

**ALASKA STATE LEGISLATURE  
SENATE RESOURCES STANDING COMMITTEE**

January 22, 2025

3:30 p.m.

**MEMBERS PRESENT**

Senator Cathy Giessel, Chair  
Senator Bill Wielechowski, Vice Chair  
Senator Matt Claman  
Senator Forrest Dunbar  
Senator Scott Kawasaki  
Senator Shelley Hughes  
Senator Robert Myers

**MEMBERS ABSENT**

All members present

**OTHER LEGISLATORS PRESENT**

Senator Mike Shower  
Representative Julie Coulombe  
Representative Mia Costello  
Representative Justin Ruffridge

**COMMITTEE CALENDAR**

PRESENTATION: COOK INLET GAS FROM HEX/FURIE

- HEARD

PRESENTATION: COOK INLET NATURAL GAS OVERVIEW FROM HILCORP  
ENERGY COMPANY

- HEARD

**PREVIOUS COMMITTEE ACTION**

No previous action to record

**WITNESS REGISTER**

MARK SLAUGHTER, Chief Commercial Officer  
HEX/Furie  
Anchorage, Alaska

**POSITION STATEMENT:** Provided the presentation 2024 Cook Inlet Gas Activities.

LUKE SAUGIER, Senior Vice President  
Hilcorp Energy Company  
Houston, Texas

**POSITION STATEMENT:** Provided the presentation Hilcorp Alaska Overview

**ACTION NARRATIVE**

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CHAIR GIESSEL called the Senate Resources Standing Committee meeting to order at 3:30 p.m. Present at the call to order were Senators Hughes, Dunbar, Myers, Claman, Kawasaki, Vice Chair Wielechowski, and Chair Giessel.

**PRESENTATION: COOK INLET GAS from HEX/Furie**

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CHAIR GIESSEL announced the presentation, Cook Inlet Gas, Update on 2024 Activities, by Mark Slaughter of HEX/Furie. She noted Cook Inlet is facing a pending [natural] gas shortage. HEX/Furie applied for and received royalty relief through Department of Natural Resources (DNR) and procured the use of the jack-up [drilling] rig and have done some drilling.

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MARK SLAUGHTER, Chief Commercial Officer, HEX/Furie, Anchorage, Alaska, introduced himself and gave a summary description of the HEX and Furie companies.

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MR. SLAUGHTER moved to slide 2, titled HEX Cook Inlet's Operations. He emphasized HEX Cook Inlet is Alaska's only locally owned and operated independent gas producer.

MR. SLAUGHTER explained the process from drilling to end use:

Julius R Offshore Platform, Offshore Operations

This is where Furie Operating Alaska, [LLC] produces gas from the Kitchen Lights Unit (KLU).

15-mile Sub-sea Gathering Line

The gas moves from KLU through the sub-sea gathering line.

Nikiski Central Processing Facility

The gas is treated at this onshore processing facility to bring it to utility grade standards, at which point it enters the transmission pipeline system.

Gas Sales to Electric Utilities, Gas Utilities, and Refinery in Southcentral Alaska

These are the customers that receive the processed gas, including the [Petro] Star or Marathon refineries.

Heating Alaskans' Homes

The refined products are then turned into electricity, heat or power for homes and businesses.

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MR. SLAUGHTER moved to slide 3, a map illustrating HEX/Furie's operations in Cook Inlet:

[Original punctuation provided.]

- HEX Cook Inlet
  - Owner of Furie Operating Alaska, LLC (Furie)
- Furie is the Operator of the Kitchen Lights Unit (KLU)
  - Produces ~5 percent of Total Gas in Cook Inlet (CI)
  - Second Largest CI Operator
  - ~84,000 acres offshore
- Headquarters in Anchorage
- Furie's Operations Office in Nikiski

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MR. SLAUGHTER moved to slide 4:

[Original punctuation included.]

**HEX Cook Inlet - Developing Cook Inlet Gas**

- DNR may impose conditions to a Plan of Development to ensure operators are developing and maximizing resources for the benefit of the State of Alaska
  - 11 AAC. 83.343(b)
- Conditions of KLU 2024 10th Plan of Development (POD)

- Furie will drill a grassroots or sidetrack well targeting additional gas resources during the 2024 POD period
- Furie will provide the Division with a fully defined plan for the KLU as part of its 2025 POD submission
- Furie Successfully Met POD Conditions in 2024

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MR. SLAUGHTER reiterated that HEX/FURIE's leases were with the State of Alaska and HEX/FURIE worked closely with Department of Natural Resources (DNR) on plans of development. He said 2024 was HEX/Furie's tenth year of development and the Kitchen Lights Unit (KLU) had been in production since November 2015. In the 2024 plan, HEX/Furie committed to drilling one well and to providing DNR with a complete unit plan of development. He reported HEX/Furie met both conditions of the plan of development.

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MR. SLAUGHTER moved to slide 5 and said the process to bring gas on doesn't start in the year the gas comes online:

[Original punctuation provided.]

#### **Furie's Process to Bring New Gas Online in 2024**

Royalty Modification Process (2023- Ongoing)  
 Plan of Development (2023-Current)  
 AIDEA Financing Negotiations (2023-Current)  
 Customer Contract Negotiations (2023-December 2024)  
 Permitting to Move Jack-up Rig (2023-2024)  
 Jack-up Rig Contract Negotiations (2024)  
 Plan, Develop, & Implement Drilling Program (2024)

#### **New Gas Online**

MR. SLAUGHTER emphasized the importance of the royalty modification process and said the process is not straightforward [step by step]; rather, the steps occurred in parallel.

MR. SLAUGHTER said HEX/Furie approached DNR in April 2023 about a royalty modification. Though there was an existing statutory process they could follow, DNR directed HEX/Furie to look at modifications to [HEX/Furie's] private ownership or to look at a legislative process [to obtain royalty modification]. He said neither of those two processes were successful. HEX/Furie

continued to work with DNR and submitted their complete application for royalty modification in September 2024. He said HEX/Furie was still awaiting the final best interest decision and expected to receive that soon.

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MR. SLAUGHTER acknowledged the hard work of Department of Natural Resources (DNR) commercial section. He said the [royalty modifications] process is long and difficult and, over the past 30 years, only four applications have been granted. He acknowledged the effort of the 2024 legislature and the various hearings about the royalty modifications. Even though they weren't successful, he opined [the hearings] were a priority and folks learned a significant amount about the Cook Inlet market.

MR. SLAUGHTER said, though HEX/Furie did not have the final royalty modification decision, the company made financial investments and took financial risks to bring gas online. He expanded on the steps HEX/Furie engaged in to be prepared:

- completing customer contract negotiations so HEX/Furie knew to whom they would be selling the gas once they brought it online
- working with the U.S. Army Corps of Engineers (USACE), National Oceanic and Atmospheric Administration (NOAA) and National Marine Fisheries Service (NMFS) to secure permits to be able to move the jack-up rig to the platform
- completing contract negotiations with the jack-up rig company

He said it was necessary for these steps to proceed in parallel and reported that HEX/Furie succeeded.

