

**(H) FINANCE STANDING COMMITTEE \* April 16, Wednesday, 10:03 AM HOUSE FINANCE 519****Notable Questions From Committee and Responses from Testifiers:**

**10:08am- Rep. Edgmon:** Is there any way to tie in the presentation, or even the language in the bill, to the existing language that pertains to the energy policy that's in the uncodified part of state statutes or if you would think if that would be even necessary, because that energy policy, which I worked on a few years back, I think has more detail and more intent behind it, or more specific intent.

**Dep. Comm. Pawlowski:** I'd recommend we go to Section 67 which is found on page 60 of the H Version. I'm looking through this section because I believe if we were to provide direction, the uncodified law in the energy plan is there as direction to the State, but a reference to the context of the policy in this section may be appropriate as additional guidance. It's not something that has been asked to date, and one I think we'd be open to looking at where it could fit within here.

**10:10am- Rep. Edgmon:** I'd like to have some kind of statement on the record that the off-take points, there is some within the realm of possibility, opportunity down the road for these off-take points to actually happen. It's going to be very expensive, I think I can sit here and envision an off-take point into the interior, perhaps to the Fairbanks market, I think that's appropriate. But in terms of an off-take point to maybe the greater part of western or coastal Alaska to me doesn't seem quite as feasible at this point....but maybe something just quickly on the record would help me assuage any concerns from my constituents that this is all just some sort of window dressing,

**Dep. Comm. Pawlowski:** The commitment to offtake points in the HOA with the parties is important because the commitment is to at least five off-take points. It is a very real commitment you see throughout the HOA, to look for the benefits for Alaskans and access to reliable and predictable supplies of energy. The trick will be the affordability of that as distance goes into play and that's where we will need to balance working with ADA, AIDA, looking at regional energy plans, whether it's taking off-take as the best option or are localized energy solutions actually the best option. But both will be pursued as part of the development of the agreements and context for the agreements going forward under SB 138. We have a very deep commitment to this and I think Section 67 puts the right tools in place for us to build on the work the Energy Authority is already doing with regional energy plans.

**Comm. Balash:** If I may add just a little bit to that, we have done some work previously on the costs associated with, in essence, pre-building tap in points to the line. If we engineer things and install them during the construction phase of the original construction of the pipe, it's much, much cheaper to basically pre-install those points prior to the in-service of the pipeline. I think we could put together some information for you. As memory serves, the incremental costs associated with one of those taps is right around a million dollars, maybe even less. So the ability to do that on the front-end is something that we will want to err, in this case, on the liberal side.

**Dep. Comm. Pawlowski:** If I may add one more thing, another important thing to get on the record, and I think one of the things you're asking for, Rep. Edgmon, is in previous gas line plans, the offtake itself has potentially been very expensive and you saw that in the Alaska Natural Gasline Corporation's initial plan. That was because of high natural gas liquids content in the plan they were proposing. This is a very clean, very clean LNG grade gas, so it does not require that expensive equipment to do the type of stripping of liquids. It's much more straight forward take off. There's a way of blending additional air in.

What becomes important is the heat content of the system that is taking gas off, which you tune your appliances to. Do you use the slightly richer gas, or do you blend in some air in to bring down the heat content so it's a regular utility grade? But the type of multi hundred million dollar facilities for offtake that were described in the past are not necessary on this line because the liquids are not at a high enough level to be meaningful.

**10:14am-Rep. Guttenberg:** ...If you're getting gas anywhere north of the liquefaction plant in Nikiski, I'm assuming in this world that a take-off point would have charges just based upon the GTP and the tariffs and possibly just in sensitive rates, is that correct?

**Dep. Comm. Pawlowski:** That's a critical distinction in this project and yes. And with the MOU with Trans-Canada, the state has already pre-agreed to distance sensitive rates for the areas along the pipeline in three zones. There's the Nenana zone, there's the Big Lake zone, then there's actually the delivery to the LNG plant. Those will be different because you will match the throughput and design it appropriately to provide that distant sensitive rate.

