ALASKA STATE LEGISLATURE
JOINT MEETING
SENATE RESOURCES STANDING COMMITTEE
HOUSE RESOURCES STANDING COMMITTEE
February 7, 2024
3:30 p.m.

MEMBERS PRESENT

SENATE RESOURCES

Senator Click Bishop, Co-Chair
Senator Cathy Giessel, Co-Chair
Senator Bill Wielechowski, Vice Chair
Senator Scott Kawasaki
Senator Forrest Dunbar
Senator Matt Claman

HOUSE RESOURCES

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

SENATE RESOURCES

Senator Kaufman

HOUSE RESOURCES

All members present

COMMITTEE CALENDAR

PRESENTATION: COOK INLET GAS BY HILCORP

- HEARD

PRESENTATION: COOK INLET GAS BY HEX/FURIE

- HEARD

PRESENTATION: COOK INLET GAS BY BLUECREST ENERGY

- HEARD

PRESENTATION: COOK INLET GAS BY ENSTAR

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

LUKE SAUGIER, Senior Vice President
Hilcorp Alaska, LLC
Anchorage, Alaska
POSITION STATEMENT: Presented an update on Cook Inlet Gas.

MARK SLAUGHTER, Chief Commercial Officer
Furie Operating Alaska and HEX Cook Inlet., LLC
Anchorage, Alaska
POSITION STATEMENT: Presented an update on Cook Inlet Gas.

BENJY JOHNSON, President and CEO
BlueCrest Energy, Inc.
Fort Worth, Texas
POSITION STATEMENT: Presented an update on Cook Inlet Gas.

JOHN SIMS, President
ENSTAR Natural Gas Company
Anchorage, Alaska
POSITION STATEMENT: Presented an update on Cook Inlet Gas.

ACTION NARRATIVE

3:30:20 PM
CO-CHAIR CATHY GIESSEL called the joint meeting of the Senate and House Resources Standing Committees to order at 3:30 p.m. Present at the call to order were Senators Wielechowski, Bishop, Kawasaki, Dunbar, Claman, Co-Chair Giessel, and Representatives Rauscher, Baker, Kevin McCabe, Saddler, Wright, Armstrong, Mears, Dibert, and Chair McKay.

PRESENTATION: COOK INLET GAS BY HILCORP

3:32:00 PM
CHAIR GIESSEL announced the consideration of a presentation on Cook Inlet Gas by Hilcorp.

3:32:51 PM
LUKE SAUGIER, Senior Vice President, Hilcorp Alaska, LLC, Anchorage, Alaska, presented an update on Cook Inlet Gas.

3:35:29 PM
MR. SAUGIER moved to slide 3 and spoke to Hilcorp production:

[Original punctuation provided.]

Cook Inlet Basin Gas

- **Hilcorp is committed to the Cook Inlet Basin**
- **Hilcorp is fully developing its leasehold**
  – Hilcorp has produced over 700 Bcf of gas since entering Alaska
  – Hilcorp has spent well over $1.0 billion in the Cook Inlet Basin
  – Hilcorp is increasing activity in Cook Inlet Basin
  – Drilled 153 wells since 2011 and plans to drill 15-20 wells per year going forward
- **Producing wells' production initially declines ~30% per year**
- **Cook Inlet Basin gas market is unlike any other in the United States**
- **Gas under Hilcorp's leasehold cannot meet all of the region's gas demand**

Utilities and other gas producers must identify new sources of gas supply for South Central Alaska

3:36:55 PM
MR. SAUGIER moved to slide 4 and explained the bar chart that demonstrates the number of wells drilled every year in Cook Inlet Basin since 2005. He said Hilcorp has drilled the vast majority of wells since 2012 and is the only company that drilled any wells since 2019. He suggested that this is a problem for Alaska. While Hilcorp is drilling many to maintain production at the highest level possible, other producers

contribute less to the overall gas supply. ENSTAR recently showed a graph that depicted an imbalance in supply. He said Hilcorp is optimistic it will drill 20 wells in 2024 and expects other producers to continue development.

3:38:38 PM
MR. SAUGIER moved to slide 5 and spoke to a bar chart that depicts Hilcorp gas contracts and reserves. He explained that it demonstrates supply and demand. Southcentral Alaska uses about 70 billion cubic feet (Bcf) per year, which is typical. The green bars represent gas supplied to market while the red line indicates total demand. Historically, Hilcorp has supplied about 50 Bcf per year to the market. It shows a projection of all firm contracts anticipated for the future. The company has an obligation to deliver that much gas to customers through 2033. Over time, the amount goes down due to gas being limited to U.S. Securities and Exchange Commission (SEC) approved reserves. Hilcorp is required to have a third-party auditor send a letter confirming the company has the gas it claims and meets SEC standards. The solid green line is the best forecast for what gas production will meet over this period, which closely matches contractual obligations. Despite any yearly versatility, it is balanced over time. The dash line represents how much gas Hilcorp could deliver if it stopped drilling, which he believes is in nobody's best interest. The company at times cannot operate in some places due to ice in Cook Inlet, so certain areas are inaccessible. Drilling support services are fairly limited and Hilcorp relies on most of its own drilling rigs. The drilling activity level has been relatively low over the past several years. Permitting is also challenging and more difficult to obtain for Cook Inlet than for the North Slope because of limitations placed by federal agencies. Much of the onshore land in Alaska is owned by the Bureau of Land Management (BLM) and permitting is onerous. Offshore drilling also requires companies to navigate around mammals and wildlife and it takes years to get permits lined up.

3:43:54 PM
MR. SAUGIER moved to slide 6 and spoke to Cook Inlet gas storage facilities. He noted that Anchorage experienced frigid temperatures last weekend. Cook Inlet Natural Gas Storage experienced operational challenges with two of 25 wells and lost deliverability for two of them, so it was unable to deliver enough gas to meet market demand. Utility companies worked together and collaborated to find a solution. The companies determined that either diesel would need to be burned to

maintain the city's electricity supply or Hilcorp could deliver more than its contractual obligations at its standard price.

