

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

March 15, 2024

1:03 p.m.

MEMBERS PRESENT

Representative Tom McKay, Chair
Representative Thomas Baker
Representative Kevin McCabe
Representative Dan Saddler
Representative Stanley Wright
Representative Donna Mears
Representative Maxine Dibert

MEMBERS ABSENT

Representative George Rauscher, Vice Chair
Representative Jennie Armstrong

COMMITTEE CALENDAR

PRESENTATION(S): SOUTHCENTRAL GAS SUPPLY

- HEARD

HOUSE BILL NO. 359

"An Act relating to the permanent fund dividend and a one-time permanent fund dividend payment and land voucher; and providing for an effective date."

- BILL HEARING CANCELED

HOUSE BILL NO. 387

"An Act relating to a tax credit for certain oil and gas equipment in the Cook Inlet sedimentary basin; and providing for an effective date."

- BILL HEARING CANCELED

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

BRAD KEITHLEY, Managing Director

Alaskans for Sustainable Budgets
Anchorage, Alaska

POSITION STATEMENT: Gave the presentation, titled "Southcentral Gas Supply."

ACTION NARRATIVE

[1:03:25 PM](#)

CHAIR TOM MCKAY called the House Resources Standing Committee meeting to order at 1:03 p.m. Representatives Dibert, Wright, McCabe, Mears, Baker, Saddler, and McKay were present at the call to order.

PRESENTATION(S): Southcentral Gas Supply

[1:04:21 PM](#)

CHAIR MCKAY announced that the only order of business would be the Southcentral Gas Supply presentation.

[1:06:02 PM](#)

BRAD KEITHLEY, Managing Director, Alaskans for Sustainable Budgets, began the Southcentral Gas Supply presentation via PowerPoint [hard copy included in the committee packet]. He began on slide 2, which highlighted his professional background and experiences that qualified him to be speaking on the topic at hand. He moved to slide 3, which explained his perspective on market economics and natural gas development in Alaska.

[1:11:35 PM](#)

MR. KEITHLEY continued to slide 4, which displayed a graph that emphasized the current market demands of oil and gas supply in Alaska. He moved to slide 5, which put forth that subsidies awarded by the Alaska State Legislature aren't necessary to lower the cost of natural gas to Alaskans.

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REPRESENTATIVE MCCABE asked how the Alaska State Legislature could mitigate any impacts of a decision it makes regarding the subsidizing of natural gas production and distribution.

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MR. KEITHLEY answered that currently, the permanent fund is likely to pay for a natural gas subsidy and said that it is likely to affect lower and middle class families.

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CHAIR MCKAY asserted that the committee should be open to all ideas regarding a solution for natural gas subsidies.

[1:21:37 PM](#)

REPRESENTATIVE MCCABE asked why the cost of gas in the Cook Inlet Gas Region is much lower than the current market rate.

[1:22:05 PM](#)

MR. KEITHLEY answered that the ENSTAR Natural Gas Company (ENSTAR) and the Chugach Electric Association (CEA) are artificially keeping the price of gas low.

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REPRESENTATIVE MCCABE opined that there should be more competition between utilities in the Cook Inlet Gas Region.

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MR. KEITHLEY replied that there needs to be a price motivator to drive any change in a localized gas market.

[1:25:56 PM](#)

REPRESENTATIVE SADDLER asked if Alaska is meeting its constitutional obligations to fully develop its natural resources if it is currently limiting itself through market tactics.

[1:27:10 PM](#)

MR. KEITHLEY said that the Regulatory Commission of Alaska (RCA) should be included in the discussion regarding the limitation of utilities' ability to set their own prices.

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CHAIR MCKAY added that his office is working to leverage the cost of developing "stranded" gas explorations.

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MR. KEITHLEY said that the current market price is being achieved by tax incentives, which he compared to a direct subsidy of the natural gas industry.

CHAIR MCKAY responded that any tax incentive or direct subsidy will always save consumers millions of dollars in increased rates.

MR. KEITHLEY retorted that a subsidy would only "save the Southcentral consumers."

CHAIR MCKAY asserted that everyone would benefit from a natural gas subsidy or tax incentive.

MR. KEITHLEY remarked that any tax incentive or subsidy would come out of the permanent fund subsequently lowering the annual permanent fund dividend (PFD).

CHAIR MCKAY argued that the lower cost of energy would save Alaskans more money overall than a lower PFD would.

MR. KEITHLEY explained that a tax incentive or subsidy funded by the permanent fund would affect lower income Alaskans the most.

[1:35:22 PM](#)

CHAIR MCKAY stressed that renewable energy is heavily subsidized in Alaska and explained that any subsidy would lower the overall cost of energy for Alaskans.

MR. KEITHLEY said that removing a subsidy on gas would reset the market price of natural gas in the Cook Inlet Gas Region to a price that is consistent with global market patterns.

CHAIR MCKAY pointed out that there are no taxes and royalties received by liquified natural gas (LNG) importation.

[1:40:07 PM](#)

MR. KEITHLEY explained that a lower market price would be directly influenced by a natural gas subsidy.

CHAIR MCKAY said that utilities companies wouldn't permit an increase in the price of natural gas.

[1:41:46 PM](#)

MR. KEITHLEY compared the current market price of natural gas in Alaska to the natural gas market of the Lower 48 States in the 1970s.

[1:43:43 PM](#)

REPRESENTATIVE MEARS commented that the incremental increase of natural gas prices in the Cook Inlet Gas Region should prompt a look at the use of renewable energy sources as an alternative.