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MR. SLAUGHTER emphasized that to have a long-term development plan, HEX/Furie had to secure financing. He said 2024's plan was all self-funded. He noted that HEX Cook Inlet had no debt and no investors beyond Mr. Hendrix. He said it was clear HEX/Furie is invested in Alaska and in Cook Inlet.

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CHAIR GIESSEL noted that Furie had overriding royalty owners and asked whether those partners were contributing anything financially toward the continuing function of HEX/Furie.

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MR. SLAUGHTER said they were not. He said there were two parts to the royalty, which total 25 percent. He said the State of Alaska held the standard 12.5 percent and the state, over the

years, granted another 12.5 percent to private overriding royalty interests (ORRIs). He said those parties do not contribute anything to the ongoing operation.

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SENATOR WIELECHOWSKI asked why the private over-riding royalty interests (ORRIs) were granted.

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MR. SLAUGHTER answered that some of them were granted to prior owners of the unit, granted to themselves. He said an individual did some geologic work for a prior owner and the prior owner granted that individual [overriding royalty interest].

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SENATOR WIELECHOWSKI asked if it was fair to say that the over-riding royalty interests have made [HEX/Furie's] development uneconomic.

MR. SLAUGHTER answered yes.

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SENATOR WIELECHOWSKI noted that the state was faced with a situation where [HEX/Furie] made decisions on over-riding royalty interests that made the project uneconomic, and the state was being asked to give up its royalty share to the tune of millions and millions of dollars to subsidize [HEX/Furie's] development. He noted the state could hold [HEX/Furie] to the obligation to produce; and if they don't produce, the state could take away the leases, resulting in the disappearance of the overriding [royalty] interest.

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MR. SLAUGHTER answered that it was not the new Furie that granted the royalty shares, but the old, pre-bankruptcy Furie. He said the ORRIs were created in the early to mid-2000s and he said he thought the last one was granted in 2010. He said that was not something created by the current owner, Mr. Hendricks, but was a legacy of past decisions.

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SENATOR WIELECHOWSKI said he was not trying to blame Mr. Slaughter or Mr. Hendrix personally and he expressed appreciation for the work Mr. Slaughter had done and was doing. However, he said, fundamentally, the private sector investments, ORRIs that someone agreed to, have made the project uneconomic and the state was being forced to come in and give up a huge

chunk of its royalty interest to make [the project] profitable. He asked whether the state would receive an ownership share or if it would get anything additional in exchange for making [the project] economic. He noted that the state could take away the leases and re-lease them and there would be no overriding royalty interests (ORRIs).

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MR. SLAUGHTER said Department of Natural Resources (DNR) spent a year to a year and a half looking through HEX/Furie's financials and determined the best interest for the state. He agreed it was unfortunate [HEX/Furie] was unable to convince private interests to make a reduction and [HEX/Furie] did expend significant effort and time to pursue [private interest reductions] at the request of DNR. He said any continued production [by the unit] to be economically viable and continue to put gas into the market was determined by DNR to be in the state's best interest. He said DNR further determined that, if royalty relief was not granted, the field would be uneconomic and [HEX/Furie] would be looking at shutting the field down as early as June 2025. He explained that, without royalty relief, [HEX/Furie] would have passed their economic threshold and continued investment in the field, and, according to DNR's best interest finding, [granting the royalty relief] would extend the field life by 10.5 years and bring additional 62 billion cubic feet (Bcf) to the market and \$37 million additional revenue in royalties to the state, even at the reduced royalty rate.

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SENATOR WIELECHOWSKI said it seemed like a fairer solution for the private ORRI interest owners to give up some of their share because they were not contributing anything while the state would be giving up roughly eight percent of its royalty share. He pointed out that the ORRI owners would receive nothing if the state revoked the leases.

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CHAIR GIESSEL affirmed the ORRIs were a complicating issue. She said if DNR were to pull the leases from HEX/Furie, the company would be without them. She said the state could put the leases out for bid again but there would be no guarantee HEX/Furie would again secure the leases. She noted if the leases were retracted by the state, it would extinguish the ORRIs and that would be desirable.

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SENATOR DUNBAR asked for what actual amount of royalty relief interest HEX/Furie applied.

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MR. SLAUGHTER said, statutorily, Department of Natural Resources (DNR) could only reduce the state's interest share [from 12.5 percent] to three percent. He said [HEX/Furie's] application asked for the minimum [share to the state] of three percent for a three- or five-year term. The state's interest share was set to increase as the price [of natural gas] increased. DNR's preliminary best interest finding linked the interest rate to a total gross revenue of \$712 million and that as HEX/Furie develops and produces more and earns more, the interest rate will return to 12.5 percent. He said the best interest preliminary finding projected the field to run to 2032 or 2033.

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SENATOR CLAMAN recalled that HEX/Furie acquired these leases as the result of getting them out of bankruptcy and that acquiring the ORRI obligations were also part of the bankruptcy negotiations. He asked for confirmation or clarification.

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MR. SLAUGHTER differentiated old Furie from current ownership. He explained that the bankruptcy proceedings of old Furie were complex due to Cook Inlet tax credits. He said there were significant dollars owed by the state and to preserve that obligation, everything stayed as it was with the company, including the commitments for where the tax credits were paid.

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SENATOR CLAMAN asked whether the owners of the ORRIs could approve the removal of the ORRIs [from HEX/Furie's obligations] without approval by the bankruptcy court.

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MR. SLAUGHTER said the state participated in the bankruptcy court and the bankruptcy proceedings and the leases were part of the sale as were the ORRIs. He said it was all part of a package in a take it or leave it effort.

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MR. SLAUGHTER said the key points of slides 6 and 7 were that HEX/Furie paid off its \$7.5 million loan [from] AIDEA in 2023. The loan had been for the purchase of [HEX/Furie]. It was paid off early and in full without any modifications and HEX/Furie immediately commenced negotiations with AIDEA for a larger line

of credit. He announced that AIDEA and HEX/Furie finalized the terms for a \$50 million revolving line of credit. He said this represented secure financing for long-term development of the [Kitchen Lights] unit versus self-funding the unit development at a gradual pace and this would allow HEX/Furie to be more aggressive with development once they have the royalty relief decision.

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CHAIR GIESSEL noted that slide 6 illustrated the milestones discussed.

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MR. SLAUGHTER noted that jack-up rig negotiations started in person in January of 2024 and were finalized September of 2024. Because they had been moving through the steps with contractors and vendors in parallel, they were able to place the rig on the Julius platform on October 3, 2024. He said 'from an operator planning perspective, it's remarkable that the company would have signed a rig contract and then have it on location and ready to start drilling two weeks later.

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SENATOR WIELECHOWSKI asked whether HEX/Furie had a jack-up rig available to drill this summer [2025].

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MR. SLAUGHTER said they were under commercial contract negotiations with a jack-up rig company.

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SENATOR WIELECHOWSKI inquired about the availability of a jack-up rig.

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MR. SLAUGHTER said the target to begin using the rig was April 1st, 2025, contingent on securing a contract.

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SENATOR WIELECHOWSKI asked what action the legislature could take to ensure the jack-up rig reaches HEX/Furie so gas drilling can begin this summer if royalty relief is awarded.