MR. SAUGIER said gas storage facilities are old gas reservoirs that have been repurposed to inject gas in the summertime and draw it out in the winter. Hilcorp operates three of the four gas storage facilities in Southcentral Alaska. He noted that Pool Six is particularly large. It is used to store gas at the 5-20 Bcf range, but has the potential to hold a larger quantity. Hilcorp has invested in reliability and redundancy, which includes additional compression, maintenance of the wells, and ensuring there are more wells than are needed to account for potential problems. Three separate storage systems are maintained to put gas in the line in different places depending on market needs. Hilcorp has managed this method for a long time and has a lot of experience. He stated that Hilcorp would like to be part of the solution for storage and has plenty to offer to the market.

3:48:09 PM
REPRESENTATIVE MCCABE asked how much West Susitna access would help the company drill and work during the wintertime.

3:48:33 PM
MR. SAUGIER replied that access would be helpful. There are likely other potential gas fields on the west side of Cook Inlet and road access would allow year-round access.

3:49:20 PM
SENATOR KAWASAKI asked if the total storage shown on slide 6 is currently available.

3:49:34 PM
MR. SAUGIER replied no. He said Pool Six could store more than 100 Bcf; the other wells are smaller.

3:49:57 PM
SENATOR KAWASAKI asked for the percentage of storage that is currently available.

3:50:10 PM
MR. SAUGIER replied he is unsure how much gas is currently in storage. He stated that a problem arose as a result of the inability to pull the gas out quickly enough.

3:50:43 PM

SENATOR KAWASAKI asked whether gas is still exported or exclusively used within the Cook Inlet region.

3:50:50 PM
MR. SAUGIER replied that Hilcorp does not export gas. The last time gas was exported was around 2015.

3:51:07 PM
CO-CHAIR MCKAY asked for the cost per well if Hilcorp is drilling 15-20 wells per year.

3:51:30 PM
MR. SAUGIER replied that it varies depending on the location of drilling and mentioned that offshore wells are very expensive. Hilcorp spent over $20 million on drilling an offshore well last year.

3:51:47 PM
CO-CHAIR MCKAY noted that it would cost $300 million to drill 15 wells offshore and asked if any partners assist Hilcorp with expenditures.

3:52:06 PM
MR. SAUGIER replied that the company has a partner in Beluga River. He said it is correct to say Hilcorp spends hundreds of millions per year.

3:52:16 PM
CO-CHAIR MCKAY opined that it is unusual in the oil industry to not have partners that assist with project costs to help spread the risk, especially when considering a one-million-dollar project. He asked if the second jackup rig is still in Alaska.

3:52:48 PM
MR. SAUGIER replied that he does not believe it is still in Alaska.

CO-CHAIR MCKAY said there is one jackup rig under contract in Cook Inlet. Bringing a second jackup rig to Cook Inlet would be an expensive ordeal and therefore a company would want to drill a full season of about 20 wells. However, unlike oil, gas is not exported; excess supply means the company doesn't recover its investment. Bringing in a second jackup rig is not a great solution.

3:54:50 PM

MR. SAUGIER agreed that it would be expensive and said it would take three to five years to transport one jackup.

3:55:24 PM
SENATOR WIELECHOWSKI quoted the following statement released by the Federal Trade Commission (FTC):

"The proposed transaction raises competitive concerns for the Commission because Marathon, Hilcorp, and ConocoPhilips today account for over 90 percent of the natural gas produced in Cook Inlet. As a result, this acquisition might lessen the negotiation strength of utility and industrial customers." He conveyed that in response to the FTC investigation, Hilcorp entered a consent decree where Hilcorp agreed to "utilize commercially reasonable efforts to increase the production and development of natural gas from Hilcorp's Cook Inlet Basin properties." He asked if the consent decree is still in effect.

3:56:44 PM
MR. SAUGIER replied that he is unsure whether it is still in effect.

3:56:45 PM
SENATOR WIELECHOWSKI sought confirmation that Mr. Saugier does not know if Hilcorp is still under a consent decree to produce gas in Cook Inlet.

3:56:52 PM
MR. SAUGIER replied that he is uncertain if there is a known end date.

3:56:56 PM
SENATOR WIELECHOWSKI said the money Hilcorp spent is pursuant to legal obligations under the lease terms and the consent decree.

3:57:07 PM
MR. SAUGIER stated that Hilcorp invested heavily.

SENATOR WIELECHOWSKI asked how much profit Hilcorp made in Alaska over the last year.

3:57:11 PM
MR. SAUGIER replied that Hilcorp is proud of its investment in Cook Inlet. The company invests hundreds of millions of dollars every year, and has always abided by the terms of the consent decree.

SENATOR WIELECHOWSKI asked how much profit Hilcorp made last year.

3:57:24 PM
MR. SAUGIER responded that Hilcorp is a private company and does not disclose its profit information.

SENATOR WIELECHOWSKI asked what Hilcorp's rate of return was in Alaska last year.

3:57:32 PM
MR. SAUGIER said the objective of the program for 2024 is to invest almost $1.5 billion in the fields on the North Slope. It would invest hundreds of millions of dollars in Cook Inlet to supply the gas that the industry has committed to.

3:58:03 PM
SENATOR WIELECHOWSKI asked again about the rate of return.

3:58:09 PM
MR. SAUGIER replied that the company does not disclose financial information.

3:58:14 PM
SENATOR WIELECHOWSKI asked if Hilcorp has ever applied for royalty relief from any of its fields in Cook Inlet to make them more economical.

3:58:24 PM
MR. SAUGIER stated his belief that some of its oil producing platforms are eligible for royalty relief. Department of Natural Resources (DNR) has a program in place for marginal fields to receive royalty relief.

