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3/28/01

CS FOR HOUSE CONCURRENT RESOLUTION NO. 8(O&G)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SECOND LEGISLATURE - FIRST SESSION

BY THE HOUSE SPECIAL COMMITTEE ON OIL AND GAS

Offered:

Referred:

Sponsor(s): REPRESENTATIVES WHITAKER, Harris

A RESOLUTION

1 **Expressing the legislature's opposition to the proposed "northern" or "over-the-top"**
2 **route for a natural gas pipeline to transport North Slope natural gas reserves to the**
3 **domestic North American market, and expressing the legislature's support of**
4 **commercialization of North Slope natural gas for the maximum benefit of the people of**
5 **the state.**

6 **BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

7 **WHEREAS** art. VIII, sec. 1, Constitution of the State of Alaska, provides that it is the
8 policy of the state to encourage the settlement of its land and the development of its resources
9 by making them available for maximum use consistent with the public interest; and

10 **WHEREAS** art. VIII, sec. 2, Constitution of the State of Alaska, requires the
11 legislature to provide for the utilization, development, and conservation of all natural
12 resources belonging to the state, including land and waters, for the maximum benefit of its
13 people; and

14 **WHEREAS** 35 trillion cubic feet of known natural gas reserves are acknowledged to
15 be adherent to oil and gas leases on the North Slope of Alaska, and, additionally, realistic

1 estimates of total recoverable gas from the reserves exceed 100 trillion cubic feet; and

2 **WHEREAS** demand for new sources of natural gas supply in North American and
3 Asian markets places Alaska's North Slope natural gas in the unique position of being
4 attractive to both markets; and

5 **WHEREAS** improved economics, technological advances, and the possibility of
6 public financing of a natural gas pipeline, including particularly the financing proposal of the
7 Alaska Gasline Port Authority, a public authority established by Alaska municipalities for the
8 promotion of transportation-related commerce, have removed previously perceived barriers to
9 the commercialization of Alaska's North Slope natural gas; and

10 **WHEREAS** it is widely recognized that maximum benefit to Alaskans from the
11 commercialization of North Slope natural gas lies in market exposure for Alaska North Slope
12 gas reserves, opportunities for in-state use of the natural gas and for participation by Alaskans
13 in construction, maintenance, and operation of the gas line transportation project, and the
14 recovery of revenue by the state from the development, transport, and sale of Alaska North
15 Slope gas reserves; and

16 **WHEREAS** the "northern" or "over-the-top" route for the proposed pipeline, running
17 east from the North Slope to Canada's Mackenzie River Valley, then south through that valley
18 to link to existing pipeline networks, under consideration by the North American Gas Pipeline
19 Group, offers none of these benefits; and

20 **WHEREAS** oil and gas leaseholders on Alaska's North Slope continue to develop
21 competing gas projects elsewhere in the world, including liquefied natural gas shipments to
22 North American West Coast ports, while Alaska gas remains warehoused;

23 **BE IT RESOLVED** that the Alaska State Legislature supports the commercialization
24 of Alaska North Slope natural gas for the maximum benefit of the people of the state; and be
25 it

26 **FURTHER RESOLVED** that the legislature will exercise every power within its
27 constitutionally required authority to guarantee commercialization of Alaska North Slope
28 natural gas for the maximum benefit of the people of the state; and be it

29 **FURTHER RESOLVED** that the legislature opposes construction of a "northern" or
30 "over-the-top" route for a natural gas pipeline; and be it

31 **FURTHER RESOLVED** that the legislature will exercise every power within its

1 authority to prevent the routing of a North Slope natural gas pipeline that bypasses Alaska.

2

HOUSE CONCURRENT RESOLUTION NO. 8
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-SECOND LEGISLATURE - FIRST SESSION

BY REPRESENTATIVES WHITAKER, Harris

Introduced: 3/16/01

Referred: House Special Committee on Oil and Gas, Resources

A RESOLUTION

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2 route for a natural gas pipeline to transport North Slope natural gas reserves to the
3 domestic North American market, and expressing the legislature's support of
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5 the state.

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8 be adherent to oil and gas leases on the North Slope of Alaska, and, additionally, realistic
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14 public financing of a natural gas pipeline have removed previously perceived barriers to the
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7 legislature to provide for the utilization, development, and conservation of all natural
8 resources belonging to the state, including land and waters, for the maximum benefit of its
9 people; and

10 **WHEREAS** it is widely recognized that maximum benefit to Alaska from the
11 commercialization of North Slope natural gas lies in maximum market exposure for Alaska
12 North Slope gas reserves, maximum opportunities for in-state use of the natural gas,
13 maximum opportunities for participation by Alaskans in construction, maintenance, and
14 operation of the gas line transportation project, and maximum revenue to the state from the
15 development, transport, and sale of Alaska North Slope gas reserves; and

16 **WHEREAS** the "northern" or "over-the-top" route for the proposed pipeline, running
17 east from the North Slope to Canada's Mackenzie River Valley, then south through that valley
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24 constitutionally required authority to guarantee commercialization of Alaska North Slope
25 natural gas for the maximum benefit of the people of the state; and be it

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27 "over-the-top" route for a natural gas pipeline; and be it

28 **FURTHER RESOLVED** that the legislature will exercise every power within its
29 authority to prevent the routing of a North Slope natural gas pipeline that bypasses Alaska.

HCR-8

Testimony to House Oil and Gas Committee

Good Afternoon Mr. Chairman, members of the committee. My name is Michael Hurley and I am here today, representing the North American Natural Gas Pipeline Group, to express our views on HCR-8 .

As you are aware, the three companies participating in the group (BP, ExxonMobil, and Phillips) are working diligently to develop an economically viable project to commercialize North Slope natural gas by pipeline through Canada to the Lower 48 market. And in doing that, it is incumbent on us to fully consider the options that could help accomplish that goal.

Indeed, the Federal Energy Regulatory Commission, before it issues a certificate of public convenience and necessity, requires us to analyze alternative pipeline route options as part of the application process.

This project has the potential to be the largest energy project in North America, and will require capital investments in the billions of dollars. Investment decisions cannot be taken lightly, and must be made with the confidence that can only be gained by a thorough evaluation of the alternatives, and an understanding of their relative strengths, weaknesses, risks, and rewards. Such an approach is fundamental to good business decision-making.

Our efforts are focused on creating and understanding opportunities, not prematurely discarding them. This resolution seems to suggest we do the latter. We believe that legislative action which recommends shutting down options before they are fully understood limits dialog and interferes with the fundamental dynamics of a free-market economy.

It cannot be forgotten that any Alaskan gas project, whether it be LNG, GTL or pipeline technology, must be able to deliver products to the market at a competitive cost in order to succeed. There are many other competing sources of supply, and buyers will go elsewhere if a project fails in this regard. If either Alaska project advances, the benefits to the state and its citizens and businesses will be substantial, and will make a significant contribution to Alaska's economic future.

Finally, the work we are undertaking this year will yield information we believe will be necessary for reasoned decision-making. We have been listening to the views and concerns of the Alaska Legislature and of Alaska's citizens, and we will be evaluating alternatives on the basis of seven criteria:

- Overall project economics,
- Alaskan access to gas,
- Jobs for Alaskans,

- Revenues to the State,
- Safety,
- Environmental Protection, and,
- Project timing.

We do not feel we have enough information yet to make a route decision. Indeed, that is the reason for our aggressive work program. Again, we think that the interests of commercializing North Slope gas are best served by creating choices, not eliminating them. We expect that there will be many future opportunities for legislative guidance and action.

Thank you Mr. Chairman for this opportunity to express our views on this resolution.

Walter J. Hickel

Box 101700
Anchorage, Alaska 99510-1700
907-276-7400

March 23, 2001

The Honorable Scott Ogan
Alaska State House of Representatives
State Capitol (MS 3100)
Juneau, AK 99801-1182

FAX 907-465-3265

Dear Representative Ogan,

While I had hoped to visit you and the House Special Committee on Oil and Gas before the end of March, I'm not able to do so because I'm traveling to Moscow for a meeting of Northern Forum leaders. Nevertheless, I want to compliment you and the Committee on its efforts to understand where Alaska stands in world markets for natural gas.

Any successful gas project requires willing buyers, willing sellers, willing transporters, and financing. My work in this area has been to try to bring those elements together, and I hope your committee can do the same.

If I were there, I would make three points.

First, Alaska has to look out for its own interests. In the late 1970s, an overland project failed – but not before Alaska's efforts helped Canadian reserves get to market. If overland was the best way to go, we would have an oil pipeline to Bellingham today. We don't. Tidewater gives us the most options, and while we can pursue an overland route, we can't allow the tidewater option to be ignored by the state or the producers. We must aggressively pursue Asian markets, and that means ensuring that a gas supply is independently offered for sale. So far, that has not been done. Instead, we're telling the Asian market we're not ready to sell.

Second, I've attached an excerpt from a talk the late Senator Bob Bartlett gave to Alaska's Constitutional Convention. He warned about companies with assets Outside Alaska warehousing assets they acquire in Alaska. Of course, no oil company would admit that they are warehousing gas, or keeping it out of the market because it has other supplies available. But a state owner of such a large resource has to protect itself, because it could happen. It is clear to me we haven't protected ourselves.

What do we do? We must be tough. Our options range from a reserve tax to taking back the resource for non-performance. Neither of these options would

be necessary if a sufficient gas supply to serve the LNG route were committed to an independent marketing effort.

