

**ALASKA STATE LEGISLATURE  
HOUSE RESOURCES STANDING COMMITTEE**

February 26, 2024

1:11 p.m.

**MEMBERS PRESENT**

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

**MEMBERS ABSENT**

Representative Dan Saddler

**OTHER MEMBERS PRESENT**

Representative Jesse Sumner

**COMMITTEE CALENDAR**

HOUSE BILL NO. 223

"An Act relating to the production tax and royalty rates on certain gas; and providing for an effective date."

- HEARD & HELD

PRESENTATION(S): Alaska Gasline Project Update

- HEARD

**PREVIOUS COMMITTEE ACTION**

BILL: HB 223

SHORT TITLE: TAX & ROYALTY FOR CERTAIN GAS

SPONSOR(S): REPRESENTATIVE(S) RAUSCHER

01/16/24	(H)	PREFILE RELEASED 1/8/24
01/16/24	(H)	READ THE FIRST TIME - REFERRALS
01/16/24	(H)	RES, FIN
01/31/24	(H)	RES AT 1:00 PM BARNES 124
01/31/24	(H)	Heard & Held

01/31/24 (H) MINUTE (RES)  
02/07/24 (H) RES AT 1:00 PM BARNES 124  
02/07/24 (H) <Bill Hearing Rescheduled to 02/09/24>  
02/09/24 (H) RES AT 1:00 PM BARNES 124  
02/09/24 (H) Heard & Held  
02/09/24 (H) MINUTE (RES)  
02/19/24 (H) RES AT 1:00 PM BARNES 124  
02/19/24 (H) -- MEETING CANCELED --  
02/21/24 (H) RES AT 1:00 PM BARNES 124  
02/21/24 (H) -- MEETING CANCELED --  
02/23/24 (H) RES AT 1:00 PM BARNES 124  
02/23/24 (H) Heard & Held  
02/23/24 (H) MINUTE (RES)  
02/26/24 (H) RES AT 1:00 PM BARNES 124

#### **WITNESS REGISTER**

FRANK RICHARDS, President  
Alaska Gasline Development Corporation  
Anchorage, Alaska

**POSITION STATEMENT:** Presented during the Alaska Gasline Project Update.

NICK SYZMONIAK, Venture Development Manager  
Alaska Gasline Development Corporation  
Anchorage, Alaska

**POSITION STATEMENT:** Presented during the Alaska Gasline Project Update.

#### **ACTION NARRATIVE**

[1:11:04 PM](#)

CHAIR MCKAY called the House Resources Standing Committee meeting to order at 1:11 p.m. Representatives Rauscher, Baker, McCabe, Wright, Armstrong, Mears, Dibert and McKay were present at the call to order. Representative Wright arrived while the meeting was in progress.

^#hb223

#### **HB 223-TAX & ROYALTY FOR CERTAIN GAS**

[1:11:43 PM](#)

CHAIR MCKAY announced that the first order of business would be HOUSE BILL NO. 223, "An Act relating to the production tax and royalty rates on certain gas; and providing for an effective

date." [Before the committee, adopted as a working document on 2/23/24, was the proposed committee substitute (CS) for HB 223, Version 33-LS0886\S, Nauman, 2/10/24 ("Version S").]

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CHAIR MCKAY opened public testimony on HB 223. After ascertaining that no one wished to testify, he closed public testimony on HB 223 and announced that the bill would be held over.

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The committee took a brief at-ease.

**PRESENTATION(S): Alaska Gasline Project Update**

[1:13:12 PM](#)

CHAIR MCKAY announced that the final order of business would be the Alaska Gasline Project Update presentation.

[1:13:27 PM](#)

FRANK RICHARDS, President, Alaska Gasline Development Corporation (AGDC), provided a PowerPoint presentation, titled "Alaska Gasline Project Development Corp" [hard copy included in the committee packet]. He explained that Alaska Gasline Development Corporation (AGDC) is a public corporation owned by the State of Alaska, which was created by the state legislature in 2013 to expedite, finance, and build natural gas infrastructure. The legislature provided AGDC with the purpose of developing natural gas pipelines and transportation mechanisms to provide natural gas to Alaskans, develop a liquified natural gas (LNG) project, and develop resources to the maximum benefit of Alaskans. The \$44 billion Alaska LNG project is founded on 40 trillion cubic feet of natural gas on the North Slope, which represents 400-500 years of resources for Alaskans if the resources were utilized solely in state. Due to a lack of transportation infrastructure, the gas is currently not available for market. The Arctic Carbon Capture plan is located adjacent to existing gas plants, which will remove and sequester CO2 from raw gas stream and condition gas to LNG specifications. The natural gas pipeline plan is 800 miles from Prudhoe Bay to Nikiski, which follows existing oil pipeline and

highway system. The plan includes gas delivery to Alaska communities and the LNG plant.