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MR. SLAUGHTER answered that it was [dependent on] a commercial negotiation between HEX/Furie and a contractor.

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SENATOR WIELECHOWSKI acknowledged that it was a commercial agreement but noted impacts to light and heat affect constituents. He opined the Legislature should discuss how to ensure a rig is available. He asked if there were problems with the negotiations and whether the company HEX/Furie was negotiating with was being reasonable. He asked for the name of the negotiating company.

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MR. SLAUGHTER said there was only one jack-up rig available in Cook Inlet and that it was owned by Hilcorp Jack-Up Rig, LLC. He said he was optimistic that HEX/Furie would get the jack-up rig in time to meet the plan of development for one well in 2025 and have time to drill a second well in 2025.

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MR. SLAUGHTER added HEX/Furie had an obligation under its plan of development to provide status updates through an established reporting mechanism to Department of Natural Resources (DNR) regarding its efforts to contract for the rig.

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MR. SLAUGHTER moved to slide 7, Furie is Doing the Work for New Gas, which illustrates the steps for:

**Permitting to Move Jack-up Rig:**

- April 2023
  - Environmental Consultant Engaged for Incidental Harrassment Authorization (IHA) Permit
- April - July 2023
  - IHA Pre-application Meetings NOAA/NMFS/USACE
- July 19, 2023
  - Furie applies for IHA
- September 12th, 2024
  - NMFS Issues IHA Valid for 2 years

**Customer Contract Negotiations**

- Fall 2023 - Spring 2024
  - Periodic Meetings
- Spring 2024 - Winter 2024
  - Contract Negotiations
- December 2024
  - ENSTAR announces Contract at House Resources Hearing

## **Plan of Development**

- January 2024 - October 2024
  - Continued reserve evaluation, well design, facility improvements

## **Drilling Program**

- 2023+
  - Geologic and Geophysical Work
- 2023+
  - Engineering and Well Design
- Fall 2023 - January 2024
  - Long Lead Items Ordered
- February - September 2024
  - Contractor/Vendor Procurement and Contracting
- October 2024
  - A-I Well Abandoned
- December 16th, 2024
  - A-IA Online

MR. SLAUGHTER noted Senator Wielechowski's concern about lights and heat for constituents. He emphasized HEX/Furie met regularly with the electric utilities and with ENSTAR and Marathon regarding gas needs. He said HEX/Furie knows there is a definite need for more gas and that was why HEX/Furie made every effort to get gas online in 2024. He explained HEX/Furie entered an amendment to its existing ENSTAR contract that ENSTAR filed with the Regulatory Commission of Alaska (RCA), December 31st [2024] in conjunction with its Homer electric contract and he asserted that, because HEX/Furie was willing to negotiate its contract with ENSTAR, Homer had a supply of gas going forward, subject to RCA approval of that amendment.

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MR. SLAUGHTER moved to slide 8 highlighting HEX/Furie's drilling program. He emphasized the excellent safety record for the side track well project:

[Original punctuation provided.]

### **2024 Furie Drilling Program Highlights**

- KLU A-1A Sidetrack
  - 0 Accidents/Environmental Impacts
  - 160 + Personnel worked on the project

MR. SLAUGHTER pointed out the list of companies involved with the project, ranging from Hilcorp Jack-up Rig to small mom and pop companies. He noted HEX/Furie spent approximately \$12 million to bring one well online.

Companies Supporting Furie's 2024 Drilling Program

Hilcorp Jack-up Rig	Grasshopper
Rig Tenders	Aviation
Northern Solutions	Maritime
CISPRI	Helicopters
Fairweather	Cook Inlet Tug and
61 North	Barge
Aurora Drilling	Jacobs
Weaver Brothers	Cameron
Five Star Catering	Geolog
Pollard	Grant Aviation
PESI	Tuboscope
Kakivik	Alaska E-line
Expro	Yellowjacket
PRA	Jim Boatwright &
Dukowitz Machine	Sons
Shop	5-Star Catering
Peninsula Pumping	Baker
Haliburton	3 Bears
	Magtec

Slide 8 includes a pie chart illustrating 2024 Sidetrack Cost Breakdown:

[Graphic representation illustrates five cost segments, listed/arranged greatest to least]

- Spartan 151 Rig/Dock Services
- Equipment
- Transportation
- Drilling Services
- Engineering/Permitting

**Total Cost ~\$12 MM**

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MR. SLAUGHTER moved to slide 9 consisting of a line graph illustrating Kitchen Lights Unit (KLU) 2024 Gas Production. The graph begins December 1, 2023, and ends January 1, 2025. He said

there were three key points he intended to convey from this slide:

-Increased production in advance of the Anchorage cold weather snap when the wells were running at full capacity, prompted by ENSTAR.

-Natural decline in production, typical for the KLU gas wells, from 12,000 [thousand cubic feet] McF [to about 8,000 McF] from February 2024 through November 2024.

-Big jump in production for November and December 2024 to around 13,500 McF, the result of drilling the side track well and the discovery of additional unperforated sands.

MR. SLAUGHTER emphasized that the increased production, 50 percent during the peak winter demand, was the result of infield drilling, or development drilling. He said development drilling was not exploration drilling and that it was lower risk than exploration drilling with a higher probability of success.

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SENATOR CLAMAN asked about HEX/Furie's perspective on jack-up rig availability. He asked whether it was commercially feasible to keep two jack-up rigs busy in Cook Inlet and whether there was enough drilling to keep two jack-up rigs in use year-round.

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MR. SLAUGHTER said HEX/Furie could keep a rig in the Kitchen Lights Unit (KLU) busy drilling for two or three years.

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SENATOR WIELECHOWSKI asked about the cost of bringing a jack-up rig to Cook Inlet and whether the Alaska Industrial Development and Export Authority (AIDEA) should consider supporting that effort.

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MR. SLAUGHTER said there had been initial consideration for AIDEA to purchase a jack-up rig for use in Cook Inlet and they had done so done for a prior producer. He said the estimated cost to move a rig from Singapore was under \$10 million, and additional work was needed to identify actual costs to move a rig [to Cook Inlet]. He noted the original rig in Cook Inlet was moved there by the old Furie company.

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SENATOR WIELECHOWSKI opined that \$10 million did not seem like a huge amount and asked why someone hadn't brought up a jack-up rig.

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MR. SLAUGHTER answered that the drilling season [in Cook Inlet] is very short. The rig was only available at the end of the season, until around November 15. He said rig companies expect payment for the rig even when it is not drilling because it could be used elsewhere year-round. He noted significant progress to fix foundational issues over the past four and a half years. He also pointed out that this is the first well drilled in the Kitchen Lights Unit (KLU) since 2018 and was funded under different ownership. He highlighted the high cost of bringing a rig to Cook Inlet where it is used for only six months.

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SENATOR HUGHES said it was her understanding that, in addition to the initial \$10 million [to move the rig to Cook Inlet], the [rig] company would also want a guarantee of \$200 million to \$300 million worth of work. She asked if it was Mr. Slaughter's understanding that the [rig] companies expected that guarantee.