Third, we must learn our lessons from the oil line: Unless structured correctly, a pipeline owned by producers is likely to result in tariff, royalty, and tax disputes because of a conflict in incentives between profits from transportation and profits from wellhead production. Since TAPS began, the state has had to collect close to \$10 billion in dispute because of the way the Trans-Alaska Pipeline was structured. Two options could help head off similar disputes on gas. First may be requiring an independent transportation company to carry the gas. Second may be having the state take an ownership interest in the pipeline at least equal to its royalty interest in the gas. Ken Thompson's trading hub idea also has merit in heading off this kind of conflict.

At least two transport companies have invested millions of dollars designing and permitting systems to deliver North Slope gas. The state is doing nothing I'm aware of to help bring these investors together with the producers.

I look forward to further discussion with you on my return. I'm doing what I can, as an individual, to urge producers, transporters, buyers, and financiers to get together. The state must help to do the same.

If this letter is presented to your Committee in my absence, Mead Treadwell – who works with me – can attempt to answer any questions you have.

With best regards.

Sincerely,


Walter J. Hickel

Enc.

Excerpt from

MEETING THE CHALLENGE

By

Delegate E. L. Bartlett

Alaska Constitutional Convention

University of Alaska

November 8, 1955

... The various bills for statehood enabling legislation which have been introduced in the Congress in recent years have uniformly called for large grants of land from the United States public domain to be made to the State of Alaska. The figure mentioned has been in excess of 100 million acres, an area roughly equal to the total land area of the State of California. The 100 million acre figure would appear to be approximately the figure which will finally be adopted.

The State of Alaska would choose almost all this acreage from the lands not included in present federal reservations and withdrawals, or which is otherwise unappropriated. The 100 million plus acres represent a veritable empire, a wealth of land and resources never before conferred on any state, saving only Texas which, upon its entry into the Union, was allowed to retain all its public lands. Alaska will receive also, in addition to the 100 million acre plus grant, an uncounted but tremendous acreage of submerged lands, land which under decisions of the Supreme Court of the United States have been held in trust for the future state. These submerged lands include lands under the beds of navigable rivers, lakes, and streams; the tidelands proper; and the submerged soils of the marginal sea out to the three-mile limit.

... Two very real dangers are present. The first, and most obvious, danger is that of exploitation under the thin disguise of development. The taking of Alaska's mineral resources without leaving some reasonable return for the support of Alaska governmental services and the use of all the people of Alaska will mean a betrayal in the administration of the people's wealth. The second danger is that outside interests, determined to stifle any development in Alaska which might compete with their activities elsewhere, will attempt to acquire great areas of Alaska's public lands in order NOT to develop them until such time as, in their omnipotence and the pursuance of their own interests, they see fit. If large areas of Alaska's patrimony are turned over to such corporations the people of Alaska may be even more the losers than if the lands had been exploited.

Natural Gas in Alaska

**What Does It Mean to
the People of the State?**

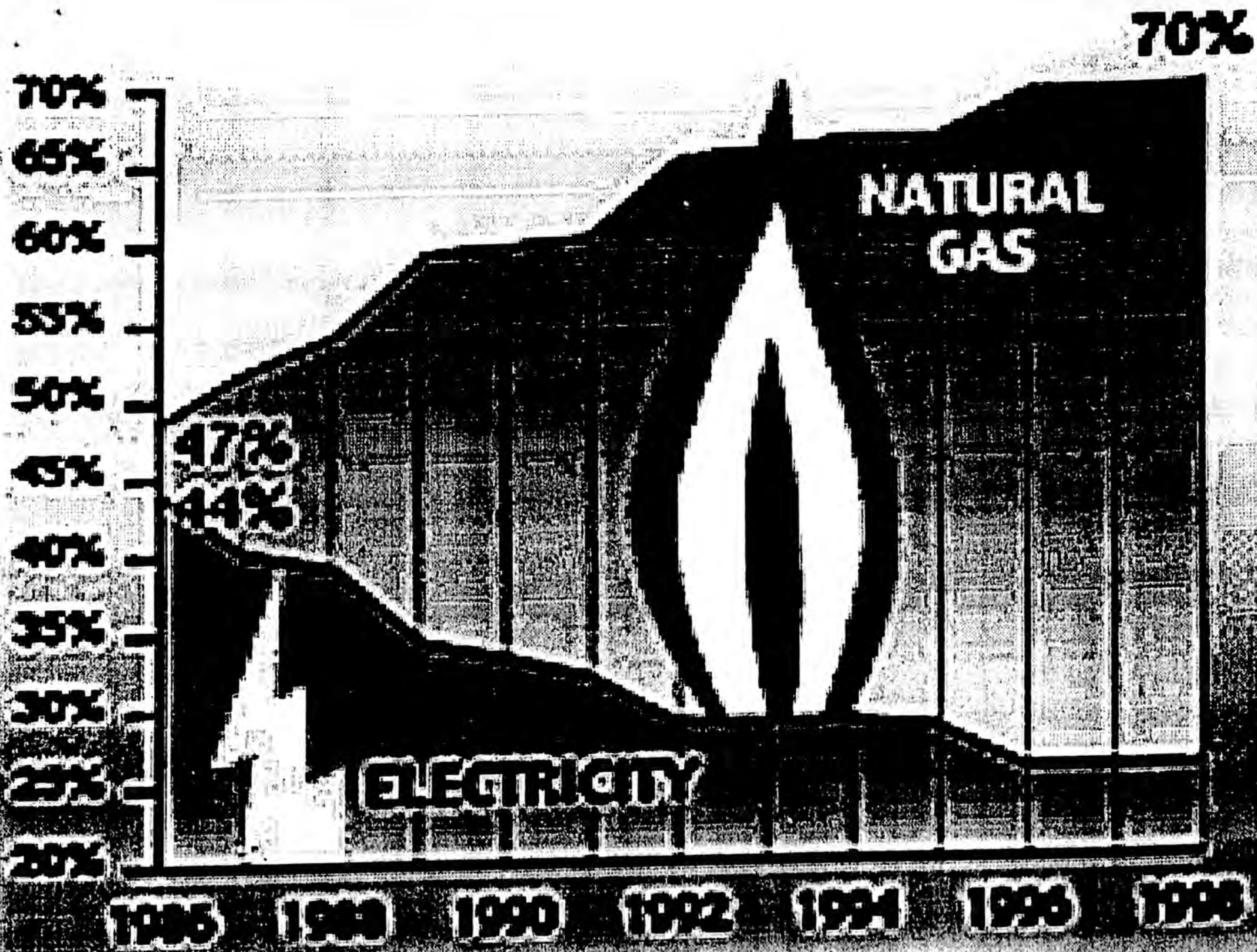
IT MEANS...

- **\$680 MILLION--\$4.2 BILLION TO THE STATE PER YEAR.**
- **SIGNIFICANTLY LOWER ENERGY COSTS FOR ALL ALASKANS.**
- **MAJOR DIRECT AND INDIRECT EMPLOYMENT OPPORTUNITIES FOR ALL ALASKANS.**

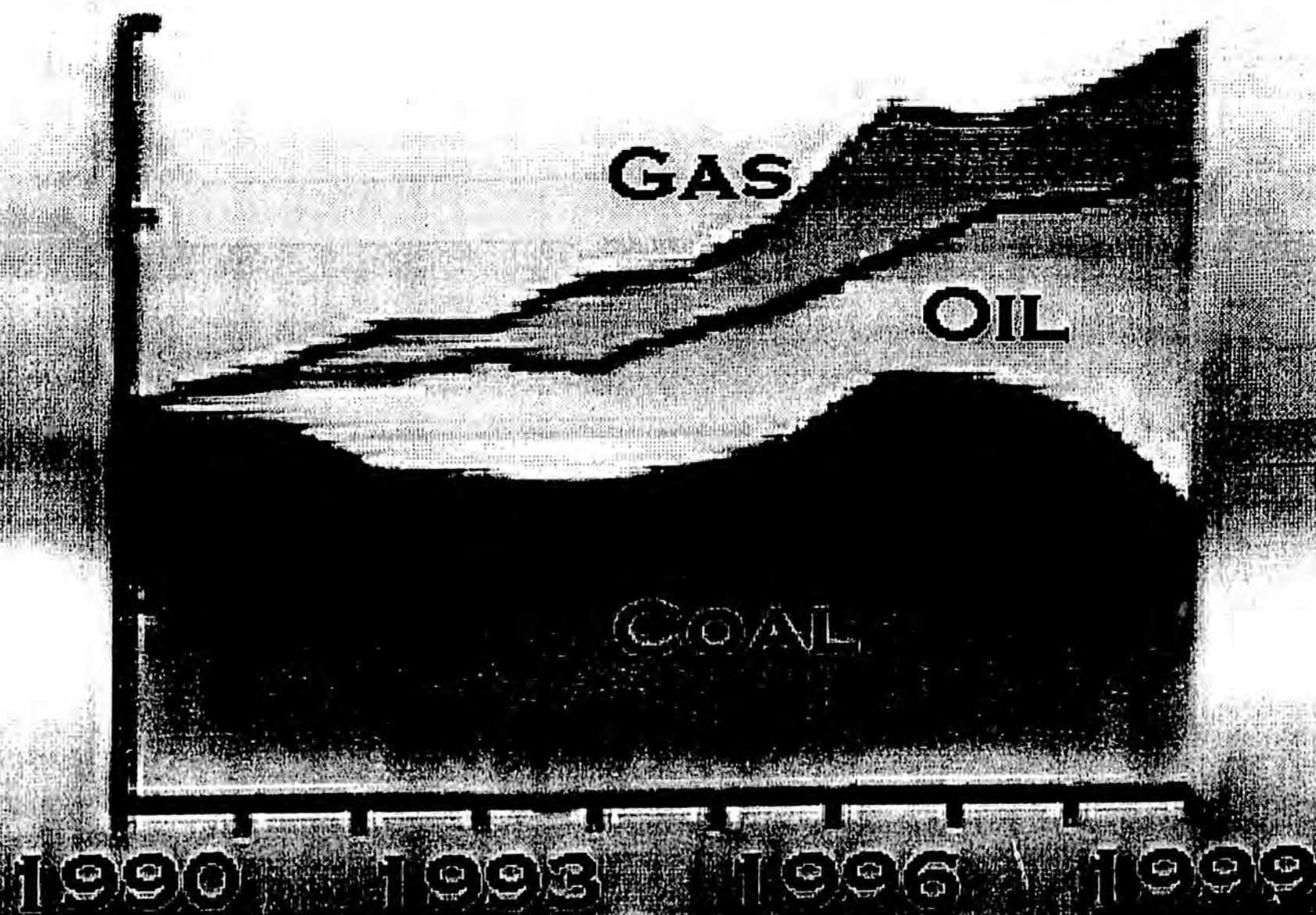
**IF WE DEMAND THAT OUR
RESOURCE BE DEVELOPED IN
OUR BEST INTEREST.**

AN OVERVIEW:

**NATURAL GAS AS AN
ENERGY SOURCE**

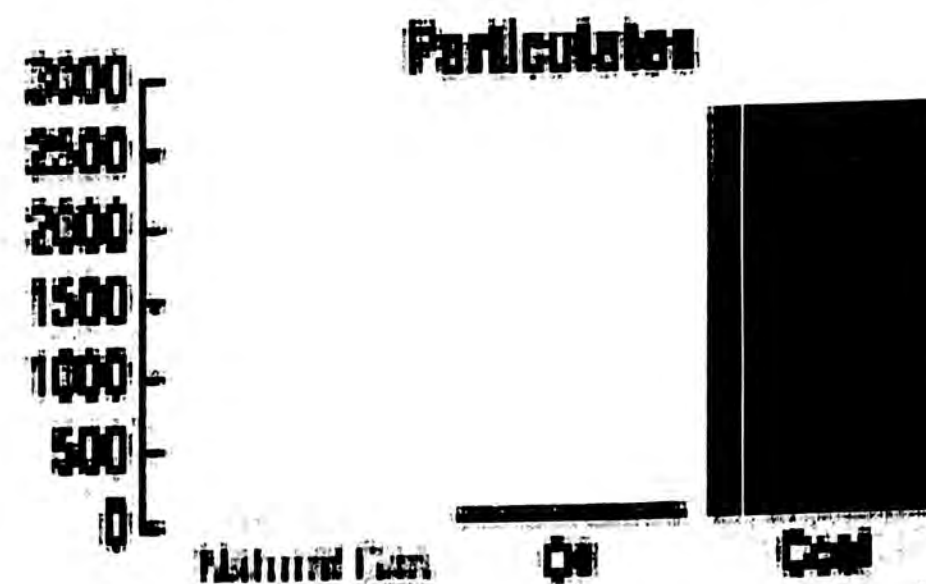
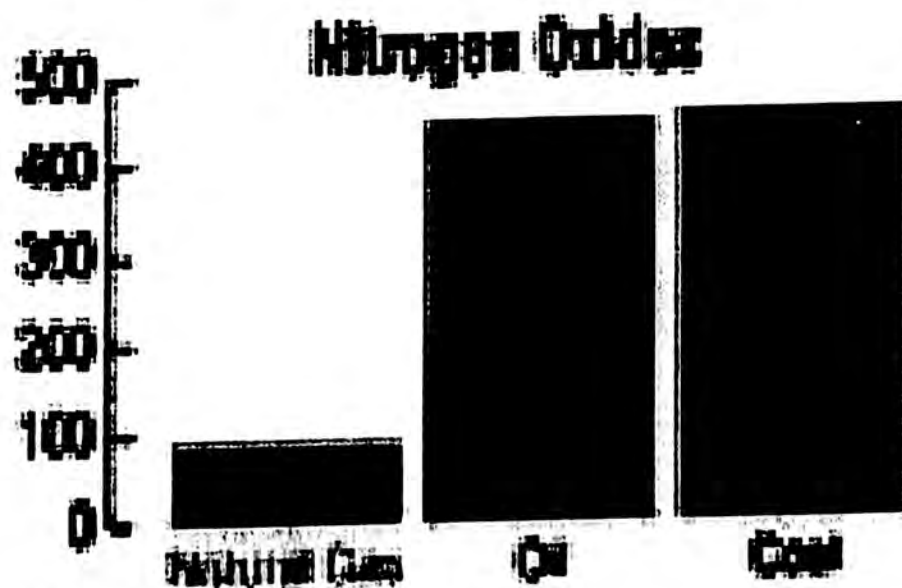
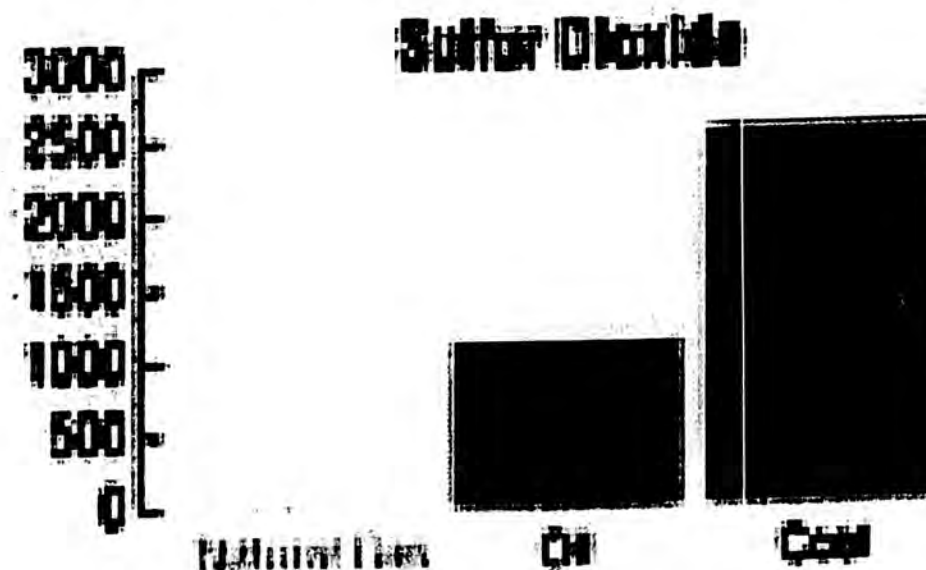
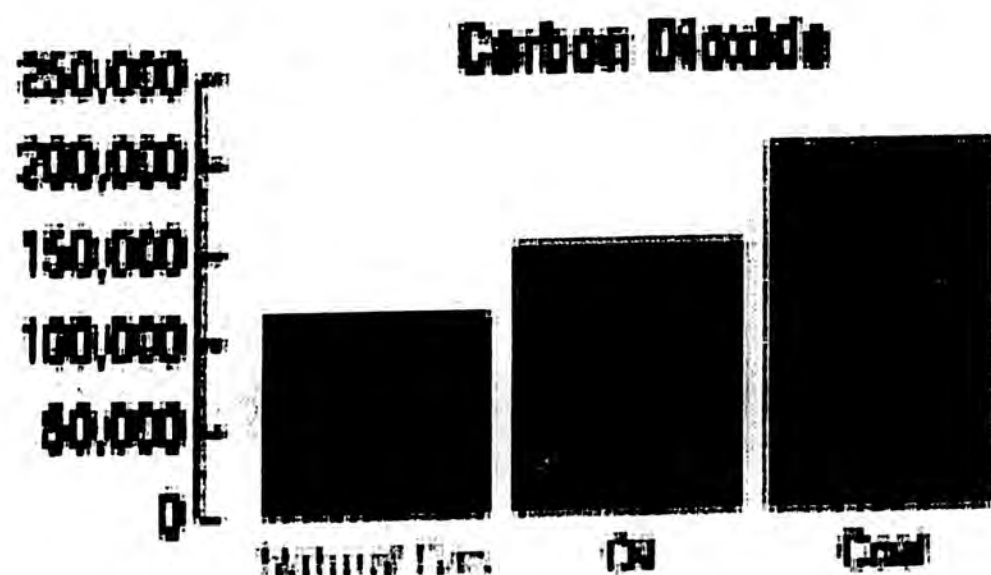


