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Office of Governor Sean Parnell STATE OF ALASKA

November 18, 2009

Members of the Alaska State Legislature
State Capitol Building
Juneau, AK 99801-1182

Re: September/October Instate Gasline Report

Dear Legislators,

The State team and its contractors continue to work on permit applications, refine cost estimates, and review project alternatives toward the goal of having a final environmental impact statement by December 2010 for a possible in-state natural gas pipeline from the North Slope to tidewater at Cook Inlet. We are doing the preparatory work; the final project decision will be up to the Legislature, the Governor, and whether private interests see a need for the project. Our work is only to analyze and present the pipeline as an option.

Our work over the past couple of months has concentrated on:

- Completion of the hydraulic analysis for the gas pipeline in order to establish the best locations for compressor stations along the pipeline route. Compressor turbines operate most efficiently at colder temperatures, so the analysis included soil and ambient temperature analysis up and down the two potential pipeline routes from the North Slope to tidewater (the Parks Highway and the Glenn/Richardson Highway routes). The work included modeling the temperatures, compressor efficiency, and drop-off in pipeline pressure to determine the most effective locations for compressor stations. The work identified potential sites, within a four or five mile range, also considering ground composition, access, and wetlands issues. The exact number of compressor stations and precise location for each station would depend on the capacity of the gas line and would be a decision for the project developer.
- Preparation of right-of-way permit applications to State and federal agencies. The State team and its contractors expect to submit those permit applications later this month. The Alaska Department of Transportation and Public Facilities (DOT & PF) will be the permit applicant. Applications will be filed for both pipeline routes. A decision on which route to select will be up to the Legislature and the Governor, and a private developer, at a later date.
- Preparation of wetlands permits that will be submitted later this month to the U.S. Army Corps of Engineers.
- Working with the DOT & PF to identify potential gravel sites along the pipeline routes.

- Determining the need and cost for a gas treatment plant to remove carbon dioxide, hydrogen sulfide, and other impurities from the gas stream before it enters the pipeline. Though Enstar has shared with the State team its work on an in-state gas line, that effort did not include a review of gas treatment needs or costs. The State team will be talking with North Slope producers and others in the coming months to learn more about possible gas treatment plant configurations, costs, and operations. Certainly, the size and cost will depend on the volume of gas expected to move through the line, and planning for any possible expansions.
- And, we are continuing with cost and economic feasibility analysis of natural gas liquids extraction in Alaska, possible sites for an Natural Gas Liquids plant, and marketing issues.

The reference case for our work is a 24-inch line from Prudhoe Bay to tidewater at Cook Inlet, though the team also is looking at smaller pipe for a lower-capacity line. A 24-inch line could accommodate up to one billion cubic feet per day, depending on the number of compressor stations. The reference case would be a pipe capable of moving wet or dry gas, while we also look at a dry-gas only line as an option. Obtaining gas supplies from Gubik in the Brooks Range Foothills is another option that will be considered as the team models out all the alternatives in the coming months. Those alternatives will range from a pipeline capacity of 250 million cubic feet per day to one billion cubic feet per day.

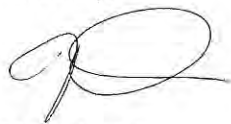
Upcoming work will also include flow simulations and diagrams to help determine major equipment needs and costs for the line, including a component-by-component analysis of costs, investigating cost-reduction opportunities for the project, and conducting field work next summer to verify site data — particularly at river crossings, gravel sites, fault crossings — and to conduct a geotechnical borehole drilling program. The State's team includes Baker for engineering, design, and cost work, and Arctic Slope Regional Corporation for much of the permit work.

Assuming the State obtains all of the right-of-way permits, wetlands permits, and a final Environmental Impact Statement next winter, the State would be ready in the spring of 2011 to turn over (sell) the package of engineering work and permits to a private entity to build the line, if the Legislature and Governor decide that is the best option for Alaska.

Our expenses for September and October were \$445,364 and \$399,968 respectively. Total expenditures for the year-to-date are \$1,826,859.

Please do not hesitate to contact me at 907-269-8656 if you have any questions. I will have another report in December.

Sincerely,



Harry Noah
Project Manager
In-state Gas Program