STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

SARAH PALIN, GOVERNOR

☐ P.O. BOX 111000
JUNEAU, ALASKA 99811-1000
PHONE: (907) 465-2400
FAX: (907) 465-3886

☐ 550 WEST 7TH AVENUE, SUITE 1400
ANCHORAGE, ALASKA 99501-3650
PHONE: (907) 269-8431
FAX: (907) 269-8918

Sponsor Statement
SB 136

Relating to noncompetitive leases of state land and for rights-of-way for oil or natural gas pipelines that originate and terminate within the state and to the regulation and certification of those pipelines; relating to conditional certification for certain new natural gas pipelines; relating to definitions of "common carrier" and "firm transportation service" in the Pipeline Act.

Under the authority of Article III, Section 18, of the Alaska Constitution, I am transmitting a bill relating to noncompetitive leases of state land and for rights-of-way for oil or natural gas pipelines that originate and terminate within the state and to the regulation and certification of those pipelines; relating to conditional certification for certain new natural gas pipelines; and relating to definitions of "common carrier," and "firm transportation service" in the Pipeline Act, AS 42.06. The major provisions of the bill relate to covenants attached to state right-of-way leases by the Department of Natural Resources (DNR), certification by the Regulatory Commission of Alaska (RCA), and expanding the definition of "common carrier" with respect to North Slope natural gas pipelines to include carriers that offer both firm and interruptible transportation service.

Under current law, natural gas pipelines that cross state land, and require a state right-of-way under the Alaska Right-of-Way Leasing Act, AS 38.35, are subject to the covenants listed in AS 38.35.120. The covenants include a requirement that those pipelines operate as "common carriers." Generally, common carrier pipelines must accommodate all shippers upon reasonable request, may not show undue preference or discrimination among similarly situated shippers, and, if shippers' requests for service exceed the capacity of the pipeline, must prorate shipper nominations. These requirements can foreclose pipeline carriers and shippers from fashioning long-term capacity commitments.

Allowing common carriers to offer firm transportation service that is not subject to prorated reductions can stimulate pipeline development under certain circumstances. The assurance of unimpeded access to capacity is a strong inducement to shippers, and will anchor pipeline construction and expansion. Conversely, the lack of assurance to access may discourage development.

This proposed legislation, together with HB 163, which broadens the responsibilities of the Alaska Natural Gas Development Authority (ANGDA), will form the initial statutory framework for the development of in state gasline for use by Alaskans. Additionally, the key action to bring a long term stable supply of

Alaska gas to Alaska consumers will be an action plan, and the people that implement that plan to jump start work immediately on an instate gas pipeline including the evaluation of options for routes, gas resources and potential industrial and residential users; commencement of right of way and permitting work; preliminary engineering; and a firm timetable for accomplishing this work.

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

SARAH PALIN, GOVERNOR

☐ P.O. BOX 111000
JUNEAU, ALASKA 99811-1000
PHONE: (907) 465-2400
FAX: (907) 465-3886

☐ 550 WEST 7TH AVENUE, SUITE 1400
ANCHORAGE, ALASKA 99501-3650
PHONE: (907) 269-8431
FAX: (907) 269-8918

SB 136
Sectional Analysis

Senate Bill 136 – Relating to relating to noncompetitive leases of state land and for rights-of-way for oil or natural gas pipelines that originate and terminate within the state and to the regulation and certification of those pipelines.

Sections 1 and 2 of the bill are technical conforming amendments.

Section 3 of the bill would require that natural gas pipelines that originate and terminate in the state, and that require a state right-of-way lease, will meet conditions that favor expansion, and offer expansion rates that promote new entrants into the line. This section is modeled on many of the conditions required of applicants under AS 43.90.130 of the Alaska Gasline Inducement Act (AGIA). For example, lessees would have to commit to periodic binding open seasons, commit to expanding on commercially reasonable terms, and commit to rolled-in rates on expansions, subject to a ceiling of 15 percent of negotiated rates. Lessees would also have to agree to hire Alaska residents and contract with Alaska businesses to the extent permitted by law, and commit to negotiate a project labor agreement to the extent permitted by law.

Section 4 of the bill contains definitions of "commercially reasonable terms" and "reasonable engineering increment" in order to make more precise the expansion terms in sec. 3 of the bill.

