

STATE OF ALASKA
THE LEGISLATURE

1997

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Legislative
Resolve No.

2



Relating to a new Alaska liquefied natural gas project.

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

WHEREAS there are abundant, known natural gas resources on Alaska's North Slope with the Prudhoe Bay field containing about 26 trillion standard cubic feet, the Point Thompson field estimated at three to five trillion standard cubic feet, and, perhaps, two to six trillion standard cubic feet at the Kuparuk, Lisburne, and Endicott fields considered together; and

WHEREAS, particularly with the Prudhoe Bay field, natural gas coexists and is produced with marketable oil and, lacking a market for much of the gas, it has been returned to the reservoir where it provides for enhanced long-term oil production and is saved for future gas sales; and

WHEREAS the major Prudhoe Bay leaseholders and others have pursued a costly variety of options for future gas sales, each driven by a perception of market potential; and

WHEREAS, in recent years, liquefied natural gas (LNG) delivered to Asian markets has emerged as an option of substantial interest, but given strong international competition to supply the Asian LNG market, it is clear that prudent sponsors and investors will require that a new Alaska LNG project show economic viability with competitively, not premium, priced LNG; and

WHEREAS the LNG market is a unique commodity business because there is no global spot market for LNG as there is with oil; hence, development of an LNG project requires substantial dedicated investment for the production, transportation, and use of the gas to be produced; and

WHEREAS, to make investment in a new Alaska LNG project viable, gas owners, facility owners, gas buyers, host governments, financial institutions, and other participants must contractually join to form a long-term (20 to 30 year) business structure to ensure a reliable competitively priced gas supply results from the project and to realize a competitive return on project investment; and

WHEREAS substantial additional facilities will be required for the development of Alaska's North Slope gas resources for delivery to the Asian market, including a gas conditioning plant on the North Slope to produce pipeline quality gas while appropriately handling rejected carbon dioxide, a gas transmission pipeline to tidewater from the conditioning plant, an LNG production plant and storage facility at tidewater, a marine terminal, LNG oceangoing tankers, and miscellaneous supporting infrastructure; and

WHEREAS the current estimated cost of facilities needed for a new Alaska LNG project is about \$15,000,000,000, with a range of uncertainty around this estimate, and not included in this estimate are the substantial investments required of the gas buyers for LNG receiving terminals, gas transmission and distribution systems, and gas-fired electrical power plants; and

WHEREAS, due to the significant up-front investment, a new Alaska LNG project will require a fast ramp-up to a minimum production level of approximately two billion standard cubic feet of gas per day, or 14 million tons per annum, of LNG, which represents a significant share of the anticipated growth in demand in the Asian market; and

WHEREAS, following the discovery of the Prudhoe Bay field, changes in legislation or interpretations of legislation by state agencies have resulted in unpredicted state tax increases and in litigation between the state and the petroleum industry over state taxes and royalties to be paid for oil and gas; and

WHEREAS any major new commitment such as would be required for a new Alaska LNG project must, by necessity, be backed by a long-term, stable, and appropriate fiscal regime consistent with the long-term agreements established between LNG buyers and sellers; and

WHEREAS the state historically has enacted legislation allowing the state to

contractually grant fiscal relief to attract new industry; a notable example being the Marathon/Phillips Kenai LNG plant; and

WHEREAS other host governments of competing LNG projects have encouraged their projects by providing stable fiscal terms for the lives of the projects, fiscal relief, and direct financial participation; and

WHEREAS the Department of Revenue and Department of Natural Resources have studies showing under realistic assumptions that a new Alaska LNG project is not economically attractive for investment at this time, and that, for the project to become attractive for investment, requirements include increased certainty about market price and demand, definition of what is likely to be a complex business structure, substantial reduction in and narrowing of uncertainty about facility capital costs, and appropriate stable fiscal terms from the state; and

WHEREAS an important potential benefit of an LNG project is the employment of Alaska residents and Alaska-based businesses in the construction and operation of the project, but, in order to assist in achieving a commercially viable project, there will be a need for competitively priced goods and services; and

WHEREAS access to natural gas for local Alaska community use may be provided by an LNG project, an additional public benefit; and

WHEREAS the major Prudhoe Bay leaseholders plan to focus on reflecting market needs in the design and structure of an LNG project, will continue their already substantial efforts to reduce the range of cost uncertainty and identify further cost reductions for the project, and plan to develop possible project structure alternatives; and

WHEREAS the Nineteenth Alaska State Legislature passed House Joint Resolution 54 in support of an LNG project;

BE IT RESOLVED that it is the wish of the Twentieth Alaska State Legislature that the state provide a stable and appropriate fiscal and regulatory environment to give a new Alaska liquefied natural gas (LNG) project the best opportunity to become economically attractive, and it is the intention of the legislature to support efforts to provide such an environment; and be it

FURTHER RESOLVED that the Alaska State Legislature recognizes that a window of opportunity now exists and encourages the Governor to work with leaseholders of North Slope natural gas resources, the legislature, and the federal government to develop and complete an LNG project to transport and market North Slope natural gas by the year 2005; and be it

FURTHER RESOLVED that the Alaska State Legislature respectfully requests the Governor to identify fiscal conditions that would best facilitate an LNG project; and be it

FURTHER RESOLVED that the Alaska State Legislature respectfully requests the Governor to develop with the leaseholders of the North Slope gas resources a contract for execution with the parties that appear likely to be sponsors of an LNG project that sets out the nature, degree, and duration of the fiscal terms that best facilitate the LNG project and provides for the contractual guaranteeing of those terms; and be it

FURTHER RESOLVED that the Governor is respectfully requested to submit an LNG project contract to the legislature for ratification along with enabling legislation required or advisable to authorize the state to formally enter into the contract; and be it

FURTHER RESOLVED that the Alaska State Legislature requests potential project sponsors to find suitable measures to

(1) support and encourage qualified Alaska businesses and residents to participate in construction and operation of an LNG project; and

(2) ensure that, if the project is constructed, it will be configured and operated where technically and economically feasible so that natural gas can be marketed to Alaska communities; and be it

FURTHER RESOLVED that the Governor is respectfully requested to work closely with the Alaska Congressional delegation and the Prudhoe Bay leaseholders to identify appropriate federal actions that would best facilitate the advancement of an economically attractive new Alaska LNG project; and be it

FURTHER RESOLVED that the Governor is respectfully requested to consider and to report to the legislature the form of participation in an LNG project by the state.

COPIES of this resolution shall be sent to the Honorable Ted Stevens and the Honorable Frank Murkowski, U.S. Senators, and the Honorable Don Young, U.S. Representative, members of the Alaska delegation in Congress.