ENERGY MIX IS GETTING LIGHTER



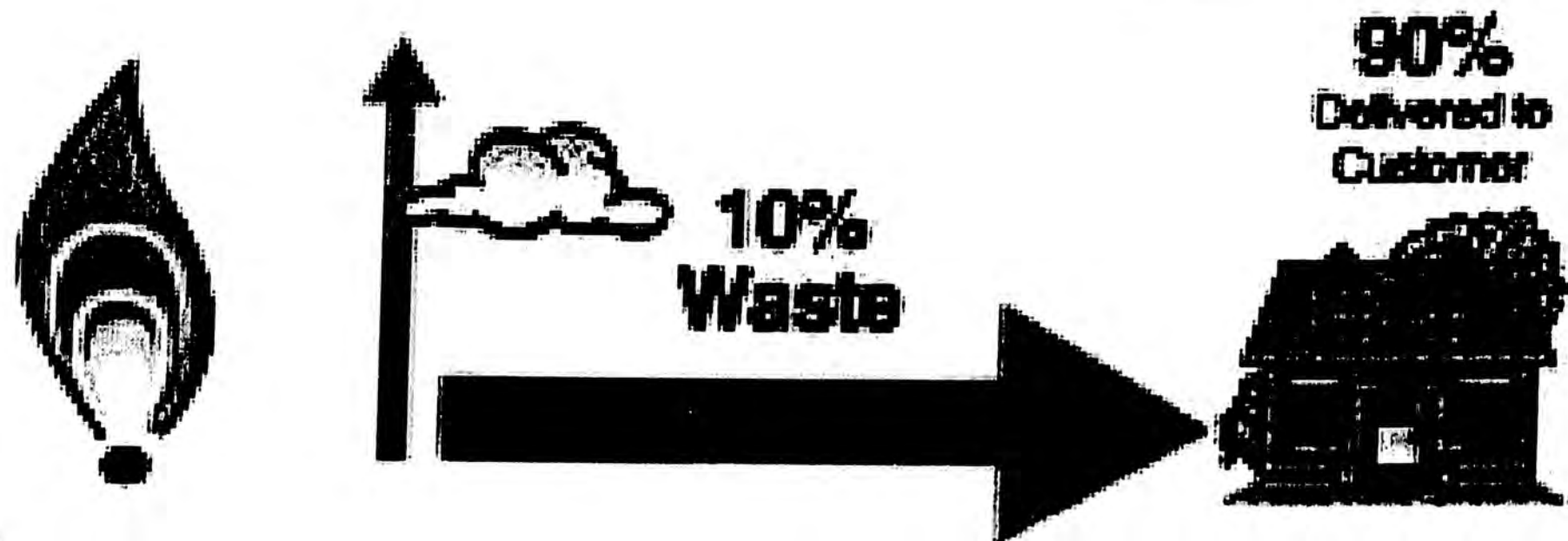
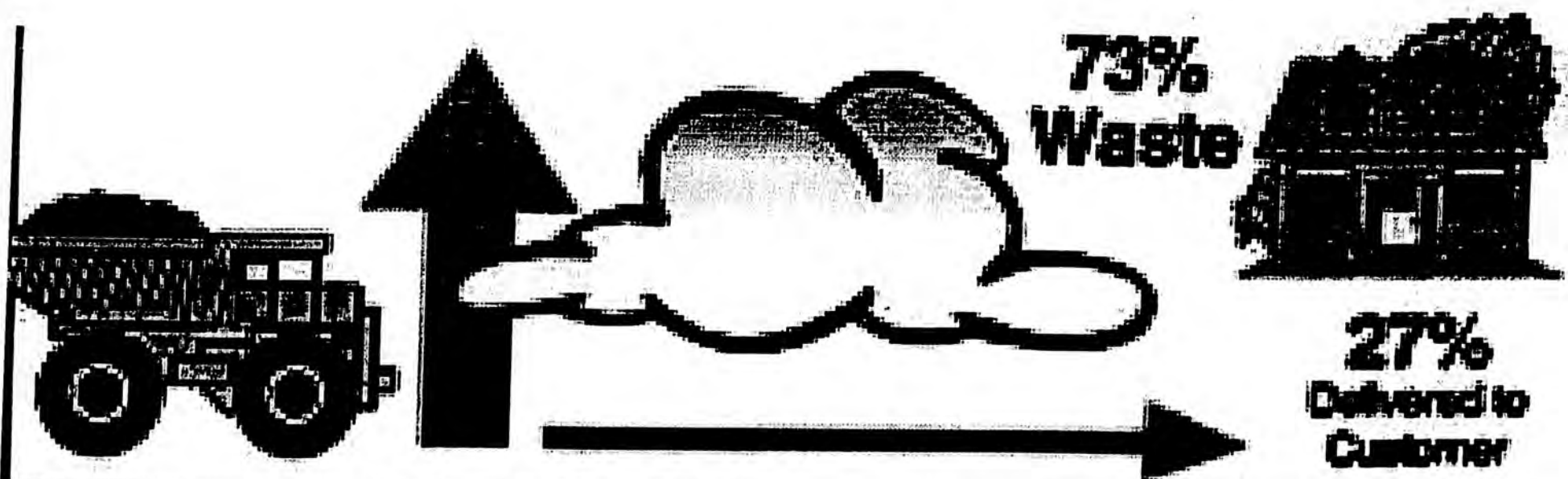
Comparison of Air Pollution from Fossil Fuels

(pounds of air pollutants produced per billion Btu of energy)



Source: Energy Information Administration

Natural Gas Is Cleaner, More Efficient than Coal-Fired Electric Power



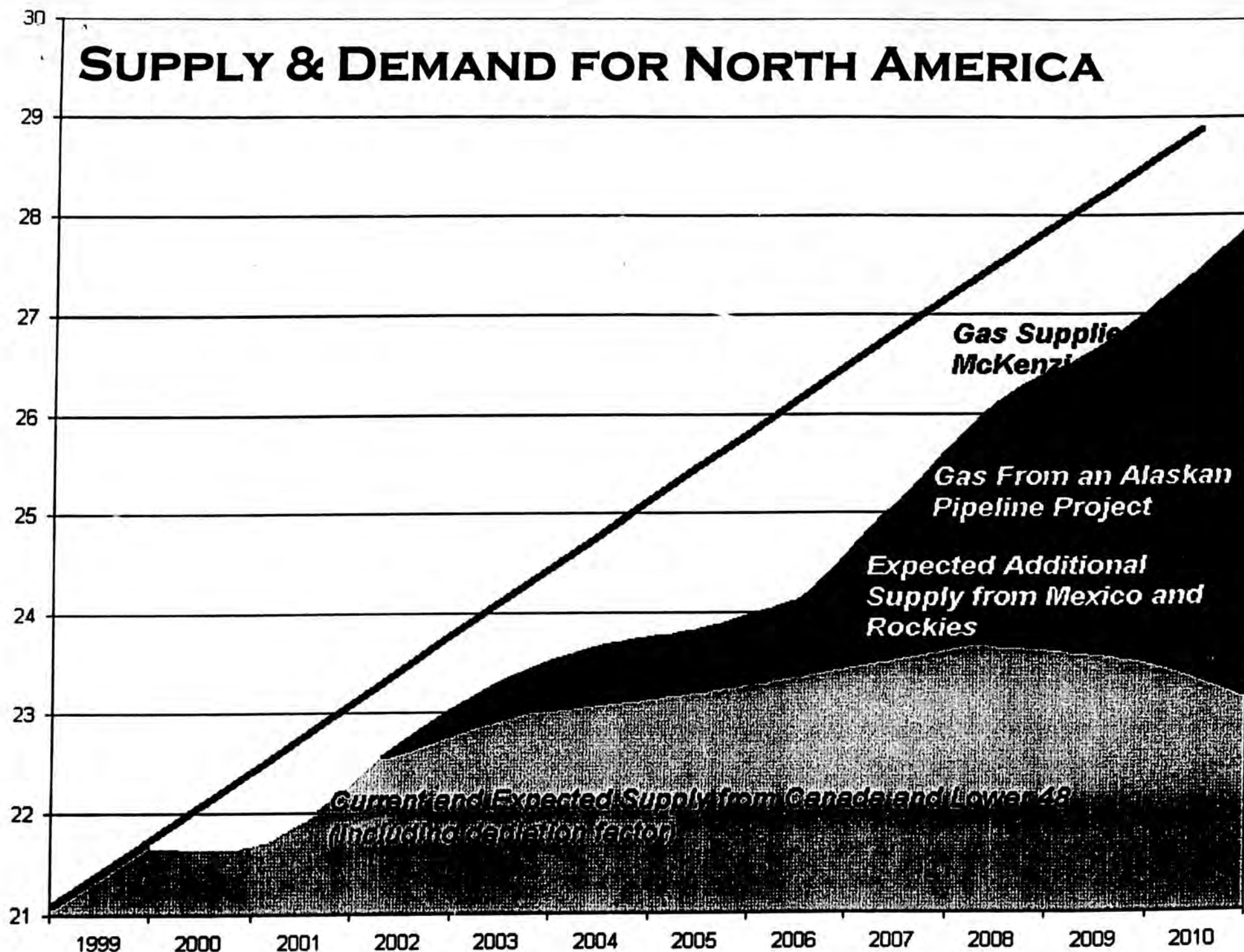
AND SO...