3:58:40 PM
SENATOR WIELECHOWSKI asked if that includes any of its gas platforms.

3:58:43 PM
MR. SAUGIER replied he does not believe so.

3:58:49 PM
SENATOR WIELECHOWSKI conveyed that United States Geological Survey (USGS) said there is likely 19 trillion cubic feet of gas in Cook Inlet that is technically recoverable. He asked how much gas is technically recoverable on Hilcorp's Cook Inlet lease hold properties.

3:59:02 PM
MR. SAUGIER referred to the slide on gas contracts and reserves and said firm contractual commitments the company has made to supply gas to customers generally reflect its view of recoverable gas from its leases.

3:59:23 PM
SENATOR WIELECHOWSKI asked if the bar graph shows the maximum technically recoverable gas in Cook Inlet.

3:59:33 PM
MR. SAUGIER noted that the term 'technically recoverable' is different than the term 'proved reserves.' He said Hilcorp can only sell proved reserves so technically recoverable gas is not calculated.

3:59:59 PM
SENATOR WIELECHOWSKI asked if these are all the proven reserves Hilcorp has and whether they have been filed with the SEC.

4:00:07 PM
MR. SAUGIER replied that third party auditors are utilized to review reserve bookings, which are used to contract with utilities. Hilcorp hopes to carry as large a reserve volume as possible that enhances the business and allows it to contract with utilities. The company has seen a relatively stagnant number of proved reserves despite a continually high level of activity in investment.

4:00:55 PM
REPRESENTATIVE MEARS asked for other highlights from Hilcorp's development plan with DNR.

4:01:10 PM
MR. SAUGIER replied that Hilcorp plans to drill wells at the Southern Kenai Peninsula Cottonfield, Whiskey Gulch prospect, and the Swanson River field. He said in the Wildlife Refuge, the company plans to drill at Beluga River, four wells at the North Cook Inlet field, a few in Kenai gas field, and hopes to drill from the Steelhead platform depending on the state of the ice.

4:01:52 PM
REPRESENTATIVE MEARS asked if there are any other plans for the business that will be built out next year.

4:02:02 PM

MR. SAUGIER sought clarification of the question.

4:02:08 PM
REPRESENTATIVE MEARS restated the question and asked if drilling is the only plan for development next year.

4:02:18 PM
MR. SAUGIER replied that he is uncertain. He said the company usually includes work-over activities, compressor instillations, however most of the investment is focused on drilling.

4:02:38 PM
REPRESENTATIVE MEARS pointed out that the amount of investment is impressive, but it doesn't mean much when profit is undetermined.

4:03:05 PM
SENATOR DUNBAR asked for a general sense of how much more gas would be produced if royalty relief proposals are passed.

4:03:53 PM
MR. SAUGIER replied he could not provide a definitive answer.

4:04:12 PM
SENATOR DUNBAR asked for a rough estimate.

4:04:28 PM
MR. SAUGIER responded that he could not provide a number.

PRESENTATION: COOK INLET GAS BY HEX/FURIE

4:04:49 PM
CO-CHAIR MCKAY announced the consideration of a presentation on Cook Inlet Gas by Furie Operating Alaska and HEX Cook Inlet., LLC.

4:05:23 PM
MARK SLAUGHTER, Chief Commercial Officer, HEX/Furie Operating Alaska LLC, Anchorage, Alaska, provided an overview of Furie Operating Alaska and HEX Cook Inlet, LLC. He introduced himself and said he has been in the Alaska oil and gas industry since 1997 and with Cook Inlet since 2002. He said he spent ten years working for ENSTAR before moving to Cook Inlet Energy, then began working with Furie in 2015.

4:06:26 PM

MR. SLAUGHTER moved to slide 3 and spoke to the HEX corporate structure:

[Original punctuation provided.]

HEX Corporate Structure

- HEX L.L.C. 100% Alaskan Owned
- HEX Cook Inlet LLC acquired subsidiaries Cornucopia, Corsair, Furie, and 90% of the KLU on July 1st, 2020
- Newest gas producer in Cook Inlet
- Furie is the operating company that runs the offshore platform, gathering line and onshore gas processing facility
- Gas Sales to Electric Utilities, Gas Utilities, and Refinery in Southcentral Alaska

MR. SLAUGHTER added that HEX only produces natural gas and runs clean pipeline inspection gauges (PIG) through the pipeline on a weekly basis. He said it also conducts side scan sonar surveys to identify any scouring. Once the gas reaches shore, it is processed and provided as utility-grade gas to corporate customers.

4:07:47 PM
MR. SLAUGHTER moved to slides 4 and 5 and spoke to the infrastructure of the Kitchen Lights Unit (KLU) as well as other HEX and Cook Inlet leases. He said the Kitchen Lights Unit is operated by Furie and is the largest unit within Cook Inlet. It is roughly 84 thousand acres and there is an additional 13 thousand acres that do not include unitized leases. HEX has bought leases from the state over the past three years to diversify its gas production portfolio.

4:08:37 PM
MR. SLAUGHTER moved to slide 5 and spoke to the history of KLU:

[Original punctuation provided.]

HISTORY OF Kitchen Lights Unit (KLU)

1999 - 2009
Escopeta acquires leases – State of Alaska Renaissance Alaska, Pacific Energy Resources

- Kitchen Lights Unit approved by State of Alaska

2010 - 2014
Spartan 151 Jackup rig arrives in Cook Inlet

- 5 Exploration wells Drilled in KLU

2015 - 2017
Julius R Platform set,

- Gas Sales to HEA and other utilities

2018 - 2019 Energy Capital Partners Assumes Control of Furie

- Hydrates block gathering line ceasing gas production
- Chapter 11 Re-organization

2020 - 2024
HEX acquires Furie & KLU

- Stable gas production and sales to Southcentral utilities and refinery
- Permitted and installed water handling equipment for Sterling production
- HEX & Furie acquired Cook Inlet Leases in 2021, 2022, and 2023 lease sales
- Acquired used gas production equipment for ~10-15 MMcfd facilities x3
- State of Alaska pays final Cook Inlet Tax Credits to pre-HEX lenders
- $10 MM invested in workover operations in 2023 with hydraulic workover unit
- October 2023 HEX pays off AIDEA loan in full and ahead of schedule
- Purchases Seismic Data from State of Alaska

MR. SLAUGHTER added that the unit itself went into production in 2015 before firm gas sales to Homer Electric commenced in 2016. He said the field ran off one gas well, which held the entire supply for Homer Electric.