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MR. SLAUGHTER said he could not comment on a dollar amount. He said companies generally want the rig under contract with a day rate which may be reduced when the rig is not drilling. The [rig] company aims to maximize the value of its rig use for its own benefit. He said there are rigs available that could be moved to Alaska.

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MR. SLAUGHTER moved to slide 10. He described the three-year project between the University of Alaska Fairbanks (UAF)'s Alaska Center for Unmanned Aircraft Systems Integration (ACUASI) and Furie to develop a drone program to support Furie's platform. In July 2024, HEX/Furie and ACUASI completed the first successful beyond visual sight flight between shore and the offshore production platform. He said it was critical to show areas where the University could incorporate its programs into Furie's business. He expected Furie would continue working with UAF:

[Original punctuation provided.]

## **2024 Drone Program**

- Furie partnered with [University of Alaska Fairbanks] UAF [Alaska Center for Unmanned Aircraft Systems Integration] ACUASI in 2021
- First Beyond Visual Line of Sight waiver approved in the United States for flights to and from an offshore platform.
- Utilize emerging technology in Alaska to address operational challenges.

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MR. SLAUGHTER moved to slide 11 and said HEX/Furie was waiting for the best interest finding from Department of Natural Resources (DNR). He said the [royalty relief] was key to the ability to move forward. DNR issued the eleventh plan of development wherein HEX/Furie was committed to drilling one well and they were preparing for two wells, subject to accessing the jack-up rig. He noted that there are limited contractors and vendors available in Cook Inlet and access to vendors and boats would be key to serving the offshore operation. He said HEX/Furies was also working to modify the number of wells they could have on the platform. He said there were six well slots and four producing wells. If they were able to drill two, they would have six producing wells. He said they were also working to double the number of wells from six to twelve:

[Original punctuation provided.]

#### **2025 Outlook - Furie**

- DNR Best Interest Finding for Royalty Modification of KLU - Critical
- 2025 11th POD Issued by DNR 1/3/25
  - Preparing to drill up to 2 wells at Julius R Platform
    - Infield Development Drilling
    - Contractor / Vendor availability
    - New Gas to Market Fall 2025
- Modifications to Julius R Platform
  - Engineering & Permitting to Increase Well Count
  - Cook Inlet General Permit
- Design & Permit 2026 KLU Drilling Program

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MR. SLAUGHTER said HEX/Furie was currently operating under an individual permit for produced water from Department of Environmental Conservation (DEC) and were working toward operating under the general permit, another critical step for HEX/Furie. He said that will put them on equal footing with other offshore producers. HEX/Furies hopes to fully develop the unit by 2026.

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MR. SLAUGHTER moved to slide 12 and said there is gas in Cook Inlet and HEX/Furie is committed to developing it. He said the challenge is that the market is capped at 75 billion cubic feet (Bcf) and is shrinking. He noted the effort of utilities to bring liquid natural gas (LNG) in [to Alaska] or to bring gas off the [North] Slope. He said those possibilities create long-term uncertainty for HEX/Furie, which affects the economics and the investments they would consider. He emphasized that Alaskans would benefit if producers, customers, and the state are all in alignment and talking to one another. He reiterated that the limited number of drilling services in Cook Inlet is also a challenge:

[Original punctuation provided.]

#### **Southcentral Gas Takeaways**

- HEX Cook Inlet is Committed to Developing Gas in Cook Inlet
- Current Market Limited to 70 Bcf & Shrinking
- Long Term Gas Market Uncertainty
  - Utilities working to bring in LNG
  - North Slope Gas Line
- Alaskans Benefit from Producers, State and Customers Working in Alignment
- Limited Cook Inlet Drilling Services in Place

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SENATOR DUNBAR noted the 75 Bcf and shrinking [market] and asked whether HEX/Furie expected the Donlin [pipeline] to come online. He said it was his understanding that Donlin was planning to use Cook Inlet gas to power the mine. He also asked about HEX/Furie's commitment and attainment of prior plans of development leading up to the eleventh plan.

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MR. SLAUGHTER said Furie was communicating with Donlin and there are investment decisions and litigation keeping Donlin from moving forward. He said the market will stagnate or shrink until Donlin reaches a final investment decision.

MR. SLAUGHTER opined that electricians were moving on the renewable front, but that nothing (no gas) would be coming online for the next several years. He said in five to ten years, [Donlin] has goals that boards have set to reduce their reliance on Cook Inlet gas, leading to the shrinking market. He said the hope is that Donlin will come on and deliver 30,000 McF per day to run the gold mine. He said HEX/Furie encourages that and it will be good for the state and for Cook Inlet.

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MR. SLAUGHTER said HEX/Furie had met its commitments for the tenth plan of development and are starting the eleventh plan of development. He said the commitments made in plans of development had all been met by the current owner of HEX/Furie. He noted that the production level was compromised when one well that was shut down to test a safety valve never came back [into production]. He said past plans of development commitments were not met by Furie under prior ownership. He noted those failed commitments were considered a breach of contract and caused considerable concern for ENSTAR. He reiterated that Furie, under current ownership, is meeting its commitments to the state.

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SENATOR MYERS asked for confirmation that current [HEX/Furie] ownership bought Kitchen Lights Unit (KLU) out of bankruptcy, honoring the overriding royalty interests (ORRIs) that existed prior to the purchase as a condition of the purchase. HEX/Furie claims the ORRIs make it uneconomical to develop. He asked why HEX/Furie made the purchase under those conditions.

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MR. SLAUGHTER said that would be a question for Mr. Hendrix. He said there is still gas and if the economic issues of the unit are fixed, it would still be viable. He said consultants for the legislature last year advised that meaningful royalty relief would be in the interest of the state. He said Department of Natural Resources (DNR) had looked at [HEX/Furie] with full access to all the confidential information and determined that royalty modification was in the state's interest. He said HEX/Furie would still pay 15.5 percent in royalty interests compared with other units that were paying 13.5 to 14 percent

average in Cook Inlet. He said the royalty relief would bring HEX/Furie closer to the playing field of other units.

[4:15:55 PM](#)

MR. SLAUGHTER moved to slide 13 containing graphics from the U.S. Energy Information Administration (EIA) illustrating Rankings: Natural Gas Residential Prices, October 2024. He acknowledged Cook Inlet gas is very expensive to produce compared with Henry Hub averages. However, to the consumer, the residents of Alaska have affordable delivered gas, and he said this was because Cook Inlet is close to the market and because ENSTAR provides safe, reliable, and effective service. He noted that Henry Hub is in Louisiana. He said Alaska utilities do a good job and make [gas] affordable to the consumer. He pointed out [Alaskans] use a lot of it because we live in Alaska.

[4:18:18 PM](#)

SENATOR WIELECHOWSKI asked, if HEX/Furie gets the royalty relief and if they can negotiate the use of the jack-up rig, were there things the legislature could do to expedite the process to get more gas and ensure constituents that their lights won't be turned off this winter.

[4:18:49 PM](#)

MR. SLAUGHTER said access to vendors that serve offshore, [for example] support boats, was critical and very limited. Royalty relief would result in HEX/Furie proceeding with drilling. He emphasized the importance of making Cook Inlet more competitive.