**10:17am-Rep. Guttenberg:** How is the Nenana zone defined? Is it everything north to Nenana, is there a take-off point at the Yukon River? What is the Nenana zone?

**Comm. Balash:** It is, as you stated, everything north of Nenana would pay the Nenana zone rate and then all points south of Nenana to Big Lake would pay Big Lake zone rate. And then if there were any other off-takes between Big Lake and Nikiski, that would be paying the Nikiski zone rate.

**10:17am-Rep. Wilson:** ...I can see the benefits to the state of having a big line and the Revenue that we can bring in, but I am missing the connection on how we... that this doesn't end up to be like oil for us in the interior, where the state continuously puts more money into their coffers and we find ourselves back here begging to... what we feel is equalizing out our energy issues and our projects and our business is going down because everything is... so I need help getting from why this is a good deal for the residents of Alaska who want to stay here but they've got to be able to pay those bills and our businesses. I just still feel like we're getting the short end of the stick.

**Comm. Balash:** A couple of things. The first is that once we get the transportation infrastructure installed, we will have a relatively low cost means of delivering the commodity, the commodity being methane, either from the North Slope, from Cook Inlet, and it is at that point that we will have the ability to look at options. Whichever the lowest cost option is out there from a commodity pricing standpoint is hopefully what we'll wind up utilizing the infrastructure to get to the interior or any other part along the corridor. And so, I'd like to return, if we could, to the discussion around back-haul rates. So if we're on the slide here that shows a \$16 commodity price over in Asia, our wellhead value is approximately \$7. And so you take that wellhead value price, \$7, add the treatment plant cost, \$2, and we'll call the pipeline cost down to the interior to be a buck because we're splitting that rate, its distance sensitive, a total of \$10 to get gas to Fairbanks. If we see natural gas priced \$6 down in the Cook Inlet basin, then what we'll be able to do with the back-haul rates that we've negotiated with Trans-Canada in the MOU is, actually what's going to happen is really a swap. Gas will be taken off in Fairbanks, but made up for down in Cook Inlet, and so you'll be able to get the benefit of Cook Inlet pricing in Fairbanks without having to pay for the transportation, because that North Slope gas is going to pay for that transportation anyway to go to market. And what that's going to do, we believe, is open up a tremendous opportunity because as we see the market demand in Cook Inlet grow, additional supplies will be proven up, and additional opportunities for some of those smaller producers who have

smaller amounts of gas who want to sell it to the market in the interior will have that opportunity to do so. The same will take place up on the North Slope as long as we maintain a viable third party option and mechanism through the state's equity capacity in the pipeline, there will be companies and operators who have small amounts of gas that aren't tied up in these SPA's over in Asia, that will just be looking to make a sale in state or just unload gas that they otherwise wouldn't have anything to do with. Those people may be willing to sell their gas for less than \$7 and as long as they're willing to do that, I think there is going to be a lot of opportunity to bring down the cost of energy in the interior and elsewhere. The biggest distinction between this situation and the scenario with TAPS is our oil has to be taken off and refined in order to make it useful to the people. In the case of natural gas and in the case of methane you can take it off to the people, you can take it off, bring down the pressure a little bit, add a smell to make it safe, and that's about it. You've got distribution costs, but those are going to be relatively nominal in the vast scheme of things.

**10:23am-Rep. Wilson** wanted to make sure that that was in the bill

**Comm. Balash:** I wouldn't say it's in the bill, it's in the MOU with Trans-Canada in terms of how we're going to price the transportation charges. So what you will see in hopefully 2015 is a piece of legislation approving the FTSA with those specific terms laid out. (He was asked to explain the acronym). We will have a Firm Transportation Services Agreement with Trans-Canada that will spell out how this back-haul service is going to be provided and utilized for delivery of natural gas along the pipe corridor.