4:11:11 PM
MR. SLAUGHTER moved to slide 6 and stated that HEX/Furie is the only Alaska-based oil and gas company. He said it is important to support Alaskans.

4:11:25 PM

MR. SLAUGHTER moved to slide 7 and spoke to a graph that depicts Furie employment data. He said he has been with the company prior to its acquisition four years ago.

4:12:22 PM
MR. SLAUGHTER moved to slide 8 and spoke to Kitchen Lights Unit production data for four wells:

[Original punctuation provided.]

Kitchen Lights Unit Production

Four Production Wells on Julius R Platform (JRP)

- Suboptimal completions in the KLU A-1, A-4 wells result in lower production rates, more down time
  - Illustrated by yellow and purple areas on chart
  - Significant downtime and lower rates related to solids production
- Sand control completions in KLU A2A, KLU 3 result in better initial and long-term performance
  - Illustrated by red and orange areas on chart

MR. SLAUGHTER said the graph demonstrates a large gap as a result of the pipeline freezing by the formation of hydrates. He noted that the purple areas show a production spike following company acquisition, new management, and new ownership. In December of 2023, ENSTAR approached HEX/Furie and asked whether it could increase production, so it was then increased 20 percent despite potential risks. He noted that two of four wells that do not utilize sand control produce a much lower volume of gas, but are less costly.

4:13:58 PM
MR. SLAUGHTER moved to slide 9 and spoke to proposed KLU Beluga Drilling plan opportunities:

[Original punctuation provided.]

Proposed KLU Beluga Drilling Plan Opportunities

- Significant running room identified
- Initial wells focused on staying high on structure, close to existing production and within sand fairway.

- Well completion design determines sustained production rate
  - "Simple" completion with no sand control can potentially deliver 5MMscfd
  - "Complex" completion with full sand control can potentially deliver upwards of 10MMscfd
- Next well proposed: A-4ST prospect
- Future high-graded prospects (Program following A-4ST contingent upon financing)

MR. SLAUGHTER stated that complex, costly wells could deliver ten million cubic feet per day. He noted that the company is currently producing 12 million cubic feet per day. The A-4ST well is not producing gas at the anticipated rate and will need to be side-tracked. There is a three-mile radius from the existing platform that could be drilled with a jackup rig, but there is a limited window to get a rig into the area. There is only one rig in Cook Inlet, but it is currently under a contract with Hilcorp.

4:15:48 PM
MR. SLAUGHTER moved to slide 10 and spoke to the proposed 2024 KLU Program:

[Original punctuation provided.]

2024 KLU Proposed Program

- Subject to
  - Royalty Relief
  - Enterprise 151 Rig Availability
  - Other Drilling and Completion Equipment and Services Availability
  - Permits – State & Federal
  - Financing
  - Long Term Markets for Natural Gas
- KLU A-4A Sidetrack
  - Simple vs Complex Completion
  - 5MMcfd vs 10+ MMcfd rates
  - $10MM vs $25MM
- New Gas to Market
  - ~30 Days to Drill
  - ~30 Days to Complete
  - ~60 Days to Bring New Gas Online

- Deadline for to decide on simple vs complex completion this month $3.0M+ expenditure

MR. SLAUGHTER stated that royalty relief could be addressed by the legislature to enable drilling this year. He said HEX/Furie has the ability to self-finance this year, but the long-term rate is in question. The 'New Gas to Market' section indicates what could be accomplished with a jackup rig. He stated that now is the time to determine the financing path forward.

4:17:56 PM
MR. SLAUGHTER briefly moved to slide 11 and spoke to the North Kenai Onshore opportunity:

[Original punctuation provided.]

North Kenai Onshore Opportunity

Highlights

- Oil and Gas opportunity with undrilled four-way closures
- Conventional Oil Targets
- Biogenic Gas Play Potential
- Adjacent to existing public roads and regulated natural gas transmission pipeline
- 15 – 24 months to first gas –
  - subject to permits & financing

MR. SLAUGHTER said the North Kenai onshore opportunity could not go online faster than 15-24 months, but is included to diversify the company's portfolio.

4:18:24 PM
MR. SLAUGHTER moved to slide 12 and spoke to current KLU challenges:

[Original punctuation provided.]

Current KLU Challenges

- State of Alaska Approved Burden on KLU
  - 12.5% Overriding Royalty Interest
  - 12.5% State of Alaska Royalty Interest
  - ~10% Carried Working Interest Owners – New Joint Operating Agreement July 2020

Total Burden approaching 35% on Capital

- Long Term Market Threats to Cook Inlet Natural Gas
  - Liquified Natural Gas (LNG) Imports
  - Market Replacement by Renewables
  - North Slope Gas

4:19:40 PM
MR. SLAUGHTER moved to slide 13 and spoke to a bar chart that depicts a forecast for KLU from 2024 through 2028. He said production could more than double with a drilling program and by reworking existing wells. However, the economic foundation of the company must be fixed.

4:20:22 PM
MR. SLAUGHTER moved to slide 14 and spoke to a bar chart that depicts the total royalty burden of the KLU. The green bar represents the standard 12.5 percent royalty that the legislature can adjust. He stated HEX/Furie went through DNR's process of asking for royalty relief last year because royalties were at 25 percent. DNR denied the request and offers HEX/Furie made for overriding royalty interests were also rejected. The former commissioner of DNR and the Alaska State Supreme Court consider 20 percent royalty to be an extreme burden. He opined that an adjustment by the legislature so the royalty burden was between 12.5 to 15 percent would allow KLU to move forward, otherwise it would have to sit on the asset. He noted that HEX leases on North Kenai have no overriding royalties.