**PRESENTATION(S): COOK INLET NATURAL GAS OVERVIEW FROM HILCORP ENERGY COMPANY**

[4:20:20 PM](#)

CHAIR GIESSEL announced the presentation titled Cook Inlet Natural Gas Overview by Luke Saugier of Hilcorp Energy Company.

[4:21:00 PM](#)

LUKE SAUGIER, Senior Vice President, Hilcorp Energy Company, Houston, Texas, introduced himself and said he was pleased to represent the 1,500 Hilcorp employees in Alaska and to provide an update on Hilcorp's activities in Cook Inlet over the past 12 months and to share Hilcorp's perspective on the current market.

[4:22:05 PM](#)

MR. SAUGIER moved to slide 2 Hilcorp Alaska Overview, a map of Alaska with magnified detail of Prudhoe Bay and Cook Inlet. Slide 2 lists the highlights of Hilcorp Alaska:

- ~ 1,500 Employees
- 7 Active Rigs in Cook Inlet Basin
- 6 Active Rigs on North Slope
- 18 Cook Inlet Basin Wells, Drilled in 2023
- 21 Cook Inlet Basin Wells, Drilled in 2024

MR. SAUGIER said Hilcorp came to Alaska in 2012 when most of the large oil companies began to exit. The rail belt was facing natural gas shortages, and as Hilcorp acquired the old fields, they invested to stabilize the natural gas supply for the rail belt. Hilcorp steadily grew its footprint in the state and in 2025 announced its largest ever budget for the state. He said Alaska made up nearly 60 percent of Hilcorp [operations] overall. He said Hilcorp was committed to continuing investments in the future to satisfy the needs of customers, as well as Hilcorp employees, who all live and work in south central [Alaska].

[4:23:22 PM](#)

MR. SAUGIER moved to slide 3:

[Original punctuation provided.]

**Hilcorp's Continued Commitment to Cook Inlet Natural Gas**

- **Hilcorp is committed to the Cook Inlet Basin and is fully developing its leasehold**
  - From 2012 to 2024, Hilcorp has produced over 700 Bcf of gas and drilled 174 wells
  - Hilcorp has spent well over \$1.0 billion in the Cook Inlet Basin
  - Hilcorp is increasing activity in Cook Inlet Basin
  - Drilled 22 wells in 2012, 18 wells in 2023, and 21 wells in 2024
    - Plans to drill 15-20 wells per year going forward
- **Producing wells' production initially declines ~30% per year**

MR. SAUGIER emphasized that newly drilled wells immediately begin to decline. Hilcorp owns late-life assets in which many,

many wells have been drilled over years which contributes to the rate of decline.

- **Cook Inlet Basin gas market is unlike any other in the United States**

MR. SAUGIER pointed out that there was no gas import ability, and no gas export ability.

**Utilities and other gas producers must identify new sources of gas supply for Southcentral Alaska**

MR. SAUGIER said Hilcorp's leases cannot meet 100 percent of the demand for South Central [Alaska].

[4:25:44 PM](#)

CHAIR GIESSEL asked how many of the 21 wells drilled in 2024 found gas.

[4:25:54 PM](#)

MR. SAUGIER said roughly 13 of the 21 wells found gas. He said this reflected the diminishing returns observed in older fields.

[4:26:25 PM](#)

SENATOR WIELECHOWSKI asked how much of the \$1 billion spent by Hilcorp was eligible for tax credits.

MR. SAUGIER said he did not know and could follow up.

[4:26:38 PM](#)

SENATOR KAWASAKI asked how many of the 21 wells drilled in 2024 were drilled with the Spartan 151 jack-up rig.

MR. SAUGIER said his presentation would convey that shortly.

[4:27:06 PM](#)

MR. SAUGIER moved to slide 4 and said the Cook Inlet basin has served as the railbelt's exclusive source of natural gas for over 60 years:

[Original punctuation provided.]

**The Cook Inlet Basin  
A Brief Overview**

**History and Brief Overview**

**1958:** Oil and gas production started in the Cook Inlet basin after the discovery of the Swanson River field in 1958.

**1959:** Unocal and Ohio Oil drilled the wildcat well Kenai Unit 14-6, discovering large gas accumulations that make up the Kenai Gas Field.

**1962:** Two more large gas finds were discovered in the North Cook Inlet field located offshore and the Beluga River field on the west side of Cook Inlet.

**1969:** Operations begin at the Kenai fertilizer plant, using over 50 Bcf per year of natural gas feedstock.

**1969:** Kenai LNG export facility at Nikiski commence operations

- At its peak, the facility exported over 60 Bcf of gas per year to Asia.
- For more than three decades these two plants consume more than half of Cook Inlet natural gas production.
- The remaining consumption is split roughly evenly between electricity generation, gas utilities, and use in oil and gas operations.

**1970-2000s:** Production in Cook Inlet expanded through the 1970s and ranged around 200 Bcf per year until the mid2000s, when it begins to decline sharply.

**2005-2013:** Cook Inlet Gas Production declines from over 200 Bcf/year in 2005 to less than 100Bcf/year in 2013.

**2007:** Kenai fertilizer plant closes.

**2011-2012:** ConocoPhillips announced that after 40 years of operations its Kenai LNG Export facility would be closed.

**2009-2013:** Looming natural gas crisis in Southcentral Alaska.

Slide 4 includes a graph illustrating the volume of production from Cook Inlet gas fields from 1958 through 2016.

[4:29:30 PM](#)

MR. SAUGIER moved to slide 5, news headlines highlighting concerns about the gas shortage around 2010:

- Anchorage Prepares for Possible Shortage of Natural Gas, The New York Times, March 23, 2009
- "Gas shortage could leave Anchorage in the dark", Anchorage Daily News, September 30, 2009
- Hometown, Alaska: Anchorage's Natural Gas Crisis, Alaska Public Media, December 9, 2009
- "Looming Cook Inlet gas shortages may be crippling", Anchorage Daily News, October 7, 2012
- "Southcentral Alaska utility warns of possible natural gas supply shortage", Anchorage Daily News, October 11, 2012.

MR. SAUGIER said the headlines describe the environment Hilcorp entered in 2012 and Hilcorp began investing immediately to revitalize and stabilize the gas supply.

MR. SAUGIER returned to slide 4 and pointed out the small bump in production, largely the result of additional investment and activity by Hilcorp.

[4:30:15 PM](#)

MR. SAUGIER moved to slide 6:

[Original punctuation provided.]

### **Southcentral Natural Gas Shortage**

**April 2022:** Hilcorp notifies utilities that it will no longer be able to provide new firm contracts beyond existing contracts through 2033.

**February 2024:** Hilcorp met before a joint hearing of the House and Senate Resources Committee - "The gas under Hilcorp's leases cannot meet 100% of the Alaska demand."

- Hilcorp invests hundreds of millions of dollars in Cook Inlet; successfully drilling 21 wells in 2024.