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MR. RICHARDS, in response to committee questions, explained that concept selection work was done by ExxonMobil Corporation to determine where the LNG plant should be built. He alluded to a discussion that had taken place regarding LNG port selection with the Matanuska-Susitna borough. The site selection had been completed before AGDC was involved in the project. The project has been designed and permitted for the Nikiski site. The Kenai LNG facility, owned by Marathon, produces 1.1 million tons per year. LNG facilities around the state could be reused and revitalized depending on economic factors.

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NICK SYZMONIAK, Venture Development Manager, Alaska Gasline Development Corporation, in response to committee questions answered that the construction of the carbon capture plant would benefit from HB 50 by better defining the regulatory process for well permits to sequester the CO<sub>2</sub>. Some CO<sub>2</sub> could be utilized for enhanced oil recovery.

CHAIR MCKAY explained that primacy was assigned for class 6 CO<sub>2</sub> disposal wells to the Alaska Oil and Gas Conservation Commission (AOGCC).

MR. RICHARDS said that Alaska LNG's cost of supply is well below market prices and provided a breakdown of costs on slide 4. In response to Chair McKay, said that tax credits for carbon were a bipartisan effort.

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MR. SYZMOINIYAK, in response to Representative McCabe, responded that the entire project assumes 70 percent debt financed with 30 percent equity financing with a 10 percent rate of return on the equity. The debt financing is on an 18-year term with about a 5 percent interest rate.

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MR. RICHARDS, in response to Chair McKay, answered that due to anti-trust considerations, AGDC cannot go to the producers collectively for a price. There are bilateral negotiations for

each producer to determine the price of gas, which makes it difficult to move the project along. There have been varying levels of participation from the producers to share prices.

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MR. RICHARDS continued his presentation on slide five and discussed the permitting process with the Federal Energy Regulatory Commission (FERC) and showed a list of 36 permits for the Alaska LNG project. He mentioned that President Biden has recently curtailed the Department of Energy (DOE) from authorizing any additional export authorities until sufficient analysis is done. This has not impacted the project, which is fully funded, permitted, and ready to proceed. Land rights-of-way (ROW) make up about 93 percent of the project area. In response to Representative McKay, said that other projects around the continent are permitted, but on hold as they await FERC and DOE authorizations. In response to Representative McCabe, he said that the authorizations were granted to AGDC in 2020 and the application occurred in 2017.

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MR. RICHARDS explained the lifecycle analysis and said that the use of Alaska LNG in Asia for power consumption compared to coal fired power consumption in Asia results in a significant reduction in CO2 emissions. Alaska can reduce greenhouse gas emissions by more than 77 million tons of CO2 per year. Alaska LNG can have one of the greatest greenhouse gas benefits of any project in the world. He discussed energy security, and that Cook Inlet gas supply is uncertain, and utilities are evaluating potential alternative natural gas supplies. AGDC has been working with the Alaska utilities on delivery options. Alaska LNG Phase 1 is a potential long-term energy supply for Alaskans. He discussed the development of a pipeline, and that construction can move quickly under a phased approach. Phase 2 would involve continuing forward with LNG export.

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MR. RICHARDS, in response to committee questions, said that LNG import would be between \$12-15 per million British thermal units (Btu). This represents the target price for AGDC to meet or beat to be an economic project and noted that the price has volatility issues.