4:22:15 PM
MR. SLAUGHTER moved to slide 15 and spoke to HEX/Furie's repeatable pathway to new gas opportunities.

[Original punctuation provided.]

HEX & Furie's Repeatable Pathway to New Gas

Furie is positioned to bring new gas in 2024

- Existing Production Platform
  - currently producing 12MMcfd
- Capacity in Gathering Line
- Existing Processing Facility & Interconnect

Pending Hinderances

- Economic Burdens
  - Drives pace of new gas
- State & Federal Permits i.e. IHA Permit
- Working on Rig Contract & Availability
- Equipment & Service Availability

MR. SLAUGHTER said it is important for the company to stay viable and continue to work to produce gas. He suggested that the state has the infrastructure and there is no need to import gas from Canada or Mexico. Royalty relief is what must be addressed to make the investment and have the ability to bring additional gas to Cook Inlet.

4:24:19 PM
REPRESENTATIVE MEARS inquired about the barriers for production. She asked if there are any state permits that are obstructing development.

4:24:41 PM
MR. SLAUGHTER replied that the process for permitting to transport a jackup rig is ongoing.

4:25:27 PM
REPRESENTATIVE MEARS asked whether long-term market threats dampen potential future production and have curved investments.

4:25:47 PM
MR. SLAUGHTER responded that it is important to understand what the market is to make investment decisions.

4:26:19 PM
REPRESENTATIVE SADDLER asked how much royalty relief would impact production.

4:26:50 PM
MR. SLAUGHTER replied that a 12.5 to 15 percent reduction would allow HEX/Furie to compete with other producers.

4:27:12 PM
REPRESENTATIVE SADDLER asked for an explanation of the additional burden of the carried working interest.

4:27:25 PM
MR. SLAUGHTER replied that the from the bankruptcy, the joint operating agreement gave them ten percent ownership of KLU. However, they do not contribute to the costs of capital

expenditures. HEX/Furie has been working with DNR but it is a foundational hinderance to KLU.

4:28:56 PM
REPRESENTATIVE MCCABE asked if there are any current reservations for jackup rigs so work can begin this summer.

4:29:13 PM
MR. SLAUGHTER replied that a commercial arrangement has to be negotiated.

4:29:44 PM
SENATOR WIELECHOWSKI asked if the company is eligible for royalty relief under existing law.

4:29:50 PM
MR. SLAUGHTER replied an application was submitted, but DNR suggested consulting with the overriding royalty interest group.

PRESENTATION: COOK INLET GAS BY BLUECREST ENERGY

4:30:48 PM
CO-CHAIR GIESSEL announced the consideration of a presentation on Cook Inlet Gas by BlueCrest Energy.

4:31:00 PM
BENJY JOHNSON, President and CEO, BlueCrest Energy, Inc., Fort Worth, Texas, presented an update on Cook Inlet Gas. He said there is huge potential that requires funding and spoke to slide 1:

[Original punctuation provided.]

Railbelt Energy Supply/Demand Challenge

The gas is in the ground, waiting to be produced

Cosmopolitan Tyonek Gas Supply:

- Already discovered, tested and Proved
  - Structure shape and size is well defined
    - 3D seismic and >25 drilled penetrations
  - Productive volume and productivity confirmed
    - Logs, cores, rock and gas samples from multiple wells in the gas sands
    - Flow tests indicate productivity levels
    - Independent engineering analysis: Proved 235 BCF + Probable 65 BCF

- Preliminary permitting, engineering and design now mostly complete
- Conventional offshore production platform development
- Construction schedule: gas could be online by Q1/Q2 2027
- Known Cosmopolitan volumes could supply up to 25 percent of total market
- Development is ready to begin - pending investment funding

4:33:27 PM
MR. JOHNSON moved to slide 2 and spoke to the history of the Cook Inlet Basin:

[Original punctuation provided.]

Alaska's Cook Inlet Basin

- Large northern original fields discovered/developed in 1950's through 1980's (1.4 billion bbl, 9 tcf to-date)
- Ninilchik (close to Cosmopolitan) online in 2000
  - Currently largest producer (277 bcf to date)
- Cosmopolitan oil production began in 2016
- Cosmopolitan Tyonek gas can be online in 2027

Energy Balance

- Through natural decline and without new sources, existing Cook Inlet gas production will eventually fall below needs:
  - Infill development possibilities (within existing fields)
    - Typically smaller new volumes
  - Alaska Gas Line future uncertain Importation of gas (LNG) is expensive
  - Renewable sources cannot provide sufficient volumes of low-cost energy
- Undiscovered new gas fields will require years:
  - Explore and Find
  - Then bring to production
- Proved substantial Cosmopolitan gas could be online in time to meet supply needs

MR. JOHNSON said BlueCrest believes there is potential in Cook Inlet, but exploration and identification of reserves takes many years so funding is necessary.

4:34:50 PM
MR. JOHNSON moved to slide 3 and spoke to a graphic that depicts the development vision for the Cosmopolitan Unit:

[Original punctuation provided.]

Cosmopolitan Unit Development Concept:
Separate Gas Field and Oil Field

Future Offshore:

Tyonek gas sands are too shallow to be reached by onshore wells. Dry gas producing wells drilled into gas reservoirs and water injection wells into oil reservoirs to improve oil recovery. No offshore oil production. Water Injection wells

Additional Tyonek Gas Reserves: 235 BCF Proved-Undeveloped ("PUD") Plus large "Probable" and "Possible" (Ryder Scott engineering firm 2015-2021)

Ongoing Oil:

"Proved" - Partially Developed. "Extended-Reach" oil wells drilled safely from onshore produce the deeper offshore oil with no danger of an offshore oil spill.
Green oil zones are drilled onshore. These wells drill oil and some gas comes up but no danger of oil spill.
Oil well has fish bones. Gas zones overly oil zones, technology does not allow to do this. There is no liquid hydrocarbons associated with the gas. Otherwise can pump water and inject this from the platform.