**DEMAND FOR
NATURAL GAS IS
SOARING**

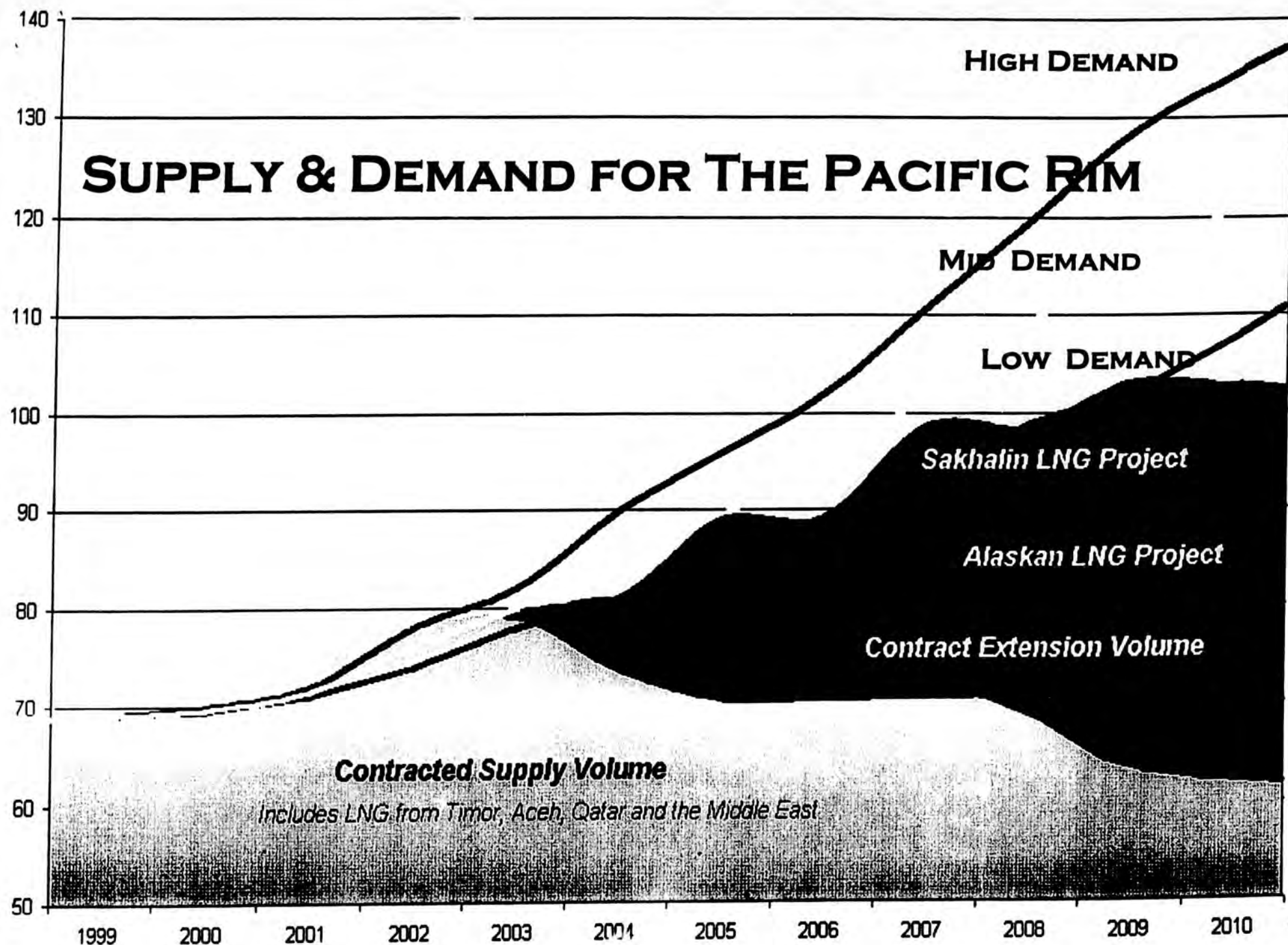
**ALASKA'S NATURAL
GAS:**

**THE WORLD MARKET
DYNAMIC**

SUPPLY & DEMAND FOR NORTH AMERICA



SUPPLY & DEMAND FOR THE PACIFIC RIM



**THE WORLD MARKET
DYNAMIC REALITY:**

**SUPPLY WILL RESTRICT
DEMAND FOR THE
FORESEEABLE FUTURE**

**GIVEN THAT ALASKA'S
NORTH SLOPE HAS THE
LARGEST
UNDEVELOPED
RESERVE OF NATURAL
GAS IN NORTH
AMERICA.....**

**HOW CAN WE
ALASKANS TAKE
ADVANTAGE OF THIS
SITUATION?**

**WE TAKE OUR GAS
TO MARKET!!!**

GAS PIPELINE ROUTING OPTIONS

Proposed Gasline Projects

Proposed Pipeline Routes, LNG and GTL Markets

Northern Route

Southern Route

Proposed LNG Pipeline Routes

Expanding Pipeline Grid

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To Ask

Los Angeles

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New York

Prudhoe Bay

Fairbanks

Validar

ETL
at Facility
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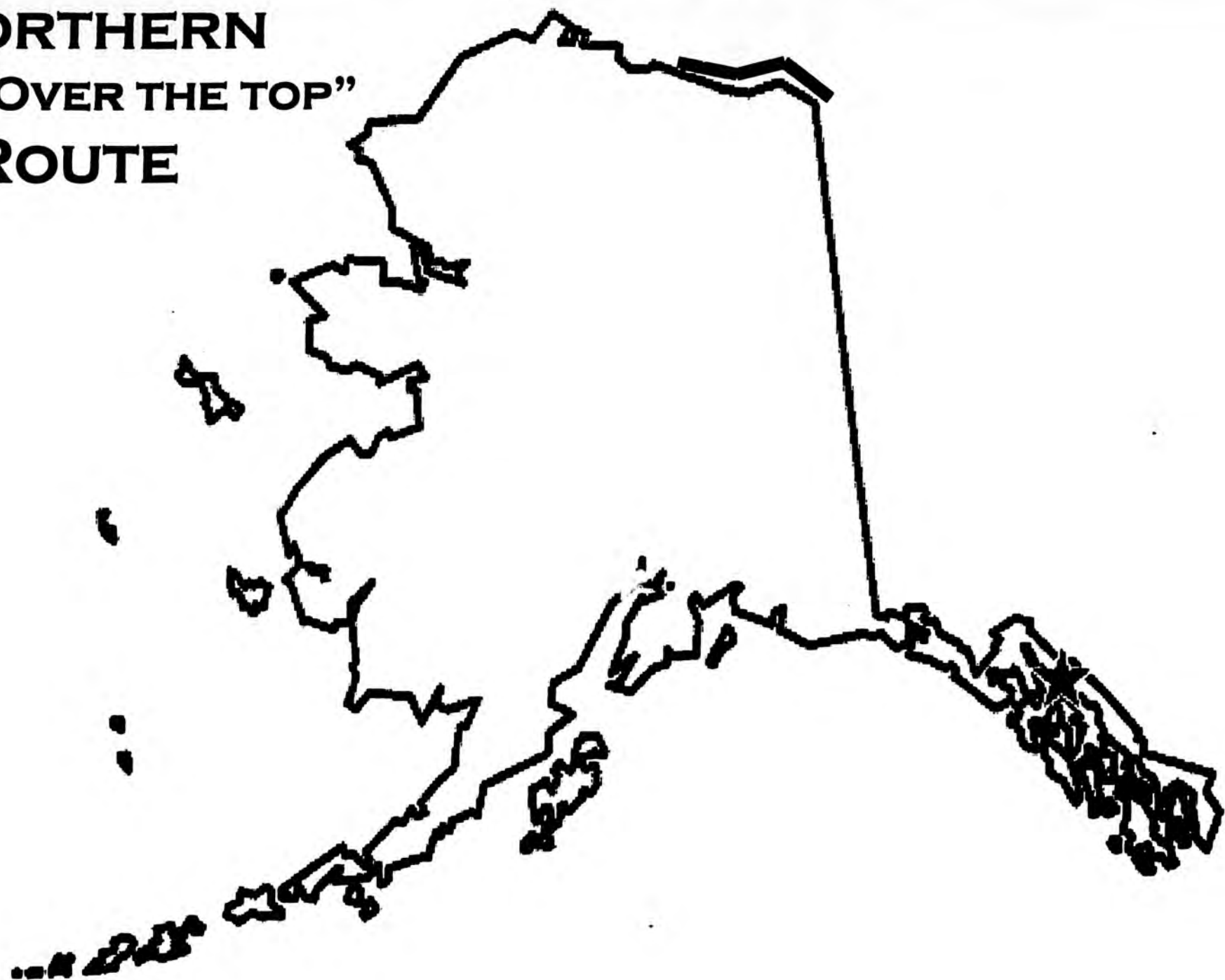
WHITE HORSE