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MR. RICHARDS, in response to committee questions, provided a pipeline construction timeline and stated the goal to have front-end engineering and design (FEED) funding by July 1, 2024. Commercial and project development agreements would take place with a final decision on construction funding (FID) and utilities' commitment to purchase gas is not needed until 2025. There's a 4-year construction window and the first gas supply is estimated for July 2029. He described pipeline-quality gas needs. Permits have been granted for a well-designed process and significant alterations would require reopening permit applications and would add additional time and risk. He explained that the project follows along the same right-of-way the Alaska LNG project utilized. FEED analysis will update design specifications of the pipeline, cost, and schedule. He assured the committee that right-of-way leases are up to date and paid to the federal government through the Bureau of Land Management and the National Park Service. The state of Alaska conditional lease does not require lease payments.

MR. RICHARDS described the 42-inch pipeline from the North Slope to Southcentral Alaska, which was designed and permitted under the Alaska LNG project. AGDC is working with a credible North American pipeline company to lead the final design (FEED), construct, and operate the pipeline. There are multiple North Slope fields that could supply gas. Contracts with end users are needed for the project to move forward including with Alaska utilities to commit to source their long-term gas needs. A Nutrien plant for ammonia and urea in Nikiski will be restarted to meet demand needs in Asia for fertilizer.

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MR. RICHARDS, in response to Chair McKay, clarified that a contract with only one producer is needed for in-state needs.

NICK SYZMONIAK responded that options with producers are being explored to "shop for the best price."

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MR. RICHARDS showed a map on slide 11 of the LNG pipeline. He pointed out the Fairbanks lateral pipeline which would provide natural gas to Fairbanks. He responded to Representative Baker and said that this pipeline is meant to provide gas for Alaskans and create Alaska resource development. Offtakes have been designed for communities and mining districts that need a source

of gas. In response to Representative Mears, he said that the pipeline follows the Dalton Highway, then moves over to the Minto flats ridge which is new territory and will not impact the critical habitat. After that, it parallels the Parks Highway and the railroad and existing infrastructure. In fact, the railroad is essential to executing the project. From there the pipeline parallels the Susitna River until Tyonek where it will intertie with the Beluga pipeline system. There pipeline was designed to meet Enstar Natural Gas' existing facilities without any improvements.

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MR. RICHARDS continued the presentation and described the regulatory risk and first gas timeframes for different diameters of pipelines. He mentioned that it is overbuilt for instate needs, but the regulatory process is already complete, and the pipeline will be utilized to a greater extent after phase 1. The pipeline will cost \$10.7 billion. The FEED needs to be completed prior to construction, will cost up to \$50 million, and take 12 months to complete. He reiterated that the target FID construction start date is in 2025 with first gas in 2029. The legislature appropriated \$2.5 million to AGDC for front end engineering and design as a portion of a match from the federal \$4 million appropriation.

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MR. RICHARDS, in response to committee questions, explained the cost estimate classes. He affirmed that 42-inch pipe is available from North American manufacturers, which in the past was imported from abroad. The pipeline thickness ranges from 6/10ths of an inch to 1- and 1/4-inch thickness. The Pipeline Hazardous Materials Safety Administration (PHMSA) is a federal organization that provides for safety oversight of oil and gas pipelines. PHMSA seeks to prevent oil and gas pipelines from being collocated due to the explosion and environmental risks. Design efforts follow the PHMSA regulations. Collocating compressor stations and pumps stations would be a potential safety issue. Reusing existing facilities would require a design change and reopening the regulatory process. He said that the regulation requires 500 feet of distance between the pipelines.

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MR. SYZMONIAK explained that the target for the phase 1 economics was to ensure that gas could be delivered to Southcentral utilities at a lower price than the expected price of imported LNG. Factors include the volume of permitted gas, cost of gas purchased, and tolls to the pipeline company to scope the rate of returns over time. The base price is expected to be around \$12, which is significantly lower than imported LNG. The more gas moved, the lower the cost of utilities will be. Revenue from Nutrien will go towards directly reduced costs for in-state customers. When the LNG plant comes online, extra volume will move through which could further reduce the in-state price to \$4-5.

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MR. RICHARDS said that AGDC is working with utilities to advance the phase 1 option for long term energy security. Utility support is needed now, but they will not need to commit to volumes until FID in 2025. Nutrien is performing the work necessary to restart, which includes permit renewals, plant engineering, financial modeling. North Slope gas must be made available at a low cost to underpin phase 1 and unlock future LNG exports. In response to Representative McCabe, he stated that the major pipeline company cannot be named. AGDC is working internally to ensure that Alaska LNG is a viable opportunity to proceed with.