4:36:47 PM
MR. JOHNSON moved to slide 4 and spoke to the structure of gas and oil sands. He said each of the wells penetrates sand. Two vertical wells were drilled in 1967 and one was drilled in 2013. Some gas was found in one well that was drilled in 1967, but samples determined that gas is present in the other gas sands.

4:38:18 PM
MR. JOHNSON moved to slide 6 and showcased a snapshot of one of the oil zones. He said the image is three-dimensional and shows what the structure looks like.

4:38:45 PM
MR. JOHNSON moved to slide 7 and spoke to proven gas zones:

[Original punctuation provided.]

Cosmopolitan Tyonek Gas is Proved but Undeveloped

- Multiple wells have been drilled through the gas sands
- Multiple flow tests of the gas zones confirm high productivity Size and shape of the "trap" structure is clearly documented
  - 3-D seismic data, hazard and walkaway seismic surveys, more than 25 vertical well penetrations above/below/through the gas zones
- Gas zones are similar to nearby Ninilchik field (15 miles north)
  - Ninilchik is currently the largest Cook Inlet gas producer and has already produced more than 277 BCF

4:39:12 PM
MR. JOHNSON moved to slide 8 and summarized the Cosmopolitan gas field:

[Original punctuation provided.]

Cosmopolitan Gas Field Summary:

- Reservoir shape, size, and productivity now well-defined
- Gas production will require a small offshore platform
  - Dry gas only – no liquid hydrocarbons: (no chance of oil spill) Subsea pipeline: 3 miles to existing onshore facility
    - Recent sea floor surveys confirm safe pipeline route
    - Onshore facility is already connected into Enstar gas pipeline system
  - Platform/facilities design and cost projections
    - Preliminary design completed
    - Final construction design pending funding

    - Platform gas wells – standard Cook Inlet drilling/completions
    - Time to first-gas: approximately 30-40 months from funding
- Production Design Volume
    - Current total Railbelt average daily demand is ~200 MMSCFD
    - Cosmopolitan production design capacity is ~50 MMSCFD
- Critical path: Investor participation in new Cook Inlet project

MR. JOHNSON said a lot of time and money has been spent over the past few years on the design and identifying cost projections. He stated that the daily demand for Railbelt was 268 million standard cubic feet per day (MMSCFD) as of last week, which demonstrates high demand.

4:41:15 PM
REPRESENTATIVE RAUSCHER asked what the state could do to help develop the field and get gas to the market.

4:41:28 PM
MR. JOHNSON replied that funding is needed. He said some investors are willing to put in hundreds of millions of dollars to get it done. Changes to the law have caused some uncertainty for investors. While royalty relief improves the economics, it is not a dealbreaker. The state could also guarantee a state- or development-based loan.

4:43:06 PM
REPRESENTATIVE RAUSCHER asked for the total cost of the investment.

4:43:11 PM
MR. JOHNSON replied that the total investment cost for gas and preliminary oil is about $400 million, but the state would not necessarily need to cover the full amount.

4:43:53 PM
REPRESENTAIVE ARMSTRONG asked if the Alaska Industrial Development and Export Authority (AIDEA) could potentially provide funding.

4:44:05 PM
MR. JOHNSON replied that he is unsure what the state could do. He said AIDEA has loaned money to BlueCrest for a drilling rig,

but he is uncertain whether AIDEA could meet the high cost demand.

4:44:30 PM
REPRESENTATIVE ARMSTRONG asked if BlueCrest had inquired with AIDEA.

MR. JOHNSON replied that BlueCrest has not asked but is still working with AIDEA on the drilling rig loan.

4:44:45 PM
REPRESENTATIVE SADDLER asked about the financial impact of former Governor Walker's veto of the oil and gas tax credit.

4:45:03 PM
MR. JOHNSON replied that it was the primary obstacle. The company subsequently cannot find investors to take the risk.

4:45:26 PM
REPRESENTATIVE SADDLER asked BlueCrest to elaborate on the impact of instability.

4:45:34 PM
MR. JOHNSON replied that investors must feel confident in their investment and return.

4:46:14 PM
REPRESENTAIVE MEARS thanked him for being open about the investment situation. She said some support from the state through royalty relief makes a difference. She asked if investment would allow the company to expand into gas development.

4:46:46 PM
MR. JOHNSON replied that the development plan is for oil reservoirs and does not include the gas project. However, BlueCrest is working diligently to find investors so the company can begin the project.

4:47:15 PM
REPRESENTATIVE MEARS asked how many gas wells BlueCrest could drill once funding is received.

4:47:23 PM
MR. JOHNSON replied that drilling could not begin until late into 2026. The plan is to put a rig on the platform and drill thereafter. One well can access several reservoirs.

4:48:02 PM
CO-CHAIR GIESSEL asked if a permit was obtained for the platform.

4:48:04 PM
MR. JOHNSON replied that prep work is done, but a permit application is not submitted until drilling factors are certain.

4:48:18 PM
CO-CHAIR GIESSEL asked for the projected time to acquire the permit.

4:48:22 PM
MR. JOHNSON replied that the total time is about 12 months, but much of it is administrative.

4:48:48 PM
SENATOR CLAMAN asked if it is correct that without an investor, the process could not start.

4:49:09 PM
MR. JOHNSON replied that is correct. He said BlueCrest is ready to begin the gas project and has spent tens of millions of dollars on the engineering components.

