

**ALASKA STATE LEGISLATURE  
HOUSE RESOURCES STANDING COMMITTEE**

February 5, 2024

1:02 p.m.

**MEMBERS PRESENT**

Representative Tom McKay, Chair  
Representative George Rauscher, Vice Chair  
Representative Thomas Baker  
Representative Kevin McCabe  
Representative Dan Saddler  
Representative Stanley Wright  
Representative Jennie Armstrong  
Representative Donna Mears  
Representative Maxine Dibert

**MEMBERS ABSENT**

All members present

**COMMITTEE CALENDAR**

PRESENTATION(S): PIKKA PROJECT UPDATE BY SANTOS

- HEARD

HOUSE BILL NO. 257

"An Act requiring the Department of Natural Resources to make Cook Inlet seismic survey data available to certain persons; and providing for an effective date."

- HEARD & HELD

**PREVIOUS COMMITTEE ACTION**

BILL: HB 257

SHORT TITLE: COOK INLET SEISMIC DATA

SPONSOR(S): REPRESENTATIVE(S) MCKAY

01/16/24	(H)	PREFILE RELEASED 1/12/24
01/16/24	(H)	READ THE FIRST TIME - REFERRALS
01/16/24	(H)	RES
02/05/24	(H)	RES AT 1:00 PM BARNES 124

**WITNESS REGISTER**

JOE BALASH, Senior Vice President  
External Affairs  
Santos Ltd  
Anchorage, Alaska

**POSITION STATEMENT:** Provided a PowerPoint presentation, titled "Pikka Project Update."

TREVOR JEPSEN, Staff  
Representative Tom McKay  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Gave a PowerPoint presentation on HB 257, on behalf of Representative McKay, prime sponsor.

JOHN CROWTHER, Deputy Commissioner  
Office of the Commissioner  
Department of Natural Resources  
Anchorage, Alaska

**POSITION STATEMENT:** Answered questions during the hearing on HB 257.

#### **ACTION NARRATIVE**

[1:02:46 PM](#)

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

#### **PRESENTATION(S): Pikka Project Update**

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CHAIR MCKAY announced that the first order of business would be the Pikka Project Update presentation.

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JOE BALASH, Senior Vice President, External Affairs, Santos Ltd, provided a PowerPoint presentation, titled "Pikka Project Update" [hard copy included in the committee packet].

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MR. BALASH provided some background information about Santos Ltd ("Santos"), which is headquartered in Adelaide, Australia. Santos is primarily a gas company and one of the largest domestic gas suppliers in Australia and a leading liquified natural gas (LNG) provider for the Asia Pacific region. Santos merged with Oil Search in 2021 and has 4,000 employees worldwide. In Alaska, Santos is a 51 percent owner of the Pikka Oil Field ("Pikka") and is partnered with Repsol, which owns 49 percent. The current Alaska workforce has 259 positions and is expected to grow to 430 by the end of 2024. Santos will move into a downtown Anchorage office later this year. Pikka was discovered in 2013 and is a significantly sized oil field. The acreage of Pikka is on state land. He noted the benefits of community support through development and infrastructure opportunities. He mentioned that 82 percent of the Santos team for the Pikka project has come from within Alaska.

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MR. BALASH showed a map of the Pikka project on slide 3. During the exploration season in 2020, discoveries were made which led to the formation of the Quokka and Horseshoe units. There are work plans to further develop and promote those resources. Phase 1 of Pikka will develop more than 900 million barrels.

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MR. BALASH moved to slide 4, titled "Pikka Phase 1 Maximizes High Reservoir Quality," which showed the well layout for the Nanushuk Drill sites A, B, and C. Pikka Phase 1 targets the heart of the Nanushuk "2/3 reservoirs." The pink colored dots on the map represent wells that have appraised the oil accumulation and have indicated excellent resource density.

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MR. BALASH moved to slide 5, titled "Bringing Pikka to Life," and said that it is expected to cost \$2.6 billion to reach first oil. Major contracting was completed and issued purchase orders were awarded under contracts that totaled more than \$2 billion. Upgrades were made to the NB-D rig in winter of 2022-2023. Drilling began in June 2023. Five wells were completed by the end of 2023; the sixth well is underway and permitting for the next well was received recently. In total there will be 45 wells. The depth of the accumulation is relatively shallow, and the drill site was moved further inland away from the Colville River due to concerns from residents and stake holders. The

move has resulted in drilling at a steep angle, which is a challenging consideration. It is expected that 80,000 barrels per day (BPD) will be produced and brought through the Trans-Alaska Pipeline System. As an impact of production, it is estimated that there will be a \$1.15 per barrel increase in the first 10 years. Every barrel on the slope will become more valuable when production is undertaken.

