a bridge tool to move away from coal and oil products.

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MR. RICHARDS moved to slide 13, pointing out the market impact on Alaska LNG because of the record high LNG prices. He stated that this puts upward pressure on long-term contract prices, highlighting the need for new LNG capacity, as buyers are now seeking long-term contracts. In regard to national security, he stated that Europe had been buying Russian gas, so U.S. LNG is being diverted to Europe, while Asian buyers are seeking LNG. He stated that Europe has also recognized natural gas as transition fuel and green energy. He acknowledged that Europe is switching back to coal due to lack of gas investment and availability. He drew attention to slide 13, which also points to elements which create opportunity, such as LNG investors and developers' increased interest, strategic importance for the U.S. and Asian allies, and overall increased interest and urgency to move projects forward. He added that since Alaska already has trade ties with Asia, it can easily look to the Asian markets for LNG investments.

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MR. RICHARDS moved to slide 14, which showed changes over time from producer-led development to steps which involved the state, and then to the future which will be developer led. In example, he stated that Exxon and BP led the LNG project in 2013 through 2016, which was followed by a state-led period from 2017 through 2022. As of 2023, he said, the LNG project is moving to over 75 percent private sector-led development, which is advancing projects.

MR. RICHARDS moved to a description of the investment process on slide 15. He stated that AGDC has entered into an engagement letter with Goldman Sachs to provide advisory services for Alaska LNG development capital, and AGDC is targeting \$150 million development capital to get the final investment decision (FID). He stated that investors will receive a majority interest in 8-Star Alaska, LLC and Alaska LNG. He stated that AGDC is already working with large private equity and infrastructure funds, with Goldman Sachs leading the update of investment materials and providing guidance on base economic model.

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MR. RICHARDS, in response to Chair McKay, stated that the engagement letter with Goldman Sachs took place in 2018 to 2022. He moved to slide 16, which addressed equity offers for investors. He stated that AGDC is raising development capital

for Alaska LNG to reach FID. He listed qualities which make Alaska LNG an attractive investment, including the best economics of any North America project, fully permitted, beneficial equity terms and local support. He stated that Alaska and former partners have invested over a billion dollars to date, and now AGDC is seeking investments from the private sector to move the LNG project forward. As seen on slide 17, he said that AGDC is pursuing multiple strategies to raise development capital; however, only a limited number of developers exist, each with competing opportunities.

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MR. RICHARDS continued to slide 18, which addressed LNG sales agreements. He stated that there are active negotiations with multiple LNG buyers, including traditional Asian utility buyers, LNG traders, and oil and gas companies. Originally, AGDC was offering a fixed price structure, but investors wanted oil indexed or natural gas indexed or a combination of those. He stated that negotiations are fairly advanced with ongoing price discussions, and all buyers are credit worthy, large-scale market participants. He added that some buyers are considering an "equity offtake," which involves the buyer investing in the project at FID in exchange for LNG supplied at cost, usually in the 3-million-ton range. He stated that to date negotiations under consideration equal approximately 125 percent of the LNG project. He notes that all conversations with buyers are under confidentiality agreements.

MR. RICHARDS pointed out that slide 19 lists the state revenue sources, which include royalties and production tax from the commercialization of natural gas and of the unlocked Point Thomson condensate. These revenues also include state corporate income tax, Property Tax, the return on state equity investment, and the return on additional equity investment in Alaska LNG. He stated that AGDC is collaborating with the Department of Revenue to quantify state revenue from Alaska LNG.

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REPRESENTATIVE PATKOTAK asked for clarification regarding the state taking equity versus dollars.

MR. RICHARDS explained that the economic model takes into consideration the possibility of Alaska participating as an equity owner, so a 25 percent stake is reserved for Alaska.

REPRESENTATIVE PATKOTAK questioned the tradeoff for the state if it becomes an equity owner.

MR. RICHARDS replied that the tax revenue streams would remain in place. He explained that if the state has an equity stake, it will have equity returns as well.

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CHAIR MCKAY gave an example of an equity return on an investment of 5 billion dollars on top of the other tax revenues.

MR. RICHARDS discussed the creation of the 8-Star Alaska, LLC subsidiary, as this contains the assets. He stated that AGDC looks to divest up to 75 percent of these funds to private equity companies, and under 8-Star Alaska, there will be three LLCs: the gas treatment plant, the pipeline, and the gas liquefaction plant. He explained that the state could elect to have ownership of one, two, three, or none of these.

