

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

March 4, 2024

1:04 p.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

Representative Thomas Baker
Representative Kevin McCabe

COMMITTEE CALENDAR

PRESENTATION(S): COOK INLET OPTIONS

- HEARD

COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 92(2D RES)

"An Act relating to state ownership of submerged land underlying navigable water within the boundaries of federal areas; and providing for an effective date."

- BILL HEARING RESCHEDULED TO 03/06/2024

HOUSE BILL NO. 223

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

- SCHEDULED BUT NOT HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

ED KING, Staff
Representative Tom McKay

Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Co-offered the Cook Inlet Options presentation.

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

POSITION STATEMENT: Co-offered the Cook Inlet Options presentation.

ACTION NARRATIVE

[1:04:15 PM](#)

CHAIR MCKAY called the House Resources Standing Committee meeting to order at 1:04 p.m. Representatives Baker, McCabe, Rauscher, McKay, Dibert, Mears, Armstrong, Wright, and Saddler were present at the call to order.

PRESENTATION(S): Cook Inlet Options

[1:05:29 PM](#)

CHAIR MCKAY announced that the only order of business would be the Cook Inlet Options presentation.

[1:07:46 PM](#)

TREVOR JEPSEN, Staff, Representative Tom McKay, Alaska State Legislature, on behalf of Representative Tom McKay, began the Cook Inlet Options presentation via a PowerPoint [hard copy included in the committee packet], titled "Cook Inlet Gas Shortage." He began on slide 2, which defines the problem as follows [original punctuation provided]:

- State is facing a looming and increasing shortage of Cook Inlet natural gas production
- Legislature has tools at its disposal to increase Cook Inlet gas production
- No "silver-bullet" solution

MR. JEPSEN said the state needs to keep at a 70 bcf level. The chart on slide 2 shows a deficit of "firm gas contracts" offered by producers as early as 2027. He explained that the blue portion shows proved developed reserves expected to be recovered

through existing wells and facilities; and the orange portion indicates incremental crude undeveloped. He said the import of liquified natural gas (LNG) could be significantly more expensive than current Cook Inlet gas prices. He said the [gas] shortage will happen over a period of approximately 20 years, which will drive the price of gas up and possibly result in outward migration of residents. He emphasized that [the legislature] needs to act now "to control the future of the state."

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MR. JEPSEN responded to a question from Representative Rauscher regarding the amount of undeveloped reserves by deferring to the Department of Natural Resources (DNR).

[1:12:03 PM](#)

CHAIR MCKAY clarified the terms "proved" and "proved undeveloped" and explained the different "levels" of development that an oil deposit might go through to the committee.

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MR. JEPSEN resumed the presentation on slide 3, which highlighted a survey given to Alaska Residents' opinion on how the Cook Inlet Region's gas shortage should be resolved. He continued to slide 4, which outlined the results of that survey and moved to slide 5, which emphasized that a majority of respondents to the survey would prefer to have a locally produced LNG product rather than an imported one.

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CHAIR MCKAY pointed out that a locally produced LNG product would be cheaper and more reliable than an imported LNG product and emphasized that the legislature should not "gamble" on imported LNG products.

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REPRESENTATIVE MEARS commented that the cost of imported LNG is an understood risk that is constantly evaluated by gas developers in the Cook Inlet Region.

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CHAIR MCKAY responded by offering his understanding that Alaskans want "local solutions" and work done in Alaska, and he indicated that imported LNG does not provide for that.

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MR. JEPSON resumed the presentation on slide 6, which summarized the results of a survey addressed in previous slides. Slide 6 read as follows [original punctuation provided]:

Poll Results: Summary

- Strong support for Cook Inlet incentives to spur exploration and production
- Strong opposition to importing gas
- Strong support for a natural gas pipeline

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REPRESENTATIVE MEARS commented that the statement of Alaskans' opinion on slide 6 was taken out of context.

MR. JEPSEN specified the wording of the questionnaire given to Alaskans who participated in the poll and offered his understanding that Alaskans would rather not import LNG regardless of the wording of the statistic cited on slide 6.

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ED KING, Staff, Representative Tom McKay, Alaska State Legislature, picked up the presentation on slide 7, titled "Energy Economics 101" and continued to slide 8, which displayed a graphic that outlined specific costs related to natural gas development in Alaska, including: annual production, operating costs, development costs, exploration costs, and "R&D" costs.

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MR. KING, in response to Representative Mears, explained that the intention of royalty relief in the gas industry is to "get production that would not otherwise be produced into production." He said that the royalty relief bill would apply to the "proved undeveloped" box displayed on the graph on slide 7. In response to Representative Saddler, he brought attention to slide 9 and said that the volume of gas is relatively similar throughout the graph's projections. He then resumed the presentation on slide 10 to further explain gas price market

fluctuations. He affirmed that the price of gas would inflate with a higher amount of gas in circulation.

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MR. KING, in response to Representative Armstrong, confirmed that the prospect of gas not being economically viable to use or produce is a real possibility after 2029. In response to a comment by Representative Mears that any reduction in yearly gas demand would be beneficial to energy supply as a whole, he remarked that there could be a discovery of a development somewhere that could nullify the need for any reduction in demand of gas. He then resumed the presentation on slide 11, which further elaborated on the dynamic relationship between gas supply, demand, and price. In response to Representative Mears, he explained that the term "patient capital" referred to public money being used as an investment in energy infrastructure. He then confirmed Chair McKay's comment that any decrease in demand would have a positive impact on Alaska and allow it to be more like Iceland.