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MR. BALASH continued with slide 6, "Local Content and Contribution," and described a long-term land use agreement with Kuukpik Corporation ("Kuukpik"). The agreement provides subsistence preservation and open access for subsistence representatives with close cooperation and transparency on planned activities to minimize impacts. He described the Pikka Phase 1 spend through November 2023, half of which included materials obtained from outside Alaska. Moving forward, Alaska Native and non-Native vendors will receive more business. For Phase 1, it is estimated that \$7 billion will be paid to the state treasury through taxes and royalties. A portion of royalties from Phase 1 are payable to Arctic Slope Regional Corporations and are subject to 7I under Alaska Native Claims Settlement Act (ANCSA) and are shared with other regional and village corporations and will benefit every ANCSA shareholder in Alaska.

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MR. BALASH moved to slide 7, titled "Facilities Design & Logistics Approach." He explained that the production facility is being constructed with prefabricated modules from Western Canada and trucked to the North Slope. This approach saves about \$200 million. The ability to traverse the Dalton Highway is critical to the success of this project and the Department of Transportation & Public Facilities (DOT&PF) is aware. As of December 31, 2023, the project is 37 percent complete, which is on time and on budget. First oil is projected to be in the second quarter of 2026.

MR. BALASH mentioned that weather conditions have been a significant challenge and have restricted vehicle traffic to critical or emergency traffic only. The safety of the workforce and contractors is paramount.

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MR. BALASH explained how the Nanushuk Processing Facility would be constructed on slide 8, "Nanushuk Processing Facility (NPF). He described the increased efficiency of the "off-the-shelf" truck-able design. He noted the successful partnership with Joint Pipeline Crafts Council to hire their contractors and other workforce.

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MR. BALASH moved to slide 9, titled "Beyond Phase 1," which showed a depiction of the Phase 2 production facility, which mirrors Phase 1 and utilizes two 40,000 barrel per day units per phase. Drill sites for A and C have already been permitted, gravel needs to be laid, pipelines need to be extended, and capacity of the production facility needs to increase to move from 80,000 barrels per day to 160,000 barrels per day.

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MR. BALASH moved to slide 10, "Significant, Long-Term Supply Portfolio." He noted the Quokka and Horseshoe units that have work plans. He referred to a graph that demonstrated that cash flow from phase 1 will be robust and is based on potential from geologist analysis.

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MR. BALASH, in response to committee questions, answered that Phase 2 would be paid for by abundant cashflows from Phase 1. Each subsequent phase would be funded by the previous phase and would continue to pay back dividends to the corporate center and shareholders. He noted that if there is a demand for hydrocarbons, the state and federal government maintain a reasonable regulatory and fiscal climate, and there remains a level playing field among competitors, Pikka would take positive investment action every 3-4 years. The graph represents 20 to possibly 30 years. Mr. Balash answered that equipment was procured from Canada because the company was well-established, and Santos needed reliable products from a manufacturer with a track record. Alaska vendors and contractors are utilized wherever possible and profitable. He mentioned that there is a minor amount of associated natural gas at Pikka, which is fully utilized as part of oil recovery efforts. Water alternating gas (WAG) is injected to fully sweep the reservoir of rock to recover as much of the oil resource as possible.

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MR. BALASH moved to slide 11, titled "Alaska" and explained how Santos describes Alaska to investors in Australia. Alaska is described as a world class resource with tier 1 jurisdiction and significant optionality. Alaska has significant reserves and resources that will generate significant free cashflow and can self-fund future phases and fund returns to shareholders. Alaska leverages significant infrastructure in place and has an operational team with significant North Slope experience. There is a stable regulatory environment and supportive stakeholders. Overall, Alaska is an attractive place for Santos to invest capital. Together with Repsol, Santos is bringing in \$3 billion to Alaska's economy in new capital.

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MR. BALASH, in response to committee questions, said at the end of 2023, 98 percent of people hired were Alaska residents. Many positions are in Anchorage. Up on the North Slope, most workers are hired by Santos' contractors and Santos doesn't have information about the residency of those workers. He noted that significant efforts have been made to hire locally first by some contractors. Mr. Balash described Santos' core values as a safe workplace that applies to employees and the environment. Santos works with Kuukpik to provide transparency in activities. He mentioned Santos' corporate commitment to achieve net-zero emissions by 2040. Santos is utilizing turbines to generate electricity which will cut down on other emissions. Santos is committed to offset remaining emissions through nature-based offsets with an Alaska Native corporation through a forest management project. In the long term, Santos is working on carbon capture technology.

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MR. BALASH, in response to committee questions, said Santos is watching the Department of Natural Resources closely regarding future carbon off-set opportunities. Santos has a goal to own the offset projects to ensure the lowest cost offset possible. Net-zero emissions is a requirement of Santos' shareholders and CEOs. He explained the difference between different classes of wells and offered to follow up with more information.

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CHAIR MCKAY explained, in response to Representative Mears' question, that carbon dioxide is corrosive. Class-six wells

need stainless steel or possibly chrome tubulars, where normal class-two wells have carbon steel tubulars and are not appropriate for carbon dioxide storage because of corrosion.