**Today:** Despite significant investments and an aggressive drilling program by Hilcorp, the outlook remains the same.

There is not sufficient gas under Hilcorp leases to meet the current demands of Southcentral Alaska

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

[4:31:33 PM](#)

SENATOR WIELECHOWSKI asked to return to slide 4. He said Alaska has used 9 trillion cubic feet [of natural gas] in 50 years and referred to a U.S. Geological Service (USGS) survey that reported there were 19 trillion cubic feet or approximately a 100-year supply remaining. He asked whether Mr. Saugier agreed with the survey and how much gas Hilcorp thought it had.

[4:32:12 PM](#)

MR. SAUGIER said USGS surveys generally describe potential reserves, and the survey was probably looking at the entire Cook Inlet basin, 2.8 million acres of state leases that could be developed. That includes all the existing discovered resources, for example, HEX/Furie, Bluecrest and Hilcorp. He stated he could not say the survey was wrong but questioned whether it was realistic. He said he did know Hilcorp's gas potential and, as a private company, Hilcorp would not disclose the exact volume of its reserves in public. He said he would speak to the volume of Hilcorp's contracts and that would be a good proxy for the amount of gas its fields could produce since Hilcorp desires to contract all its gas.

[4:33:11 PM](#)

SENATOR WIELECHOWSKI understood Hilcorp was a private company and asked for understanding about the legislature's position. He said there were constituents that nearly ran out of gas last year in twenty-below-zero weather. It would be helpful for the legislature to understand how much gas there is. He noted the debate about whether the area will need to import gas and whether companies are sitting on gas. He said it is difficult to make policy decisions when the state owns the gas and leases it to [the production companies] but the policy makers are unable to learn how much gas is there. He asked how much gas Hilcorp had.

[4:34:12 PM](#)

MR. SAUGIER said Hilcorp was subject to a wide array of regulations and that it does transparently disclose numbers like the amount of gas it has, its financials and other information to the appropriate state agencies. It would not disclose that information in a public hearing. He acknowledged the need for reconciliation around the reports that there is a lot of gas and Hilcorp saying there is not enough gas. He said both are true.

[4:34:50 PM](#)

MR. SAUGIER moved to slide 7, Wells Drilled in Cook Inlet Basin, Onshore and Offshore, 2005 to Present, a bar graph illustrating the number of wells drilled each year by producers in Cook Inlet and comparing wells drilled by Hilcorp to those drilled by other entities.

MR. SAUGIER pointed out that ten to fifteen wells were drilled most years from 2005 to 2011 in Cook Inlet and Hilcorp maintained that pace as the primary active developer until 2020 when it aggressively ramped up development to keep up with the needs. In 2024 Hilcorp drilled 21 wells. He applauded HEX/Furie's success with the two wells it drilled in 2024 and emphasized its need for success. He said HEX/Furie wants to drill two more wells in 2025 and Hilcorp was negotiating with them for the use of the jack-up drilling rig.

[4:36:11 PM](#)

SENATOR WIELECHOWSKI asked of the 174 wells [Hilcorp has drilled in Cook Inlet], how many were exploratory and how many were development.

[4:36:21 PM](#)

MR. SAUGIER said he could not answer exactly, but that ten percent exploratory was a good rule of thumb. He offered to follow up with exact numbers.

[4:36:37 PM](#)

SENATOR WIELECHOWSKI noted concern that there were development wells, but not enough exploration for new gas. He noted again the USGS survey which reported a 100-year supply of gas in Cook Inlet and the need for more exploration. He asked whether Hilcorp had any leases they were not currently exploring.

[4:37:03 PM](#)

MR. SAUGIER said he had a slide illustrating the location of Hilcorp's drilled leases.

[4:37:12 PM](#)

MR. SAUGIER moved to slide 8 and said Hilcorp, as a gas company and not a drilling company, does not desire to own drilling rigs. Hilcorp used the Spartan 151 for about three years. He said it was a good tool and the only tool that could do some of the drilling, including on their most important drilling platform. He said the owner of the rig told Hilcorp in 2024 they would be taking the rig to India, and it would no longer be available in Cook Inlet. Initially Hilcorp looked for a different rig [to purchase] and learned there are only three or four in good working condition capable of drilling in Cook Inlet conditions. The cost estimate to bring a rig to Cook Inlet was about \$30 million, including transportation and modifications for the subarctic environment. He noted further financial and practical challenges to bringing a new rig to Cook Inlet and explained Hilcorp's decision to purchase the Spartan 151 and keep it in Cook Inlet:

[Original punctuation provided.]

#### **New Investments: Hilcorp Spartan 151**

##### **The Spartan 151**

##### **The rig is the right tool for the Cook Inlet**

- Hilcorp is familiar with the rig.
- Leg size meets water depth needs
- This rig is well maintained
- Hilcorp has invested in improvements

##### **Alternatives are scarce**

- Limited supply of smaller class, well maintained jack up rigs
- Only 3-4 rigs globally are estimated to meet these conditions
- Jones Act compliance further reduces options

##### **Rig Purchase Rational**

###### **1. Alaska needs a jack-up rig**

Necessary for the full development of Cook Inlet Assets

###### **2. Spartan 151 is the right tool**

Rig meets operational needs of Cook Inlet

###### **3. No realistic alternatives exist**

\$30+ million cost to bring rigs from Outside

###### **4. Proven performance record**

Rig has drilled for Hilcorp Alaska and Furie

**Hilcorp is making investments for the good of Cook  
Inlet Basin gas production.**

[4:39:40 PM](#)

SENATOR MYERS asked whether renting the rig to HEX/Furie would impact Hilcorp's 2025 plan to drill 21 wells.

[4:40:06 PM](#)

MR. SAUGIER answered that it would not. He said the rig would be used during the entire ice-free season, about April 15th through November 15th. He noted the rig would not be allowed in Cook Inlet outside the ice-free season. He said, if HEX/Furie does not need the rig, Hilcorp will use it to drill additional wells on their leases, however he said he expected the wells HEX/Furie would drill will be more productive than the wells Hilcorp would drill.

[4:40:54 PM](#)

SENATOR WIELECHOWSKI suggested that the ability of HEX/Furie to use Hilcorp's jack-up rig was a huge potential barrier [to Hilcorp's drilling work]. He acknowledged that the companies preferred for the state to stay out of negotiations between the companies. He pointed out there would probably not be more gas for Hilcorp, but a lot of gas for HEX/Furie and for the people of Alaska. He said legislators have no idea what Hilcorp was asking, possibly an obscene amount [for HEX/Furie to use Hilcorp's jack-up rig]. He questioned how the state could ensure Hilcorp was not gouging HEX/Furie. He said the people who would suffer were the people of Alaska who depend on the supply of gas. He asked how a fair process could be ensured without heavy-handed government interference.

[4:42:07 PM](#)

MR. SAUGIER noted that it was important to Hilcorp to make the jack-up rig available to anyone else that wants to use it on the exact same terms that Hilcorp charges itself internally. He said there is a per day price to cover maintenance and repairs of the rig that Hilcorp charges itself and any other company that uses the rig.

[4:42:43 PM](#)

SENATOR WIELECHOWSKI asked whether it would be possible to use the rig somewhere else in Alaska in the off-season.

[4:42:55 PM](#)

MR. SAUGIER said he wished there was [some place], but he wasn't aware of any.