4:49:46 PM
CO-CHAIR MCKAY noted that all three oil companies are privately owned so they risk millions of dollars of their own money to drill and produce oil and gas in Alaska. He said profit margins on oil are different than profit margins on gas, which are much tighter.

PRESENTATION: COOK INLET GAS BY ENSTAR

4:50:29 PM
CO-CHAIR MCCKAY announced the consideration of a presentation on Cook Inlet Gas by ENSTAR.

4:50:43 PM
JOHN SIMS, President, ENSTAR Natural Gas Company, Anchorage, Alaska, presented an update on Cook Inlet Gas. He acknowledged the efforts of Hilcorp and others to get the state through the recent freezing weather. Maintaining critical pipeline pressures in the transmission systems is the aim.

4:53:21 PM

MR. SIMS moved to slide 2 and provided a brief history of ENSTAR:

[Original punctuation provided.]

About ENSTAR

- Established in 1959
- 230 employees
- 152,000 customers
- 25 communities served
- 3,560 miles of pipeline

MR. SIMS added that several jobs were brought back from Michigan to Anchorage.

4:54:12 PM
MR. SIMS moved to slide 3 and spoke to Cook Inlet Gas Natural Storage Alaska (CINGSA):

[Original punctuation provided.]

About CINGSA

- Constructed in 2012 in response to significant concerns about Cook Inlet gas supply About CINGSA
- 11 Bcf storage capacity
- 150 Mmcf max injection/withdrawal
- 3 Firm Customers
- 3 Interruptible Customers
- Provides deliverability for more than 40 percent of ENSTAR demand on a cold day.

MR. SIMS said the 11 Bcf storage capacity cost $160 million dollars and is fully regulated by the Regulatory Commission of Alaska (RCA), which is a partnership between the Alaska Gas Transmission Company and Cook Inlet Region, Inc. (CIRI).

4:55:06 PM
MR. SIMS moved to slide 4 and spoke to the Utility Working Group:

[Original punctuation provided.]

Utility Working Group

- Hilcorp/Utilities Annual Update meeting
  - April 12, 2022
  - Stated they would not extend existing contracts
- Creation of the Utility Working Group
  - April 15, 2022
    - ENSTAR, Chugach, MEA, GVEA, HEA, IGU
      - Later included AEA, DNR
  - Hired Berkeley Research Group (BRG) - November 10, 2022

MR. SIMS added that the latest annual update meeting determined that Hilcorp was not interested in extending existing contracts at the same level as what they were in the past.

4:56:00 PM
MR. SIMS moved to slide 5 and explained the bar chart that demonstrates combined utilities' annual demand. He explained the legend colors and said the green represents what DNR classified as the lower risk uncontracted demand. These were demands that were not met by existing contracts that DNR expected to be supplied by Cook Inlet reserves.

4:57:13 PM
MR. SIMS moved to slide 6 that lists gas supply opportunities under the phase 1 assessment. He noted that these are not ranked in a specific order and provided examples.

4:57:47 PM
MR. SIMS moved to slide 7 and described the project team for phase 2. He said several professional consultants evaluated the projects to determine what makes the most sense to bring in a majority of gas.

4:58:33 PM
MR. SIMS moved to slide 8 and spoke to the summary findings for schedules under phase 2:

[Original punctuation provided.]

Summary Findings for Schedules - Phase II

- None of the Options meet the LNG demands for the 4-year milestone (first gas 4Q2027)

- Greatest time unknowns are related to FERC and US Corp of Engineers permitting durations, time to modify or construct in-water piers
- Risks are high for FSRU Options due to tides and winter effects at Cook Inlet
- Long-lead procurement items must be started and commercial agreements concluded before permits are issued

MR. SIMS said most utility contracts expire with Hilcorp in 2027 and 2028. He noted that studies, contractors, and consultants informed CINGSA that none of the other corporations could meet the timeframe to bring in imported LNG until 2030.

5:00:17 PM
MR. SIMS moved to slide 9 and briefly explained timeline concerns:

[Original punctuation provided.]

2010 vs. 2024

- In 2010, Cook Inlet utilities faced similar concerns under different circumstances.
- CINGSA is proof that legislative support for energy security matters.
- Today, quick, bold action is required to serve this region in the short and long-term.
- Additional storage is required under any scenario and should be regulated for price transparency.

5:01:15 PM
MR. SIMS moved to slide 10 and 11 and spoke to the charts that depict Cook Inlet and combined utilities' demand. He said in 2023, only one entity was successful in drilling. He said Hilcorp is not open to extending existing contracts, so more activity is needed in 2024 to meet gaps in 2025. As time goes on, the challenge comes as temperatures warm.

5:03:09 PM
MR. SIMS moved to slide 12 and spoke to gas supply contract terms. He said the all-requirements contract has not been available since 2003. Consequently, there are higher deliverability expectations from markets.

5:04:31 PM

MR. SIMS moved to slide 13 and highlighted the utility duty to serve:

[Original punctuation provided.]

Utility Duty to Serve

- This duty is not shared by producers, IPPs, or anyone else in this state. It is our obligation alone.

  Sec. 42.05.291. Standards of service and facilities.
  (a) Each public utility shall furnish and maintain adequate, efficient, and safe service and facilities. This service shall be reasonably continuous and without unreasonable interruption or delay.

MR. SIMS said the industry must consider the importation of LNG to comply with market expectations. He noted that there are no other industries that have the same duty to serve. He expressed confidence in Cook Inlet, but acknowledged current challenges.

5:05:47 PM
MR. SIMS moved to slide 14 and explained the next steps forward:

[Original punctuation provided.]

What now?

- Timely actions is required to avoid a gap in supply.
  - Short-term: Need strong support for Cook Inlet exploration and production activities.
  - Long-term: Decisive action on a large natural gas supply project.
- Ultimately, customers - Alaska residents and businesses - are on the hook for cost impacts.
- Working to minimize impact, but longer we wait, the fewer options available and at higher rates.