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MR. BALASH, in response to committee questions, said that Pikka was discovered in 2013 by Repsol. The development of drilling technology for horizontal stimulation has changed what is economic today versus what might have been economic 40 years ago. He suggested that markets and technology change, while rocks remain the same. The ability to gather multiple seismic shoots has added to the understanding of the geology and the opportunities in the North Slope. There were tax incentives back in 2013 that encouraged exploration in Alaska. High exploration costs in the North Slope have hindered development. Access to gravel and ice roads is critical. Mr. Balash explained that Quokka is on state land leases and Horseshoe has 12 federal land leases. Oil within the Horseshoe region will be reached from the state lands. Permits will be necessary to meet requirements.

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CHAIR MCKAY thanked Mr. Balash for his presentation.

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The committee took an at-ease from 2:03 p.m. to 2:05 p.m.

#### **HB 257-COOK INLET SEISMIC DATA**

[2:05:35 PM](#)

CHAIR MCKAY announced that the final order of business would be HOUSE BILL NO. 257, "An Act requiring the Department of Natural Resources to make Cook Inlet seismic survey data available to certain persons; and providing for an effective date."

CHAIR MCKAY, as prime sponsor, presented HB 257. He shared the sponsor statement [included in the committee packet], which read as follows [original punctuation provided]:

As Alaska State Legislators, we are all committed to unlocking the vast potential of Cook Inlet for gas exploration and drilling. One way we can do this is by attempting to broaden access to state-owned seismic

survey data. This legislation aims to enhance data access, allowing a wider range of experts and industry players to explore the geological intricacies of Cook Inlet. By making seismic data more accessible, we hope to stimulate interest and investment from new players in the energy sector. Our goal is to enhance energy security, support economic development, and ensure the sustainable management of Alaska's natural resources. This bill represents a pivotal step toward realizing the untapped potential of Cook Inlet, encouraging innovation, and fostering a competitive energy market.

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TREVOR JEPSEN, Staff, Representative Tom McKay, Alaska State Legislature, on behalf of Representative McKay, prime sponsor, gave a PowerPoint presentation on HB 257 [hard copy included in the committee packet]. He provided an overview of seismic data, which is a tool used by the oil and gas industry to map geological structures with sound waves. Typically, procuring this specialized data costs anywhere from a few million dollars to tens or hundreds of millions. Despite state-owned seismic data being offered at a fraction of the cost for acquisition, it still serves as a barrier for exploration. HB 257 would require the Department of Natural Resources (DNR) to distribute state-owned seismic data to qualified persons at no charge. The goal of the legislation is to attract new players and industry professionals to Cook Inlet where gas production is predicted to decrease in the near future costing the state hundreds of millions in infrastructure investment and resulting in significantly higher energy prices for rate payers.

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CHAIR MCKAY explained that the bill is limited to Cook Inlet to spur exploration and development in the area.

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REPRESENTATIVE MCCABE sought to confirm that the data is stored at the Geological Materials Center (GMC).

MR. JEPSEN answered yes.

[2:15:20 PM](#)

REPRESENTATIVE SADDLER requested the citation for the seismic tax credits.

MR. JEPSEN responded AS 43.55.025(a)(2) and AS 43.55.025(f)(2). He concluded the presentation with a report on seismic sales in Cook Inlet and a brief sectional analysis.

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JOHN CROWTHER, Deputy Commissioner, Office of the Commissioner, Department of Natural Resources (DNR), said the DNR fiscal note captures existing funds from data sales that were covering the operational costs of the program as designated program receipt. The fiscal note also reflects an anticipated increased interest in the data sets, which would result in increased operational costs.

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REPRESENTATIVE SADDLER sought clarification of page 2, line 17 of the bill.

MR. CROWTHER said there are different land ownership types in Cook Inlet. Historically, the owner of proprietary data may be an exploration company.

REPRESENTATIVE SADDLER asked for the percentage of the Cook Inlet basin that's privately owned.

MR. CROWTHER said he did not have a precise number; nonetheless, two land ownership patterns are relevant on a macro scale: Alaska Native Corporations pursuant to the Alaska Native Claims Settlement Act (ANCSA) and small private land ownership types. He stated that Cook Inlet has the most complex land ownership pattern.

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REPRESENTATIVE SADDLER questioned the likelihood that this proposal would be prevented under the confidentiality provisions of subparagraph (A) on page 2, lines 15-17.

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MR. CROWTHER clarified that current law obligates DNR to modify the datasets by extracting restricted data before public

disclosure. He added that all the data available for sale or publication has already gone through that process.

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REPRESENTATIVE MEARS shared her understanding that the larger concern for development is the timeliness of the data release.

MR. CROWTHER recalled that legislators were concerned about promptly publishing the data as soon as the confidentiality period expires. He said DNR has been working to revise its processes and accelerate the publication timeframes.

REPRESENTATIVE MEARS asked whether the bill would affect the timeliness of the data release.

MR. CROWTHER said DNR does not anticipate a delay in timeframe if the bill were to pass. He noted that all of this information is available on DNR's website and all of the seismic tax credit data that's eligible for release is available for public access.

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CHAIR MCKAY announced that HB 257 was held over.

[2:30:46 PM](#)

#### **ADJOURNMENT**

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 2:30 p.m.