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REPRESENTATIVE PATKOTAK asked whether a municipality, for example, could elect to forego property tax revenues in exchange for becoming an equity partner.

MR. RICHARDS replied that one of AGDC's primary missions is to create opportunities for Alaskan governments and individuals to invest in the LNG project.

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REPRESENTATIVE MEARS questioned the tax for the LNG royalties for Cook Inlet.

MR RICHARDS responded that the numbers are only from the North Slope. In response to a follow-up question, he stated that there is a tax structure in place now in the North Slope.

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REPRESENTATIVE WRIGHT questioned the control Alaskans have on the selling price of gas.

MR. RICHARDS replied that it is a commercial negotiation. He continued to slide 20, which pointed out the jobs created by the LNG project for Alaskans. He moved to slide 21, which addressed federal support for the LNG project. He stated that the Alaska delegation has worked with the administration in Washington D.C. to include provisions allowing for the eligibility for \$29 billion in federal loan guarantees for the LNG project. He explained that has been on the books since 2004, under the Alaska Natural Gas Pipeline Act. He pointed out that, with the loan guarantees backed by the federal government, interest rates for debt financing will be 1 to 2 points lower; however, the project is waiting for the final determination of the U.S. Department of Energy Supplemental Environmental Impact Statement. He added that Senator Lisa Murkowski has also worked on the appropriation of 4 million dollars for the front-end engineering and design for AGDC.

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MR. RICHARDS, in response to Representative Mears, explained that the state is still eligible for tax credits. He stated that the Asian markets are interested in clean energy, as well as carbon sequestration in Alaska.

MR. RICHARDS moved to slide 22, addressing the hydrogen opportunity in the state. He pointed out that hydrogen and ammonia are clean energy sources, and there is infrastructure funding available for investment in Alaska, as well as interest from key Asian markets. He advised that Cook Inlet has the best carbon sequestration potential on the Pacific Coast of North America.

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CHAIR MCKAY expressed the understanding that Alaska would ship hydrogen and ammonia to Japan and South Korea, and the CO2 would be sent back for disposal in the depleted reservoirs.

MR. RICHARDS moved to slide 23 and stated that the LNG project already has the permits and approvals from the Federal Energy Regulatory Commission's Environmental Impact Statement and Order. These are the major federal permits and authorizations needed, and this includes the land rights-of-way, a cultural resources management plan, an ACC plant air permit, and a liquefaction facility air permit. He pointed out slide 24 and slide 25, which display the pertinent contact information, and slide 26, which provided a list of acronyms.

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REPRESENTATIVE RAUSCHER asked about the land rights-of-way and how much of this is private land.

MR. RICHARDS explained it is a combination of governmental lands, such as municipalities and boroughs, native corporation lands, and some private lands.

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CHAIR MCKAY inquired about a timeline for the LNG project from FID to the first flow of gas.

MR RICHARDS outlined an approximate schedule starting with meeting the \$150 million goal, at which point the front-end engineering design would be completed, and this is a 12-to-14-month timeframe. A few months after this, there will be FID regarding whether to invest the \$44 billion necessary for construction. Once the construction begins, it will be around a six-year process, which includes ordering all the components. He stated that there is the possibility of advancing the pipeline stage by using Point Thompson gas which has a lower CO2 content. He said if feed started in the fall and FID is in 2025, then there is the potential for actual LNG in 2030 to 2031.

CHAIR MCKAY asked whether the gas pipelines need to be buried.

MR. RICHARDS responded that the 42-inch diameter pipeline would be buried except for earthquake crossings.

CHAIR MCKAY questioned how LNG pipelines work so the permafrost would not melt.

MR. RICHARDS explained how the natural gas pipeline differs from the oil pipeline. He explained the chillers at compressor stations which would keep the gas cooled to the right temperature.

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CHAIR MCKAY conjectured that building the infrastructure would mean opening other further gas exploration and production.

MR. RICHARDS expressed agreement. He said the LNG project is focused on Prudhoe Bay and Point Thompson only, but the potential for natural gas is tremendous with possibly trillions of cubic feet of gas on the North Slope.

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REPRESENTATIVE PATKOTAK emphasized the longevity of projects on the North Slope. He said the opportunities extend beyond our lifetimes.

CHAIR MCKAY said Alaska is in competition with other "players" which would like to sell LNG to Japan and South Korea. He expressed the belief that the LNG project will bring benefits to every Alaskan for a very long time. He mentioned the potential competition by Canada on the McKenzie Delta.

MR. RICHARDS expressed agreement.

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ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 2:58 p.m.