MR. SIMS said encouraging tax credits or identifying solutions is crucial to ensure gas availability in the state.

5:06:39 PM

MR. SIMS moved to slides 15 and 16 and shared actions the state could take:

[Original punctuation provided.]

Additional storage is key

- Under every scenario, additional natural gas storage is required:
  - Added Cook Inlet deliverability
  - Support new projects coming online
- In November, CINGSA filed with the RCA to expand its facility to provide additional service

5:07:17 PM
MR. SIMS moved to slide 17 and elaborated on the chart that depicts the home energy rebate program and normalized average annual residential customer usage.

5:07:52 PM
MR. SIMS moved to slide 17 and briefly highlighted the two bullet points on Cook Inlet Energy:

[Original punctuation provided.]

Cook Inlet Energy: An Alaska Issue

- Energy costs in Rural Alaska.
- Local businesses support communities beyond Anchorage with cargo, goods, and services.

5:08:02 PM
MR. SIMS moved to slide 18 and summarized key considerations. He said he commented to the Regulatory Commission of Alaska that the renewables are unhelpful amidst peak demand. During peak days, wind energy was an unreliable source of energy for Alberta Energy. If the market provided an unsubsidized energy solution, it would be more expensive. Royalty relief could not coexist with an interruptible contract and is not what the state should seek.

[Original punctuation provided.]

Key Considerations

- There is no unsubsidized energy solution that will reduce the cost of power or space heating in the next 10 years.
- Any incentive or tax relief must be linked to firm contracts for Cook Inlet utilities.
- The second worst thing for Alaska is to import LNG. The worst thing is to do nothing

5:10:24 PM
SENATOR WIELECHOWSKI stated that on April 3, 2020, CINGSA and the CEOs of Matanuska Electric Assocation (MEA) and Golden Valley Electric sent a letter to the Governor stating that Hilcorp controls 80 percent and noted that the least expensive way to resolve this was to ensure production would occur under existing leases. He noted that the letter also claimed that Hilcorp was subject to its lease obligations and the consent decree, and inquired about the response that was received.

5:11:13 PM
MR. SIMS replied that every tool in the toolbox needs to be evaluated to ensure no other entities take advantage of the state and ensure leaseholders fulfil obligations. He said the consent decree had a price range that was supposed to provide security for consumers in the state. Hilcorp stayed below the price range the entire time despite having the ability to increase it. There are not many entities that are willing to invest hundreds of millions of dollars. He opined that royalty relief is worthwhile to prevent having to import LNG and increase the cost of energy for every Alaskan. It is important to consider ways to save money for consumers.

5:13:48 PM
SENATOR CLAMAN asked him to expand on gas storage as a solution and wondered how the state could assist.

5:14:03 PM
MR. SIMS replied that energy storage is important. He said when looking at year-round production markets in the lower 48 states, injection storage acts as a secondary option to having no buyers. It also opens up market potential. There is a very small market for Cook Inlet gas, so investment is helpful.

5:15:05 PM
SENATOR KAWASAKI asked how much storage space exists for CINGSA's existing framework.

5:15:20 PM

MR. SIMS responded that CINGSA had an open season and has 11 Bcf of available capacity. He said each one of the utilities claims a certain amount of that capacity, so there is no availability for new customers. Proprietary storage is utilized to meet the needs of existing contractual obligations. If CINGSA was open to third-party storage, unsold gas could be injected for later use.

5:16:25 PM
SENATOR KAWASAKI asked under what circumstances a company would want to bury gas if they already have firm commitments.

5:16:54 PM
MR. SIMS replied that he is uncertain.

5:17:00 PM
REPRESENTAIVE MCCABE asked why coal hasn't been considered given that there is currently 590 years worth of coal in Healy. Yet, when there was an emergency situation, coal was not considered.

5:17:39 PM
MR. SIMS expressed his company's duty to serve its customers. He said Golden Valley Electric was a part of that emergency conversation and it was known how much energy they could have sent had it been needed. The state should consider a diversified portfolio for power generation to avoid frequent binds.

5:18:48 PM
REPRESENTAIVE MCCABE commented that it is possible to produce clean energy using coal and it is the solution to fixing the energy problem in the short term. He opined that it would take ten years to establish a floating supply ship. He suggested that repairs to the Healy 2 would take only three years and gas could be stored until a delivery system was completed.

5:19:56 PM
REPRESENTAIVE MEARS stated that there are options for businesses and residents to make changes including infrastructure and energy usage. She acknowledged that there is federal money and other opportunities that are available.

5:20:51 PM
SENATOR BISHOP stated the legislature has heard from the gas industry for six years. He said there are 60 years worth of energy reports but action has not been taken, so the legislature must do something this session.

5:21:35 PM

SENATOR WIELECHOWSKI noted that the state has a 100-year supply of gas at its doorstep. He commented that one company controls 80 percent of that reserve and wondered how much more it would cost consumers in Alaska if LNG is imported.

5:22:15 PM
MR. SIMS replied that LNG is unavailable for import until 2030. He opined that residents will leave the state and the state will have difficulty paying for its heating bills. Energy is a major economic issue in Alaska and should be addressed this session. The current outlook and forecast are not good. The LNG option that would begin in 2030 is costly, so there are significant economic challenges.

5:24:32 PM
REPRESENTAIVE ARMSTRONG stated her perspective that the chance to capitalize on the value chain, like the mining industry, is lost if families cannot heat their homes. She expressed her obligation to identify a solution and expressed disappointment to be in this position.

5:25:28 PM
MR. SIMS replied that it is important to understand this as a staged issue. He asked the committee to focus on the long-term plan.

5:26:27 PM
CO-CHAIR MCKAY opined that this is not a time to panic, become emotional or irrational, and stated his belief that the state has the capability to solve the problem.

5:27:22 PM
There being no further business to come before the committee, Co-Chair Giessel adjourned the Joint Resources Committee meeting at 5:27 p.m.