

# An Alaska Natural Gas Future *for Alaskans*

House Bill 4: In-State Gasline Development Corp.  
Rep. Mike Hawker and Speaker Mike Chenault

*Presentation to the House Resources Committee, Feb. 4, 2013*

# Alaska Gas for Alaskans

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Alaska has long wanted to develop Alaska's rich  
North Slope natural gas resource

1. **As clean, reliable, reasonably priced energy for Alaskans**
  - Electric and home heating costs
  - Economic development for communities
  - Industrial development opportunities
2. **As a commercial product, generating state revenue**
  - Production taxes and royalty gas
  - Future oil and gas exploration and development

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## Alaska has tried for decades

- Some milestones met
- Divergent interests
- Massive scale, costs, risks

*Alaska still has no gasline*

*What we've been doing isn't working*

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**By 2010, frustration with a lack of progress on a big line**

- Trying to make others develop a pipeline for Alaska, on our terms, wasn't delivering the results we wanted

**Fresh approach: Decide what we want, and do it ourselves**

- Instate-energy as primary driver
- Use the state as a catalyst
- Provide opportunities for the private sector partners

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## House Bill 369 of 2010 goals:

1. Build a team under AHFC leadership
2. Consolidate state's gas pipeline work to date
3. Fill in data gaps; decide optimal route
4. Report back to the Legislature with a project plan

*House Bill 369 passed with broad, bipartisan support*

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## AGDC delivered with the July 2011 Project Plan

- A pipeline for Alaskans is possible
- An in-state line could deliver competitively priced gas to major population centers
- Project will require firm, long-term contracts for pipeline capacity in order to support financing
- Legislative action required

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**AGDC recommended legislation for the authority to:**

- Determine pipeline ownership structure
- Work confidentially with private sector partners
- Operate as a contract carrier
- Decide rates and tariff terms

**AGDC further needs the state to:**

- Waive property taxes and state land lease fees
- Provide sufficient funding

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## Now, House Bill 4:

- Provides further direction for AGDC
- Includes AGDC recommendations
- Maintains momentum – delays hurt!
  - AGDC estimates \$200 million per year inflation
  - Southcentral gas supply (and costs) increasingly uncertain
  - Fairbanks energy costs and air quality – no end in sight
  - As urban costs increase, rural communities hurt more
  - Continuing expectation for state to offset high cost



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## Sponsor principles for HB 4:

1. Keep politics out of pipeline development
2. Build in maximum flexibility, options for AGDC
3. Support an aggressive, responsible schedule driven by the needs of Alaskans
4. Let the markets shape pipeline decisions
5. Provide reasonable backstops for Alaska gas consumers
6. Include ways the state can further keep costs down and enhance a pipeline project's success
7. Respect state policy of encouraging future development of Alaska oil and gas basins

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## House Bill 4 strikes a balance

- Equips AGDC for success in developing a gasline
  - AGDC has significant authority and autonomy – and a clear mission
  - AGDC poised to shift gears if another project develops that delivers gas to Alaskans at the lowest possible costs, without delay
- Institutional ‘checks and balances’ – a pipeline, yes, but not at any cost
  - May not go forward unless there is a commercial project that has sufficient contractual support for financing without additional state financial participation
  - Must deliver gas to Alaskans at a competitive price

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Under House Bill 4, AGDC will:

1. Continue work in the in-state line
  - Requires sufficient shipper support to finance a pipeline
  - Target date: Gas flowing in 2019
2. Work with TransCanada and the three producers to see if the two projects can merge into one
  - Uncertain; no development commitment to date by TC and producers
3. Be prepared for participation in other frameworks
  - For example, a spur line off an AGIA line
4. Once the main instate line is complete, evaluate other pipeline opportunities
  - Lines off the main line connecting communities, industrial developments
  - Other stand-alone Alaska gas pipelines

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## House Bill 4:

1. Provides the framework for AGDC to serve as Alaska's natural gas pipeline corporation
2. Maximizes state's efforts in gas pipeline development
3. Resolves regulatory uncertainties while supporting future development of Alaska resources

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## Establishes AGDC as Alaska's gas pipeline entity

- HB 4 moves AGDC from its present location as a subsidiary of Alaska Housing Finance, to a stand-alone state corporation
- Locates AGDC under Department of Commerce, Community and Economic Development *for administrative purposes only*
  - AGDC will be governed by a 5-member board with expertise in relevant fields, appointed by the governor, confirmed by the legislature
- Provides clear transition language