[4:43:04 PM](#)

SENATOR CLAMAN asked whether Alaska Industrial Development and Export Authority (AIDEA) might buy and bring a second rig to the Cook Inlet basin. He further asked whether Hilcorp was interested in drilling more than its current plan for the next three years if AIDEA or another entity brought a second jack-up rig to Alaska.

[4:43:29 PM](#)

MR. SAUGIER said they would use the company-owned rig. He said it was important to keep that rig as busy as possible to pay it off and recover the money put into it. He noted Hilcorp had one very important producing platform, where it would spend its time drilling and that platform would not accommodate two rigs.

[4:43:53 PM](#)

SENATOR CLAMAN asked whether a second rig would allow Hilcorp to get more gas out of the leases they own.

[4:44:10 PM](#)

MR. SAUGIER asked for clarification of the question.

[4:44:16 PM](#)

SENATOR CLAMAN noted that some of the gas is not economically recoverable. He asked whether a second rig would make it more accessible and to produce and deliver to customers in southcentral Alaska.

[4:44:42 PM](#)

MR. SAUGIER said unfortunately not. He said all Hilcorp gas resource is located underneath its platforms. He said there were several specific gas platforms and the other platforms that have gas resource under them have drilling rigs on them. He said those platforms unfortunately have far less gas than the gas resource under the North Cook Inlet platform, which is where Hilcorp does most of its drilling. He said drilling on the other platforms was unsuccessful.

[4:45:17 PM](#)

SENATOR DUNBAR asked what would happen if the jack-up rig broke.

[4:45:51 PM](#)

MR. SAUGIER said it would be a real problem for Hilcorp and for Southcentral Alaska. He said, if that happened Hilcorp would not

buy another rig, but would contract to bring another rig to Cook Inlet. He said it would probably take one drilling season to find a rig and bring it to Alaska. He said the condition of the rig is critical because often rigs are not maintained when they aren't being used.

[4:46:57 PM](#)

SENATOR KAWASAKI noted the Cook Inlet Recovery Act Amendment and AIDEA's \$30 million investment. He asked how many of the 21 wells drilled [in 2024] were exploratory.

[4:47:37 PM](#)

MR. SAUGIER moved to slide 12:

[Original punctuation provided.]

## **2024 Cook Inlet Drilling Program**

### **Highlights**

- **Investing hundreds of millions of dollars per year in Cook Inlet**
- **Drilled 21 new wells in Cook Inlet in 2024**
  - 5 Offshore:
    - Steelhead (1)
    - Tyonek (4)

MR. SAUGIER said Hilcorp used the jack-up rig for the Steelhead [Hilcorp platform] drilling, which was unsuccessful, and four wells on the [Furie] Tyonek platform.

- 16 Onshore
  - Kenai Gas Field (4)
  - Cannery Loop (2)
  - Exploration (2)
  - Beluga River (4)
  - Pretty Creek (1)
  - Beaver Creek (2)

[4:48:14 PM](#)

MR. SAUGIER said of the onshore drilling, two, or approximately ten percent, were true exploratory wells and unsuccessful. He said Hilcorp also acquired seismic data to image the subsurface as part of their ongoing exploration activities.

- **Acquired Spartan 151 Jack-Up Rig in May 2024 - critical equipment to keep in Alaska.**
  - Utilized by Furie/ Hex to successfully drill a new well in Cook Inlet in 2024.

#### **2025 Cook Inlet Drilling Program**

**Hilcorp is planning an aggressive drilling schedule in Cook Inlet in search of natural gas.**

- 21 planned wells in 2025
- Utilizing 7 rigs
  - 4 drill rigs and 3 workover rigs

[4:49:01 PM](#)

MR. SAUGIER said Hilcorp would be spending tens of millions of dollars to gather seismic data and building new roads and new drilling pads as part of exploration. He emphasized the need to plan years ahead, acquire permits for roads, and then build them for access to areas to drill for new fields.

[4:49:43 PM](#)

SENATOR KAWASAKI asked how many of the total Cook Inlet rigs owned by Hilcorp were currently being utilized for production or exploration and in total.

[4:50:00 PM](#)

MR. SAUGIER said there were two onshore mobile drilling rigs, two fixed offshore drilling rigs that are on specific platforms and one jack-up rig. He said all five of them are in good working condition and have been used within the last three years. He said Hilcorp uses both onshore rigs every year, the jack-up rig every year and typically use either the steelhead rig or the platform rig each year.

[4:50:46 PM](#)

SENATOR KAWASAKI asked whether any of the rigs were present but not being used for exploration or development and what would happen with those rigs.

[4:51:06 PM](#)

MR. SAUGIER said there was one other rig Hilcorp used in the past, but was not currently using, stacked near the Kenai gas field. He said it could be used and according to the Hilcorp drilling team, would first need about \$20 million of work for new power generation. He said Hilcorp could use the rig for onshore or offshore drilling, but it's very expensive to move

because it is so large. It also has a large footprint, so it would require additional cleared space in the Kenai Wildlife Refuge, which is difficult.

[4:51:50 PM](#)

SENATOR WIELECHOWSKI recalled Hilcorp's testimony last year that royalty relief was not something that would benefit Hilcorp or lead to drilling more wells. He asked whether that was still Hilcorp's position.

[4:52:03 PM](#)

MR. SAUGIER affirmed Hilcorp would not advocate for or against royalty relief. He said it would not change Hilcorp's aggressive development schedule. He said Hilcorp was planning as much as could be accomplished given the resources available in Cook Inlet.

[4:52:30 PM](#)

MR. SAUGIER returned to slide 9, a graph illustrating diminishing returns in oil fields beginning in 2021 through June 2024. He said Hilcorp tracked the results of every project it does and has done so for several years. He said each dot on the graph represented the results of a specific project and those projects could be testing a new zone in an existing well or drilling a new well. He said the graph clearly shows the declining results of Hilcorp's efforts over time.

[4:53:21 PM](#)

MR. SAUGIER moved to slide 10, a bar graph illustrating Cook Inlet Gas Production for each year from 2016 through 2024. He noted that Southcentral Alaska uses 65-70 billion cubic feet (BcF) of natural gas per year. The graph shows public data for all gas producers in Alaska. It shows that Hilcorp's production for those years has remained consistent at about 50 BcF per year and other producers have consistently declined. He said he was optimistic that Furie's production would increase. He said it was not surprising that other producers experienced a decline because there had been no new wells drilled on their leases. He concluded that the concern was that there is a gap between the amount of oil on the market and the amount of gas used in Cook Inlet, beginning in 2021. He said we are using more gas than we are producing and that is unsustainable. He said Hilcorp and the utilities have drawn down their storage levels every year and that can't continue indefinitely.

[4:55:09 PM](#)

SENATOR MYERS asked how much of the Hilcorp production was due to new acquisitions, corporate or territory, as opposed to assets and territory acquired in 2012.

[4:55:40 PM](#)

MR. SAUGIER explained that the graph on slide 10 starts in 2016 when the last acquisition occurred. The graph shows the results of organic activity.

[4:55:54 PM](#)

MR. SAUGIER moved to slide 11, Demand vs Supply, a graphic illustration of Hilcorp's Natural Gas Contracts. He noted the gap between the demand and the production level and said some customers may not get all they want.