FOUNDING
GIVEN

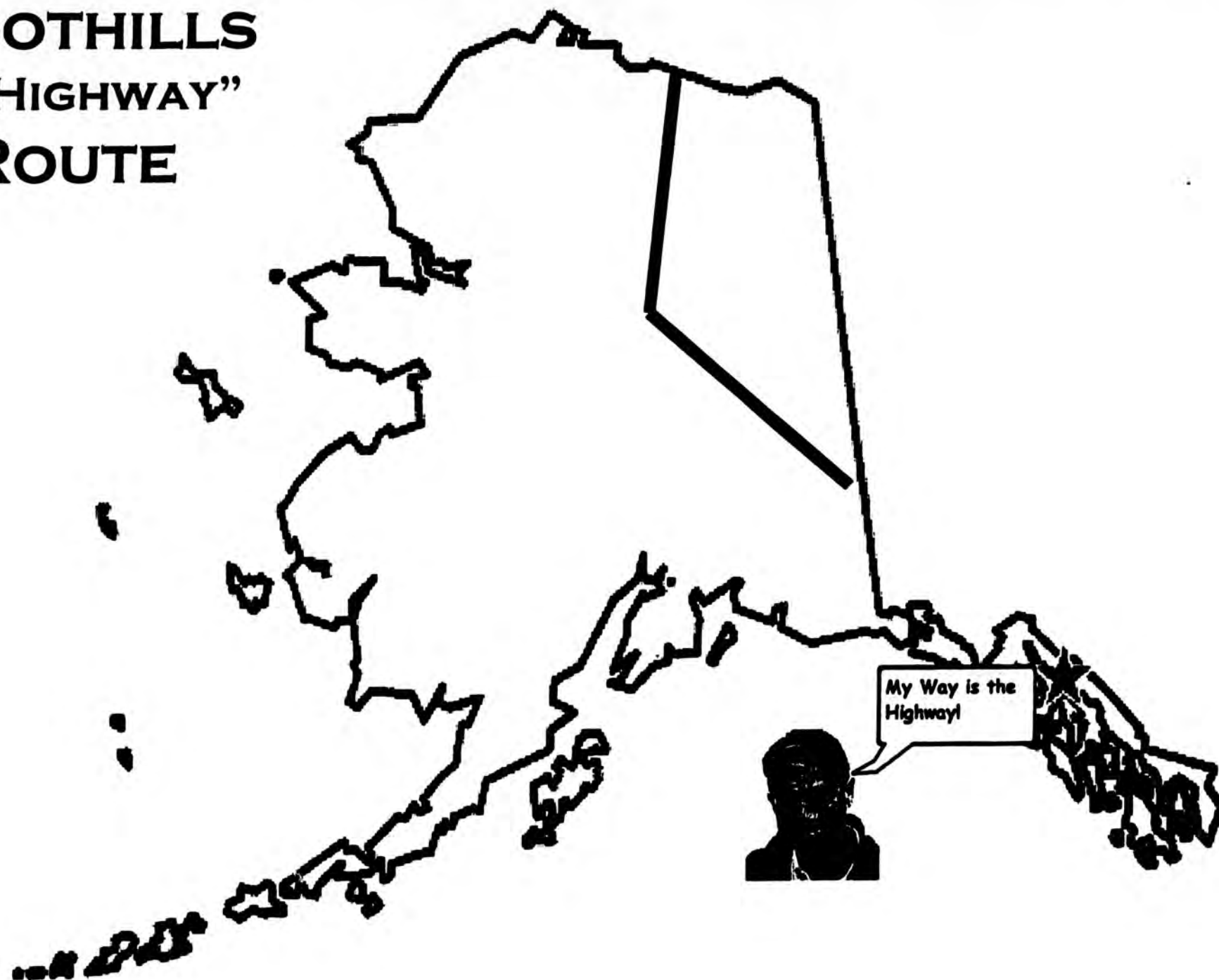
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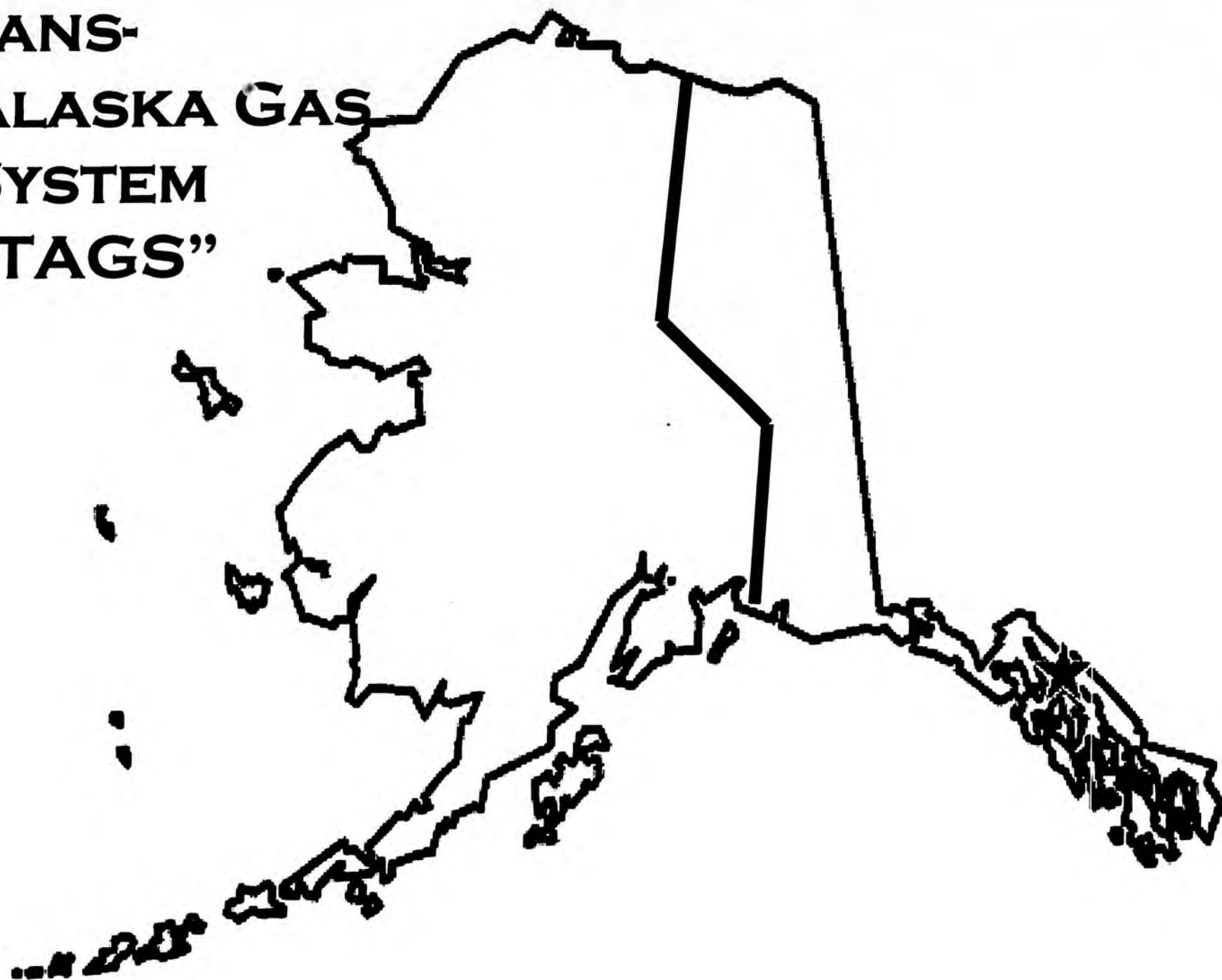
NORTHERN "OVER THE TOP" ROUTE



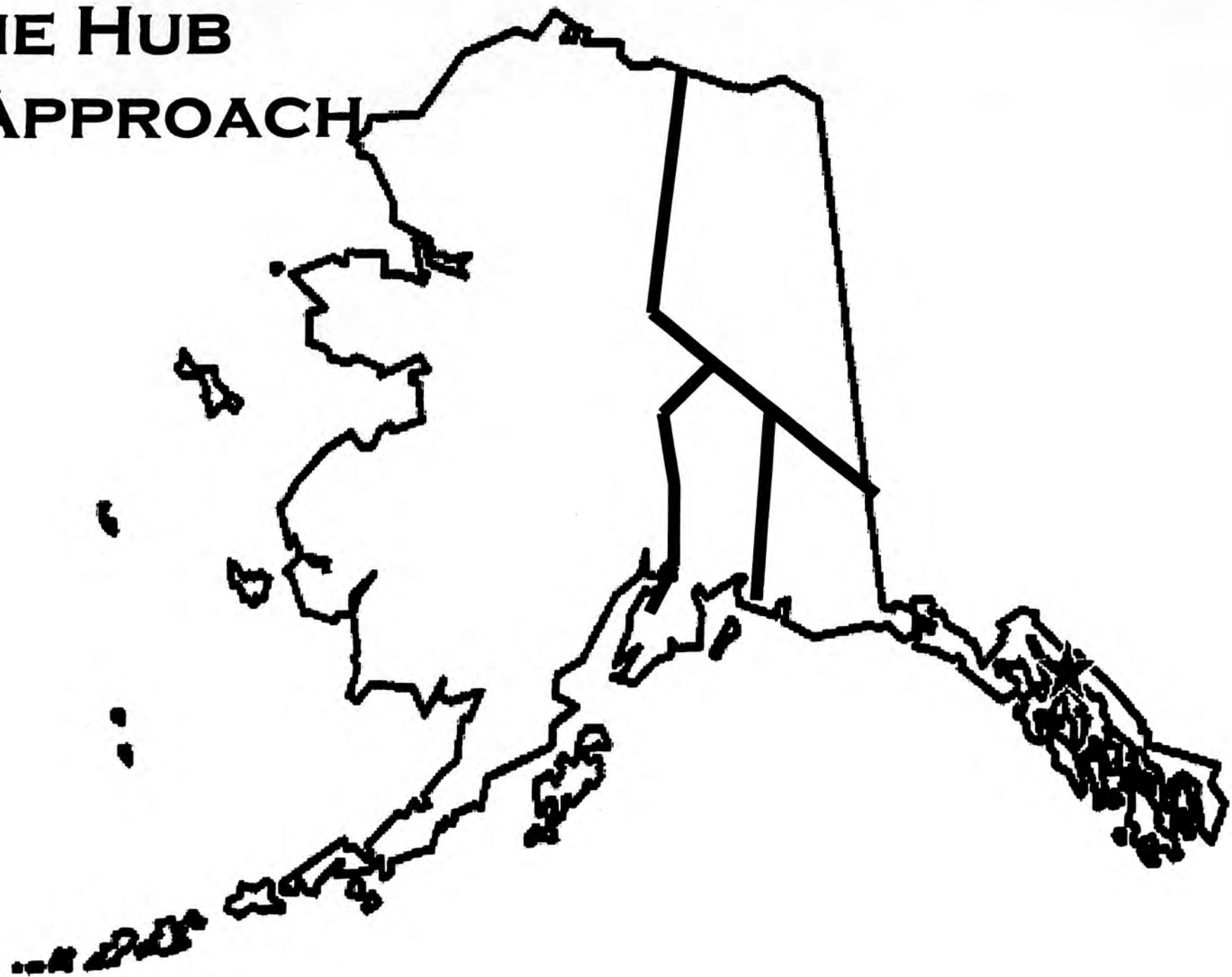
FOOTHILLS "HIGHWAY" ROUTE



**TRANS-
ALASKA GAS
SYSTEM
"TAGS"**



THE HUB APPROACH



THE ALASKA STATE CONSTITUTION:

SECTION 8.2

**THE LEGISLATURE SHALL PROVIDE
FOR THE UTILIZATION,
DEVELOPMENT, AND
CONSERVATION OF ALL NATURAL
RESOURCES BELONGING TO THE
STATE, INCLUDING LAND AND
WATERS, FOR THE MAXIMUM
BENEFIT OF ITS PEOPLE.**

**MAXIMUM BENEFIT:
HOW IS IT ATTAINED?**

MAXIMUM BEST INTEREST OF ALASKA:

- MAXIMUM MARKET EXPOSURE.**
- MAXIMUM DOLLARS TO THE STATE.**
- MAXIMUM IN-STATE USAGE
OPPORTUNITIES.**
- MAXIMUM COMPETITION FOR GAS
PRODUCTION.**
- MAXIMUM JOB OPPORTUNITIES FOR
ALASKANS.**

MAXIMUM MARKET EXPOSURE

- ***AN OVERLAND ROUTE ALONE EXCLUDES MARKETS THROUGHOUT THE WORLD, SPECIFICALLY, ASIA, AND PROBABLY THE US WEST COAST.***
- ***BY CONNECTING TO MULTIPLE MARKETS, WE STABILIZE MARKET OPPORTUNITIES.***

\$

***MAXIMUM DOLLARS TO
THE STATE.***

\$

FINANCING

**THERE ARE TWO OPTIONS
FOR FINANCING:**

- **PUBLIC FINANCING**
- **PRIVATE FINANCING**

**PUBLIC FINANCING WILL
EXEMPT THE FINANCING
COMPONENT FROM
FEDERAL TAXES; WHICH
WILL SIGNIFICANTLY
ENHANCE THE ECONOMICS
OF AN ALASKAN GAS
PROJECT AND INCREASE
THE RETURN TO THE STATE**

***ADDITIONALLY THE
RETURN FOR
FINANCING A PROJECT
OF THIS SIZE WILL BE
8%-12% OF CAPITAL
COSTS PER YEAR FOR
30 YEARS***

OWNERSHIP OPTIONS

- **PUBLIC OWNERSHIP: BESIDES BEING EXEMPT FROM ALL FEDERAL INCOME TAXES, A STATE-OWNED PIPELINE WILL GIVE A GREATER NETBACK TO THE STATE:**

NO TAXES

NO TARIFF

OWNERSHIP OPTIONS

- **PRIVATE OWNERSHIP: GIVEN PRIVATE OWNERSHIP, THE RETURNS ON A PROJECT WILL BE MUCH LOWER.**

**TAXES PAID TO FEDERAL
GOVERNMENT**

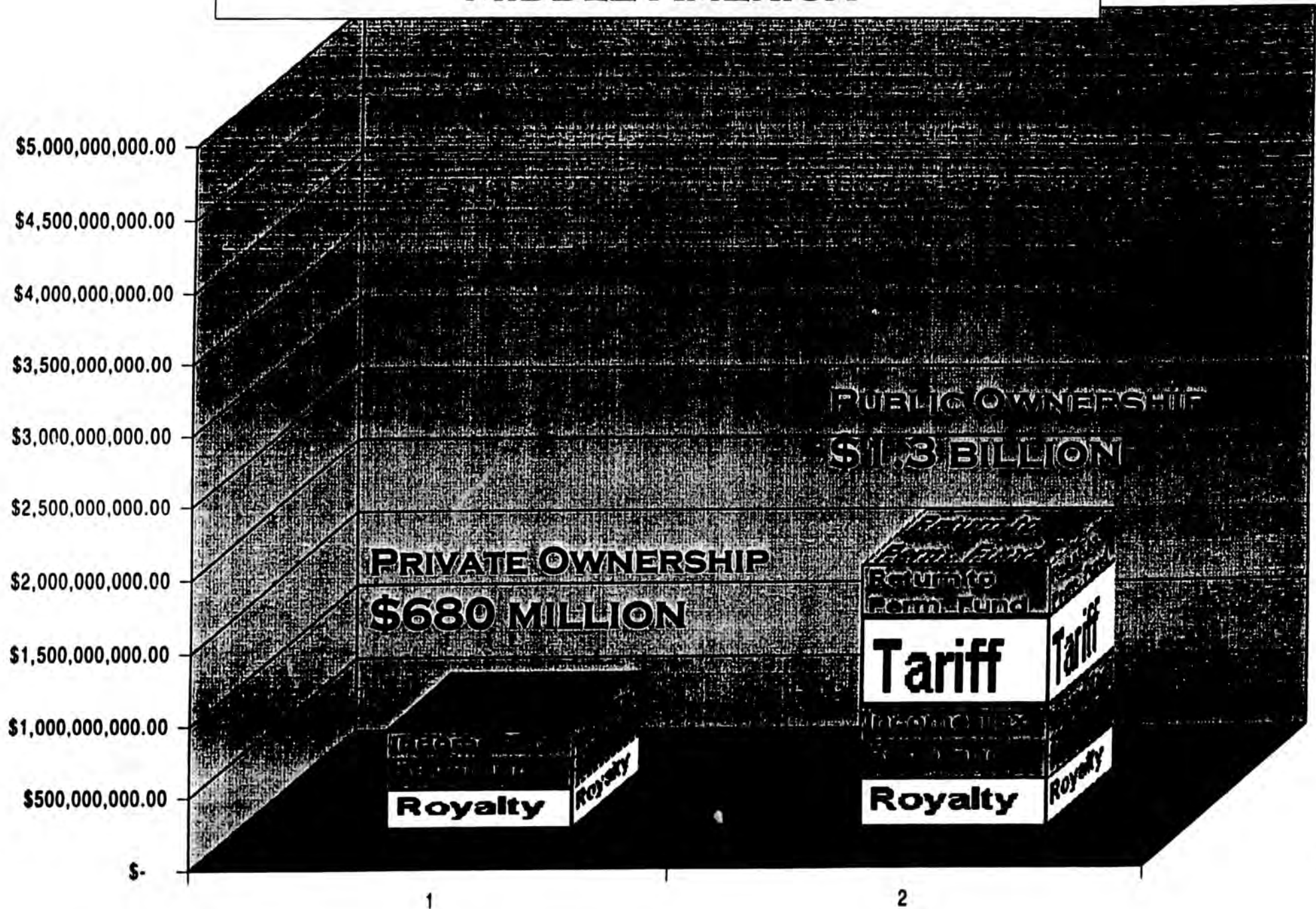
TARIFF PAID TO BIG OIL

DOLLARS TO THE STATE:

**WHAT'S THE DIFFERENCE
BETWEEN PUBLIC AND PRIVATE
OWNERSHIP?**

GIVEN A 6 BCFD PROJECT

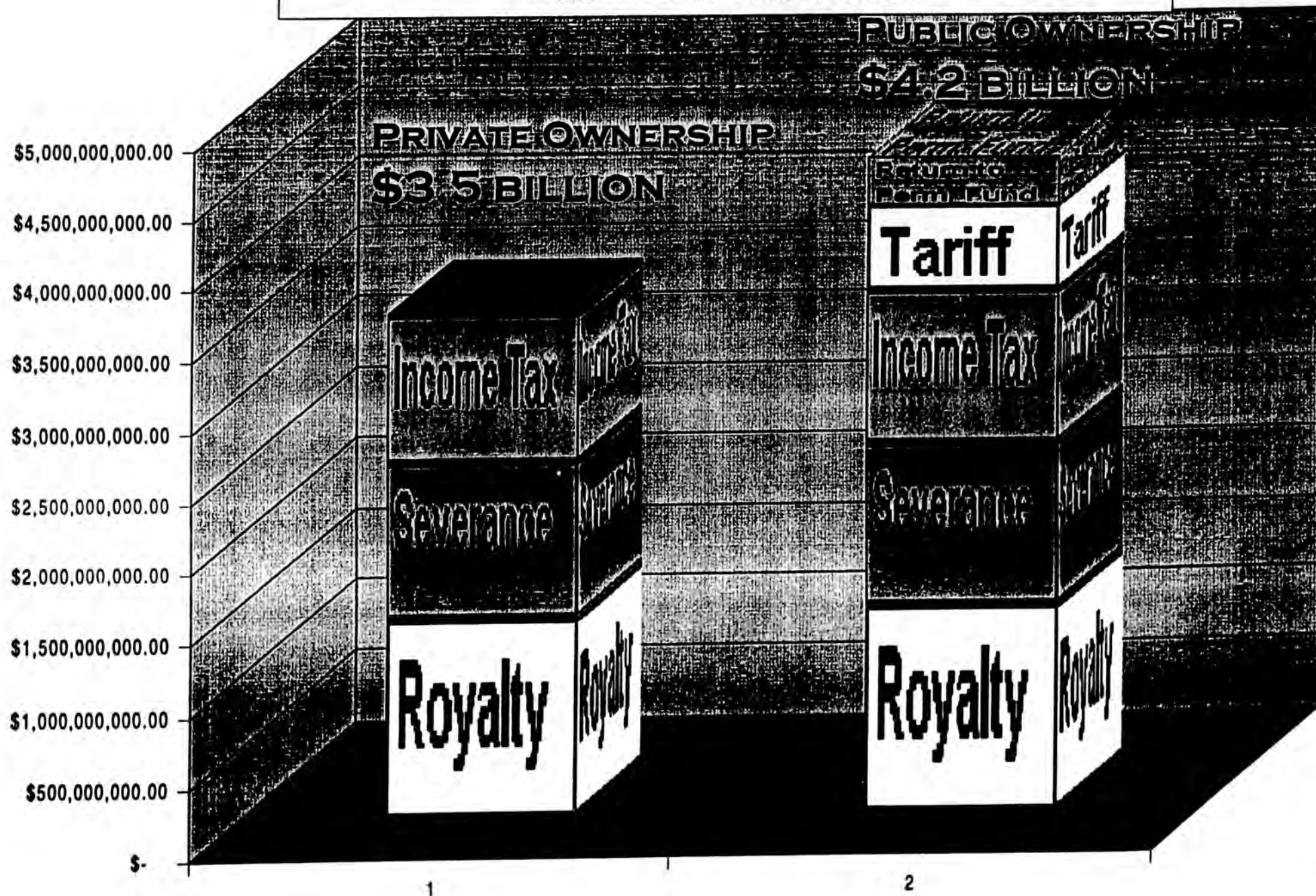
GAS PRICE AT \$2.59 PER MMBTU IN MIDDLE AMERICA