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## Clearly states AGDC's purpose:

- To advance an instate gas pipeline as described in the July 2011 project plan, with modifications as appropriate, making gas available to Fairbanks, Southcentral, and other communities in the state at the lowest rates possible;
- To develop pipelines serving utility and industrial customers, at commercial reasonable rates;
- To develop pipelines offering commercial rates to shippers and that offer access for shippers producing gas in Alaska

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**Provides clear statutory abilities to AGDC to function as a corporation and to accomplish its purpose**

**AGDC may:**

- Enter into ownership and operating partnerships
- Create subsidiaries, including a subsidiary to market gas
- Issue revenue bonds limited to AGDC's own backing to finance a pipeline
- Enter into confidentiality agreements necessary to participate with private sector shippers, partners, financiers
- Keep confidential information like field studies and tariff models that are assets AGDC is developing for the state
- Exercise the state's existing power of eminent domain

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## House Bill 4 also:

- Exempts AGDC and ANGDA from the state procurement code and state personnel act
- Exempts AGDC from the Executive Budget Act
- Applies public official disclosure rules to AGDC board members



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## Maximizes state's efforts in gas pipeline development

- Additional state support for a project in the public's interest will help reduce delays and keep costs as low as possible

## House Bill 4:

- Redefines ANGDA as an AGDC subsidiary
- Adapts ANGDA's purpose to serve as a gas marketer
- Encourages the DNR commissioner to work with an AGDC gas marketing subsidiary to make state royalty gas available for shipment through an AGDC pipeline
- Limits judicial review of state permitting decisions and authorizations to avoid delays

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- Waives state and local property taxes during pipeline construction
- Requires state entities to cooperate and share information with AGDC
  - AGDC requests receive priority (except for AGIA requests)
  - AGDC and state entities can enter into confidentiality agreements if necessary to protect third-party information in the state's possession
- Calls on the state to provide water, sand, gravel, and other non-hydrocarbon natural resources to AGDC
  - AGDC will pay usual prices; cost cannot be included in tariff base and passed on to pipeline shippers
- Directs DNR to waive annual fees on a state right-of-way lease for AGDC

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## Resolves regulatory uncertainties

- Regulatory uncertainties add risk, which adds costs and can deter private sector participation. AGDC needs to know how a pipeline will be regulated before soliciting private sector partners

## House Bill 4:

- Allows natural gas pipelines to operate as contract carriers through changes to the Right-of-Way Leasing Act and through Regulatory Commission of Alaska oversight
- Reinforces state policy that pipelines should be fair; offer reasonable access to new/future shippers; and encourage future development of Alaska's oil and gas resources

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## Why a contract carrier?

- Shippers need to know that the space they are 'reserving' by signing long-term commitments will be available
- Those firm, uninterruptible contracts are the way gas pipelines are financed
- The future income promised through those contracts secures revenue bonds
- House Bill 4 establishes contract carrier status while providing for expansions in the future

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## Right-of-Way Leasing Act

- Includes a set of covenants a lessee must agree to
- HB 4 modifies covenants reflecting common carrier principles, to allow for contract carriage
  - ‘Nuts and bolts’ of covenants remain the same
  - Contract carrier covenants still require a pipeline, per contractual terms, to provide connections with other pipelines and facilities
  - Contract carrier covenants still require expansions on commercially reasonable terms
  - Contract carrier covenants still require a pipeline to ship without discrimination

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## Regulatory Commission of Alaska oversight for a contract carrier gas pipeline

- Mandates a baseline package of rates and terms (recourse tariff) available to all interested parties, and allows negotiations of rates and terms off the baseline
- Requires RCA to decide if precedent agreements are 'just and reasonable'
- Premise is contracts entered into willingly by two parties are just and reasonable - with checks and balances
- Provides certainty and protection for public utilities

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- Allows confidential filing of precedent agreements; requires public filing of final contracts
- Requires a CPCN (building permit) from the RCA, with special terms for an AGDC pipeline reflecting the state-sanctioned mission
- Directs RCA to intervene when a dispute threatens the public health and safety; requires contracts to include dispute resolution terms
- Sets standards for fair, accessible open seasons; requires open seasons for new capacity/expansions
- Sets timelines that should not interfere with commercial processes

Thank you

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## House Bill 4: In-state Gasline Development Corp.

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