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MR. JEPSEN emphasized that the point of the presentation was not to dismiss the idea of importing LNG, rather it was to highlight the possibility of producing LNG locally in Alaska. He resumed the presentation on slide 13, titled "Short term options," and listed a few possibilities of options that may be taken to help alleviate the Cook Inlet Gas Region's gas shortage. In response to Representative Saddler, he shared his understanding that Marathon Petroleum Corporation (MPC) should be capable of storing gas if the Alaska State Legislature were to invest in the company.

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MR. KING, in response to Representative Armstrong as to how an increase in LNG production in Alaska would impact global LNG prices, answered that prices would generally go down if Alaska were to start producing its own LNG.

[1:46:04 PM](#)

MR. JEPSEN pointed out that 10 Bcf of LNG is not a huge volume for "something that is a global commodity."

MR. KING added that an increase in demand for LNG would probably be due to an increase in population rather than an increase in proportionate use per person.

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MR. JEPSEN continued on slide 14, which listed a series of short-term improvements that could be made in the Cook Inlet Region to allow for the importation of LNG.

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CHAIR MCKAY shared his understanding that locally produced LNG would be forever cast aside if importing LNG was to become the preferred method of acquiring LNG.

[1:49:09 PM](#)

REPRESENTATIVE MEARS made the point that the largest producer of natural gas in the Cook Inlet Region is already meeting its contractual obligations of production.

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MR. JEPSEN resumed speaking on slide 14 and addressed the question of LNG storage capacity. He continued to slide 15, which touched on the House Resources Standing Committee's proposed HB 387 and explained how it would work to improve gas exploration capabilities in the Cook Inlet Region. He then moved to slide 16, which detailed the House Resources Standing Committee's proposed HB 388 and explained how it would direct funds to gas exploration and development in the Cook Inlet Gas Region. He continued to slide 17, which emphasized how a decrease in the current royalty and tax rate would help stimulate investment in the Cook Inlet Gas Region. In response to Representative Mears, he confirmed that DNR or Hilcorp, Inc. is able to assess royalty relief on late-in-life wells in the Cook Inlet Region. Back to slide 17, he highlighted the possible positive outcomes of a royalty and tax relief program in the Cook Inlet Region. He continued to slide 18, which pointed out the financial implications of a royalty and tax increase in the Cook Inlet Region. He said these were rough numbers on slide 18.

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MR. KING skipped to slide 20, which displayed a graph that outlined basic petroleum economics. He explained specific portions of the graph and detailed how each statistic highlighted in the graph was affected by changes in supply, demand, and price of LNG.

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CHAIR MCKAY emphasized that the graph on slide 20 includes projects like the Pikka development project and the Willow project, both of which are still in the "red" portion of the graph. He added that those specific projects each took over ten years to come to fruition and said that oil development projects take time.

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MR. KING directed the committee's focus to the green bars of the graph displayed on slide 20 and explained how total company profits are calculated.

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MR. JEPSEN made the distinction between an exploration's profitability and a company's overall profitability.

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MR. KING returned to slide 20 to elaborate on the distinction made by Mr. Jepson. He moved on to slide 21, which discussed the overall impact of changes in royalties on both gas producers and developers. He showed slide 22, which displayed two graphs that compared and discussed the current net present value (NPV) of legislative options currently being considered by the committee.

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CHAIR MCKAY commented that a 3 percent reduction in oil and gas royalties could be utilized by the Alaska Industrial Development and Export Authority (AIDEA) to kickstart a new development project.

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MR. KING, in response to Representative Mears, stated that the interest rate of a certain project is specific to a projects

risk factor. To a follow-up question, he replied that the 20 percent explore subsidy is already applied to all projects, it just differs in when it is applied to a given project.

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MR. JEPSEN resumed the presentation on slide 24, which highlighted the role that energy diversification could play in energy security in the Cook Inlet Region after the year 2030. In response to Representative Armstrong, he explained that the "clean coal" facility the presentation was referring to was a proposed facility to be built along the proposed West Susitna Access Road and said that the facility would be fueled by a local supply of coal. He then returned to slide 24 to elaborate on the proposed Susitna-Watana Hydroelectric project and the proposed Little Mount Susitna Wind Farm. He continued to slide 25, which detailed the proposed LNG pipeline to be built in the Cook Inlet Gas Region.

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MR. KING skipped to slide 27, which displayed a graph that highlighted the Southcentral Energy Market's current structure and makeup. He continued to slide 28, which detailed three proposed policy considerations that could be made when considering oil and gas policy in the Cook Inlet Gas Region. In response to Representative Saddler, he confirmed there was a typographical error on slide 28 and that every \$1 increase in gas taxes by a local government is another \$70 million out of the pockets of Alaskans. He then explained the risks of investing in natural gas development projects in Alaska.

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CHAIR MCKAY explained the specific pathways of future development that Alaska could take and explained the current philosophy of development as "all of the above."

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MR. KING moved to slide 30, which detailed a list of solutions to be made by the Alaska State Legislature to alleviate the energy crisis in the Cook Inlet Region.

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MR. JEPSEN continued to slide 31, which brought up a series of efforts being made by the Alaska State Legislature to forward energy development across the State.

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CHAIR MCKAY thanked Mr. King and Mr. Jepson for their presentation.

[2:45:59 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 2:46 p.m.