GAS PRICE AT \$4.50 PER MMBTU IN MIDDLE AMERICA



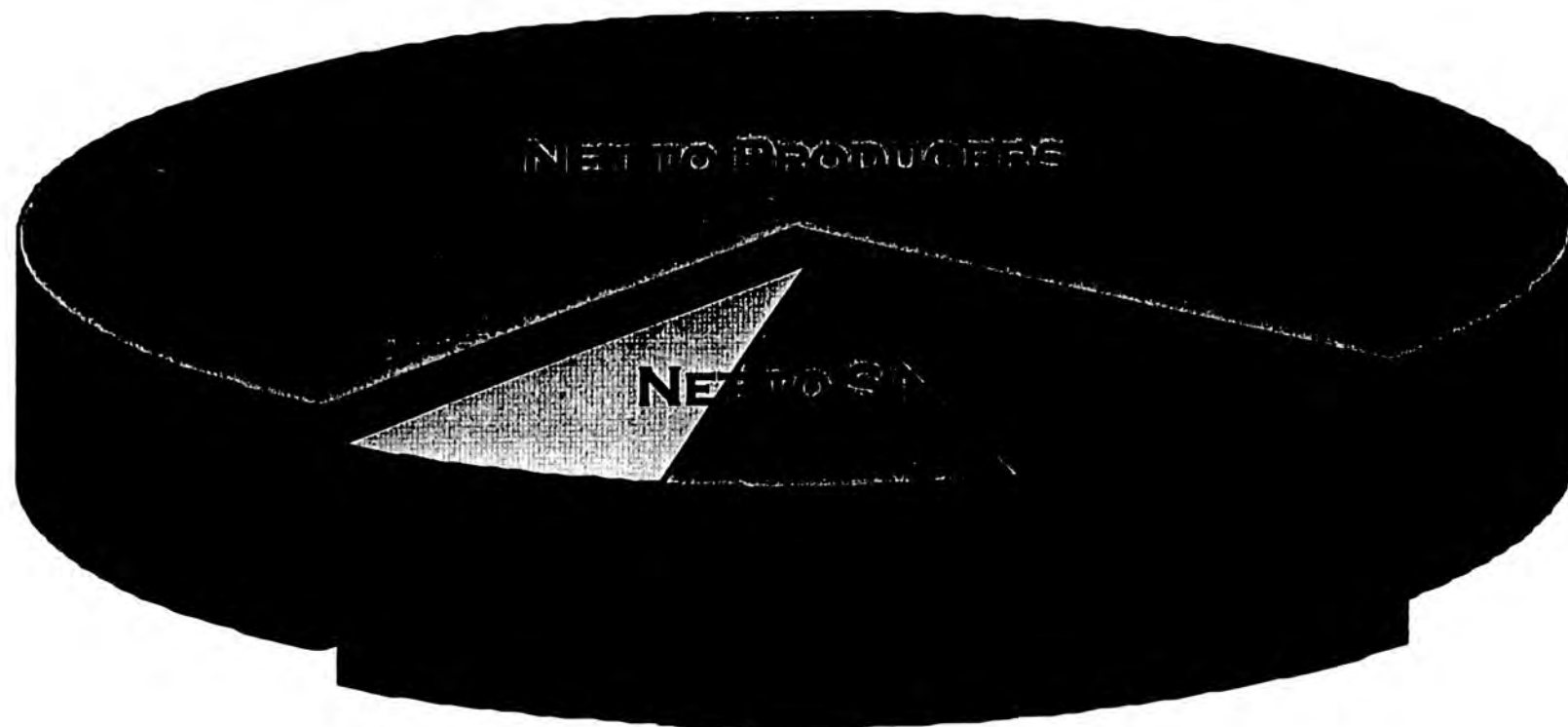
GAS PRICE AT \$8.00 PER MMBTU IN MIDDLE AMERICA



HOW BIG IS OUR SHARE OF THE PIE?

ASSUMING A PRICE OF \$2.59 IN MIDDLE AMERICA

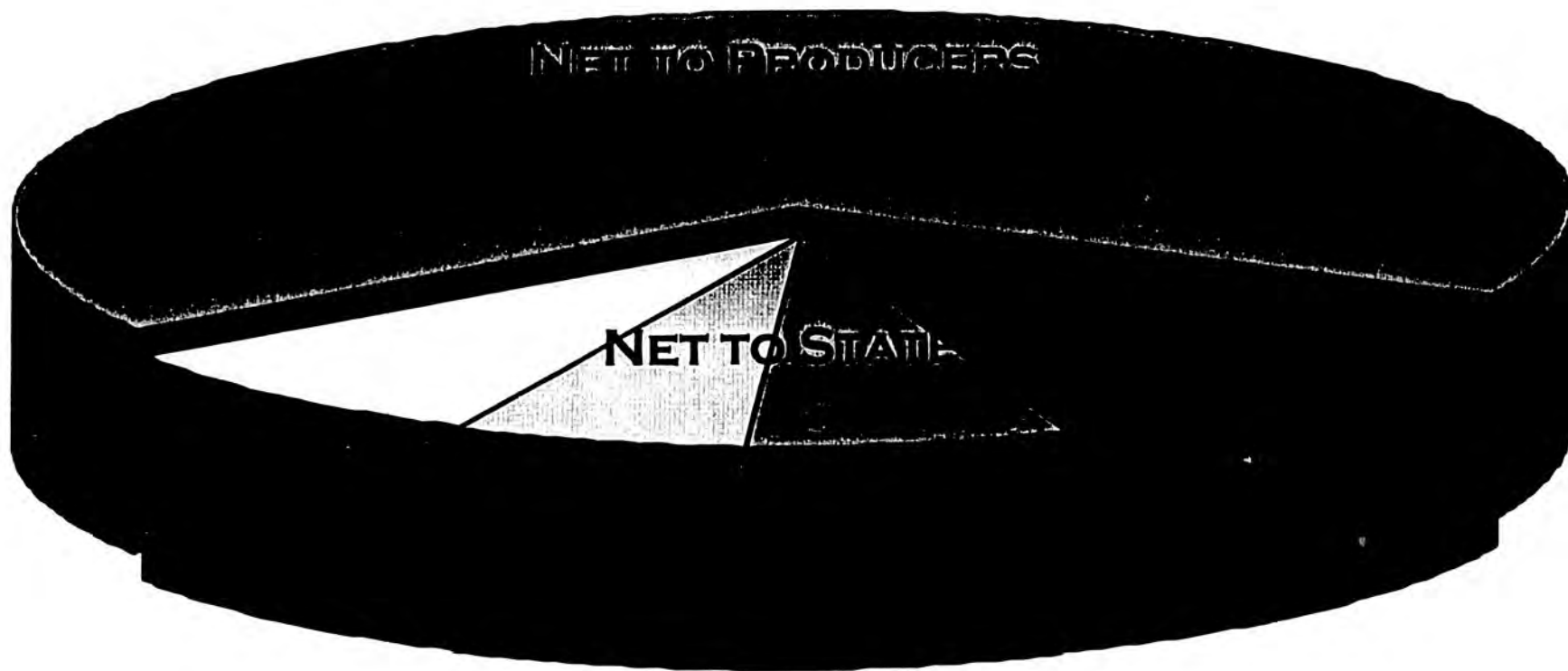
GIVEN PRIVATE OWNERSHIP



HOW BIG IS OUR SHARE OF THE PIE?

ASSUMING A PRICE OF \$2.59 IN MIDDLE AMERICA

GIVEN STATE OWNERSHIP



MAXIMUM IN-STATE USAGE OPPORTUNITIES.

**IN-STATE USAGE OPPORTUNITIES
INCREASE IN RELATION TO TWO
FACTORS:**

- THE NUMBER OF POPULATION
CENTERS THE PIPELINE CROSSES.**
- THE NUMBER OF MILES OF PIPE
IN THE STATE.**

MAXIMUM COMPETITION FOR GAS PRODUCTION.

**A PUBLICLY OWNED PIPELINE
ENSURES THAT NO PRODUCER ON
THE NORTH SLOPE WILL CONTROL
ACCESS TO THE GAS
TRANSPORTATION SYSTEM.**

**MAXIMUM JOB
OPPORTUNITIES FOR
ALASKANS.**

**THE STATE NEED ENSURE
THAT BOTH SHORT-TERM AND
LONG-TERM JOBS ASSOCIATED
WITH THE GAS PIPELINE
PROJECT ARE PROVIDED TO
ALASKANS.**

THE BOTTOM LINE IS BECOMING CLEAR



**WHICH ROUTE GIVES MAXIMUM MARKET EXPOSURE FOR ALASKAN
NORTH SLOPE GAS?**

THE HUB APPROACH

**WHICH FINANCING OPTION GIVES MAXIMUM DOLLARS TO THE
STATE?**

PUBLIC FINANCING

**WHICH ROUTE GIVES MAXIMUM GAS USAGE TO THE PEOPLE OF
THE STATE?**

THE HUB APPROACH

**WHICH OWNERSHIP OPTION ENSURES MAXIMUM COMPETITION
FOR NORTH SLOPE GAS PRODUCTION?**

PUBLIC OWNERSHIP

**WHICH OWNERSHIP OPTION ENSURES MAXIMUM JOBS FOR
ALASKANS, BOTH IN THE SHORT AND LONG TERM?**

PUBLIC OWNERSHIP

**WHAT PROJECT IS IN THE
BEST INTEREST OF ALASKA?**

PUBLICLY OWNED

(BUT PRIVATELY OPERATED)

HUB