[1:45:09 PM](#)

MR. KEITHLEY refocused the discussion back to slide 4 and said that the continuous subsidy of natural gas in the Cook Inlet Gas Region would harm the consumer.

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MR. KEITHLEY resumed the presentation on slide 6, which displayed two graphs that compared the lowest overall cost possible without utilizing subsidies. He continued to slide 7, which highlighted the first graph displayed on slide 6 and emphasized the price of \$9 per million cubic feet (Mcf) of natural gas. He moved to slide 8, which highlighted the second graph displayed on slide 6 and emphasized the declining price of natural gas in the Cook Inlet Gas Region.

[1:52:42 PM](#)

REPRESENTATIVE SADDLER questioned the price figures on slide 7.

[1:53:28 PM](#)

MR. KEITHLEY cited line 2 and explained that the state is not going to earn a return on that investment but rather will subsidize it by way of it being state-owned.

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MR. KEITHLEY resumed the presentation on slide 9, which displayed a graphic that highlighted the total cost of developing and distributing natural gas in the Cook Inlet Gas Region.

[1:55:55 PM](#)

CHAIR MCKAY offered an anecdote relating to the fluctuation of the price of oil and gas during his time working in the oil and gas industry.

MR. KEITHLEY commented that Alaska will have to incur a serious amount of cost when it is developing new projects in Alaska.

[2:00:45 PM](#)

REPRESENTATIVE MCCABE added that the constitutional budget reserve (CBR) and the permanent fund are the lowest they have ever been because the Alaska State Legislature has capped their growth. He asked if "clean coal" from Healy, Alaska, was included in the presentation's cost of energy calculations.

MR. KEITHLEY responded to Representative McCabe that coal was mentioned on slide 7.

[2:02:34 PM](#)

REPRESENTATIVE MEARS added that Alaska is "very well set up" for the use of natural gas in homes and said that it would be a transitional process regardless of the source of energy used.

[2:03:13 PM](#)

MR. KEITHLEY resumed the presentation on slide 10, which displayed a spreadsheet of the most cost-effective, nonsubsidized options for energy in Alaska. He backtracked to slide 8 to highlight various nonsubsidized alternatives to an in-state gas pipeline.

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CHAIR MCKAY shared his excitement about the idea that imported LNG could also help further development of LNG in Alaska and cautioned that the Kenai Peninsula's natural gas industry could suffer from an Interior LNG pipeline.

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MR. KEITHLEY explained a category of gas mentioned in the Natural Gas Policy Act of 1978 referred to as "high cost gas" that was viewed as a necessary additional supply in the case of a supply deficit. He said that the "high cost gas" category of

the Natural Gas Policy Act of 1978 went out of business very quickly because of low demand for it.

[2:10:24 PM](#)

REPRESENTATIVE SADDLER referenced the assertions on slide 12 regarding natural gas policy and said that he was unsure about certain aspects of the slide.

[2:11:38 PM](#)

CHAIR MCKAY commented that the situation surrounding the permanent fund is clearly understood in the House Resources Standing Committee.

[2:11:57 PM](#)

MR. KEITHLEY clarified that a lower PFD would harm lower class Alaska families.

[2:14:06 PM](#)

REPRESENTATIVE MCCABE claimed that Governor Walker cut the PFD and opined that the CBR was traditionally used for subsidies and tax incentives.

[2:15:06 PM](#)

MR. KEITHLEY resumed the presentation on slide 13, which touched on the topic of royalty relief in Alaska's natural gas industry.

[2:16:46 PM](#)

CHAIR MCKAY commented that it would take the Cook Inlet Gas Region six more years before it was ready to intake any imported LNG.

[2:17:02 PM](#)

MR. KEITHLEY returned to slide 8 to emphasize the need for royalty relief in certain regions of Alaska.

CHAIR MCKAY said that a decline in a gas well's production creates a need for more subsidies as time goes on.

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REPRESENTATIVE MCCABE asked Mr. Keithly if he was aware of how the words "shall" or "must" would affect the development of gas in Alaska.

MR. KEITHLEY said he was unsure of the answer.

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REPRESENTATIVE MEARS added her understanding that a royalty rate cannot be raised but could be reduced.

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CHAIR MCKAY affirmed Representative Mear's understanding of royalty rate changes and said that he was unsure of whether or not the commissioner of the Department of Natural Resources (DNR) would be willing to do so.

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MR. KEITHLEY responded to Representative Mears' understanding that any change in royalty rate would have to be targeted.

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CHAIR MCKAY highlighted specific changes in royalty rates around Alaska as examples of the practice to which Representative Mears was referring.

[2:24:02 PM](#)

REPRESENTATIVE SADDLER shared his philosophy on natural gas development in Alaska.

MR. KEITHLEY replied that the need is to understand both the beneficiary of a subsidy and the cost bearer of said subsidy.

[2:25:42 PM](#)

MR. KEITHLEY continued the presentation on slide 14, which gave a summary of the previous slides, and he gave concluding remarks regarding the supply, cost, and demand of natural gas in the Cook Inlet Gas Region.

[2:26:55 PM](#)

CHAIR MCKAY and Representative Saddler both thanked Mr. Keithly for his presentation.

[2:28:41 PM](#)

CHAIR MCKAY gave a few closing remarks regarding the regulation and supply of natural gas in the Cook Inlet Gas Region and delivered committee announcements.

[2:30:25 PM](#)

ADJOURNMENT

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