[4:56:28 PM](#)

MR. SAUGIER moved to slide 13, Undeveloped Gas Resources in Cook Inlet, bar graphs illustrating the asset owners in Cook Inlet and the contracted volumes of gas for each. It also includes a Cook Inlet Resource map indicating the Kitchen Lights Unit (KLU) with 1,250 BcF and Cosmopolitan with 234 BcF.

MR. SAUGIER said slide 13 illustrated that Hilcorp does not have enough gas to meet all Alaska's needs from its leases and other producers say there is plenty of gas. Both are true. He explained that the Hilcorp leases are very old fields on which a lot of wells had been drilled. Hilcorp continues to be very active and has contracted to produce roughly 323 BcF through 2033, almost ten years into the future, a reasonable proxy for gas reserves available from Hilcorp's fields.

MR. SAUGIER noted the Cosmopolitan discovery of 234 BcF in a single gas field and that there was about 1250 BcF in the Kitchen Lights Unit (KLU), which he said was publicly released information. He noted this was roughly four times as much as the remaining resource under Hilcorp leases.

[4:58:32 PM](#)

SENATOR DUNBAR asked whether this was comparing apples to oranges. He noted the 1250 BcF under KLU was theoretical, perhaps proven reserves, but not contracted and possibly not economically recoverable, whereas the 323 BcF [contracted by Hilcorp] was economically recoverable gas.

[4:58:52 PM](#)

MR. SAUGIER acknowledged that it was difficult to find like to like comparisons in the public domain. He said the point he was

trying to make was that there is a lot of gas underneath the KLU field if the field can be developed. He could not comment on how economical it would be to recover and he was not disagreeing with Furie's position that they need royalty relief.

[4:59:31 PM](#)

MR. SAUGIER moved to slide 14, a satellite image showing the Historic Cook Inlet Basin well development. He explained that the black dots on the image represent drilled wells and pointed out that the Hilcorp leases were almost all black and that hundreds if not thousands of wells had been drilled there. He said Hilcorp drilled 175 of those wells, but that the fields have been in production since the early 1960s. He said 9 trillion cubic feet had been extracted from these fields.

[5:00:57 PM](#)

MR. SAUGIER moved to slide 15, a satellite image showing the southern section of Cook Inlet. He said this was where most of Hilcorp's exploration activity took place. He noted the wells that had been drilled said that, though Hilcorp may only be interested in a small piece, it was required to lease large blocks of acreage. He said this was where Hilcorp would have to build roads and pads for exploration. He said obtaining federal permits to drill was difficult, but Hilcorp was working on it. He said the southern section of Cook Inlet is where Hilcorp would drill wells, but he did not know whether drilling efforts would be successful.

[5:02:10 PM](#)

MR. SAUGIER moved to slide 16, a graph showing Cook Inlet gas pricing. The graph starts in 2013 and shows the Hilcorp consent decree price cap compared with the Hilcorp actual average contract price, and the inflation adjusted gas price. He noted the consent decree expired in 2024 and said Hilcorp always complied with the terms of the consent decree. He said they spent over a billion dollars to bring gas to market. He pointed out that all Hilcorp's gas volumes are sold under long term fixed price contracts, and they don't have the ability to change the price.

[5:03:16 PM](#)

MR. SAUGIER moved to slide 17, Cook Inlet Gas Storage Facilities. The slide contains a table and a map describing four storage facilities: Pretty Creek, KGSF, CINGSA and Pool 6. He said there was a request from utility customers to make the Pool 6 storage facility available to them on a commercial basis. He said House Bill 50 passed in 2024, allowing for such agreements

and Hilcorp filed an application with the Regulatory Commission of Alaska (RCA) in late December, but withdrew it to include additional information. He said Hilcorp intended to refile shortly to make third party gas storage available to its customers.

[5:04:12 PM](#)

SENATOR WIELECHOWSKI asked for a description of the changes to gas storage statutes and the impact for better or for worse.

[5:04:24 PM](#)

MR. SAUGIER noted that he was an engineer, and this was more a legal question. He believed it had to do with confidentiality.

[5:04:44 PM](#)

CHAIR GIESSEL added that [under the new legislation] the Regulatory Commission of Alaska (RCA) had oversight in terms of the regulation of prices. She noted RCA advocates for the consumer.

[5:04:52 PM](#)

MR. SAUGIER added that [Pool 6] would be a regulated facility.

[5:05:02 PM](#)

SENATOR WIELECHOWSKI asked whether that statute was likely to lead to more gas storage at a reasonable rate for consumers.

[5:05:10 PM](#)

MR. SAUGIER said, with high confidence that it would. He said it was the RCA's job to be sure the price was reasonable.

[5:05:21 PM](#)

CHAIR GIESSEL asked how much gas Pool 6 could store.

[5:05:30 PM](#)

MR. SAUGIER said Pool 6 is a very large, depleted gas reservoir. It has stored gas for many years and could store over 100 BcF. As more gas is stored, the pressure increases. He said Hilcorp had about 15 wells used to withdraw gas at very high rates. He said Hilcorp had received requests from the utilities to install additional compression, which would allow them to withdraw gas at higher rates. He said Hilcorp was willing to do that as a second phase of gas storage.

[5:06:16 PM](#)

CHAIR GIESSEL noted that this was significantly greater storage capacity than the Cook Inlet Natural Gas Storage Alaska (CINGSA) facility.

[5:06:23 PM](#)

MR. SAUGIER agreed and noted that CINGSA is a different storage facility. He said Hilcorp was not trying to compete or claim to be better, however [Pool 6] is able to store much more gas.

[5:06:50 PM](#)

MR. SAUGIER moved to slide 18, Alaska Team Working Cook Inlet Gas. He said there are 265 Hilcorp employees working every day to maximize gas production. He said the employees live in Anchorage or the Kenai Peninsula and they all use the natural gas and power that comes from Hilcorp production.

[5:07:30 PM](#)

SENATOR MYERS referred to slide 12 and asked for a comparison of Hilcorp's exploration to development ratio in Alaska with the ratio in Texas, New Mexico, and other places Hilcorp operates.

[5:08:14 PM](#)

MR. SAUGIER said he wasn't sure. He said Hilcorp tries to put about ten percent of its budget and activity in the Kenai Peninsula towards exploration, but he said he wasn't sure what the amount was at a corporate level.

[5:08:32 PM](#)

SENATOR MYERS asked what [Hilcorp's effort toward exploration] was on the Noth Slope.

[5:08:43 PM](#)

MR. SAUGIER said he was tempted to say zero on the slope. He explained the focus on the slope was entirely development. There are very large, identified resources on the slope that require a lot of investment and a lot of activity to bring to market, but they are already identified and don't require exploration.

[5:09:10 PM](#)

CHAIR GIESSEL thanked the presenters and acknowledged Senator Shower, Representative Coulombe, Representative Costello, and Representative Ruffridge in attendance.

[5:09:45 PM](#)

There being no further business to come before the committee, Chair Giessel adjourned the Senate Resources Standing Committee meeting at 5:09 p.m.