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MR. RICHARDS, in response to Chair McKay, said that Enstar Natural Gas Company sees a long-term investment in pipelines from the North Slope as a benefit to its customers. He highlighted the key benefits to the phased approach including, long-term energy security, reduce price volatility from importing LNG, economic lift in Nikiski with the restart of the Nutrien plan, help to resolve air quality issues in Fairbanks, and drive in-state costs down to just \$4 over time.

MR. RICHARDS, in response to committee questions, said the Nutrien plan restart discussions are current and a significant amount of work has been accomplished since 2018. Nutrien is interested in carbon capture from production. He discussed the ability to sign project labor agreements. Major pipeline constructors use project labor agreements. The cost of skilled labor is high and has been factored in. He said, AGDC is reserving the right for up to 25 percent ownership by the State

of Alaska including citizens, municipalities, boroughs, and Alaska corporations.

MR. RICHARDS, in response to Representative Mears, said the legislature tasked AGDC with the responsibility of delivering gas to the interior.

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MR. RICHARDS described the Alaska LNG investment strategy. AGDC continues to engage potential developers and investors to fund FEED and commercial and legal contracts to move to FID. He noted the primary challenge of building a coalition of investors that combined have the capital and capability to move the entire project forward. He said AGDC continues to work with Goldman Sachs to identify qualified investors and secure capital.

Mr. RICHARDS said that due to confidentiality, AGDC cannot comment on specifics. Multiple investors have evaluated investment with some passing, and several are still interested and engaged in Alaska LNG. Pre-building the pipeline under the proposed phase 1 project greatly benefits the overall Alaska LNG capital raise.

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MR. RICHARDS explained that AGDC's strategy has been to seek lead investors before pursuing a binding LNG sales agreement. Investors would prefer to negotiate their own terms for LNG sales. Securing North Slope gas sales agreements remains a critical path item for both the phase 1 pipeline and the full Alaska LNG project. Recent federal actions have supported the Alaska LNG project. He exemplified U.S. Senator Sullivan as a champion of the Alaska LNG project. He mentioned the federal loan guarantees of \$31 million

MR. RICHARDS mentioned that Ambassador Emanuel from Tokyo has been a tireless advocate for Alaska LNG and sees the strategic value of a Pacific Coast project meeting the needs of Asian allies. He said the project is at a net-positive in terms of greenhouse gas emissions. He noted the tax credits and the engaged and supportive congressional delegations.

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MR. RICHARDS said the Department of Revenue (DOR) performed an analysis on expected State of Alaska Revenue from the entire

Alaska LNG project and referred to a graph on slide 24. He said commercializing resources through the sale of LNG would have a benefit to Alaska.

MR. RICHARDS explained in response to committee questions that oil production is limited by gas handling. He did not have a timeframe estimate to determine the impact of gas sales on oil production. He admitted that there are risks to building and an oversized pipeline. Economic modelling is based on the flow of gas into the industrial users and utilities. Additional volume of gas would correlate to lower prices for Alaskans.

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MR. RICHARDS stated that the Alaska LNG project creates almost 12,000 direct jobs at the peak of construction including 1,000 long-term operations jobs and significant indirect jobs during construction and operations.

MR. RICHARDS explained the opportunity for hydrogen/ammonia as opportunities for clean energy sources. He also mentioned the carbon capture sequestration opportunities to "future-proof" the project.

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MR. RICHARDS, in response to committee questions, explained that the current discussions with existing investors will advance phase 1 to fruition. There is an ongoing discussion concerning the Biden Administration's Executive Order that halted the Department of Energy authorizations, which has created more interest in the project by investors. The project is scoped through permitting efforts. He explained that current circumstances resemble the circumstances from a decade ago because of uncertainty. Decisions from investors need to meet investment and economic criteria for the project to continue moving forward. He stated that he understands the frustrations stated but emphasized that the resource can be delivered at a reasonable cost through an economically viable project. He said that he hoped LNG would create more economic opportunities in the state.

CHAIR MCKAY thanked the presenters and provided closing remarks.

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## **ADJOURNMENT**

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at [3:04] p.m.