Section 5 of the bill would clarify that the "open season" required of North Slope natural gas pipeline carriers by the Pipeline Act applies only to the extent that lease covenants under the Alaska Right-of-Way Leasing Act do not contain "open season" provisions. The RCA is already empowered under AS 42.06.140(a)(2) to enforce lease covenants, including those that contain an "open season" process, so compliance with the "open season" process in AS 42.06.240(f) would be redundant.

Section 6 of the bill would provide for conditional certification by the RCA for pipelines that are in the public interest, and that otherwise meet the requirements for granting a certificate of public convenience and necessity, but that have not yet obtained financing or do not possess firm transportation commitments, or both. This provision could, in some circumstances, provide greater predictability as to the timing and outcome of the regulatory process, and may reduce the cost and facilitate the development of a project by assuring potential shippers and financing partners of ultimate regulatory approval.

Section 7 of the bill would clarify that the RCA can require an exclusively in-state natural gas pipeline carrier to extend or enlarge its facilities under standards found in the Alaska Right-of-Way Leasing Act. This would enable the RCA to enforce access to pipeline facilities for all prospective shippers as required by DNR in the leasing process.

Section 9 of the bill would modify the definition of "common carrier" as it pertains to natural gas pipelines to include firm transportation service and interruptible transportation service. Coupled with sec. 8 of the bill, which would redefine "firm transportation service," this provision would allow, but would not require, natural gas pipeline carriers to offer, and shippers to arrange, for firm transportation service that would not be subject to curtailment except in the case of reduced pipeline capacity. Currently, common carriers may offer firm transportation service, but if total tendered shipments exceed pipeline capacity, shipments by all shippers must be curtailed pro rata.

SENATE BILL NO. 136

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SIXTH LEGISLATURE - FIRST SESSION

BY THE SENATE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

Introduced: 3/2/09
Referred: Senate Special Committee on Energy, Resources, Finance

A BILL

FOR AN ACT ENTITLED

"An Act relating to noncompetitive leases of state land and for rights-of-way for oil or natural gas pipelines that originate and terminate within the state and to the regulation and certification of those pipelines; relating to conditional certification for certain new natural gas pipelines; relating to definitions of "common carrier" and "firm transportation service" in the Pipeline Act."

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

* **Section 1.** AS 38.05.180(bb)(1) is amended to read:

(1) "gas or electric utility" includes an electric cooperative organized under AS 10.25, a municipal utility, and a gas or electric utility regulated under AS 42.05; provided that, if the contract gas is transmitted to consumers through a pipeline and the gas utility either owns the pipeline or is related in ownership to the owner of the pipeline, then the gas utility qualifies as a "gas or electric utility" within the meaning of this paragraph only if it is bound or agrees to be bound by the

covenants set out in AS 38.35.120 **and 38.35.121, as applicable**;

* **Sec. 2.** AS 38.35.100(d) is amended to read:

(d) The commissioner shall include in a conditional lease each requirement and condition of the covenants established under AS 38.35.120 **and 38.35.121, as applicable**. The commissioner may also require that the lessee agree to additional conditions that the commissioner finds to be in the public interest. In place of the covenant established under AS 38.35.120(a)(9), the commissioner shall require the lessee to agree that it will not transfer, assign, pledge, or dispose of in any manner, directly or indirectly, its interest in a conditional right-of-way lease or a pipeline subject to the conditional lease, unless the commissioner, after considering the public interest and issuing written findings to substantiate a decision to allow the transfer, authorizes the transfer. The commissioner shall also require the lessee to agree not to allow the transfer of control of the lessee without the approval of the commissioner; as used in this subsection, "transfer of control of the lessee" means the transfer of 30 percent or more, in the aggregate, of ownership interest in the lessee in one or more transactions to one or more persons by one or more persons.

* **Sec. 3.** AS 38.35 is amended by adding a new section to read:

Sec. 38.35.121. Additional covenants required to be included in leases for natural gas pipelines that originate and terminate within the state. In addition to the covenants required by AS 38.35.120, a noncompetitive lease of state land for a right-of-way for a natural gas pipeline valued at $1,000,000 or more and that originates and terminates within the state may be granted only upon the condition that the lessee expressly covenants in the lease, in consideration of the rights acquired by it under the lease, that it will

(1) commit that after the first binding open season, the lessee will assess the market demand for additional pipeline capacity at least every two years through public nonbinding solicitations or similar means; the solicitations or similar means must

(A) be conducted at least every two years after the conclusion of the first binding open season;

(B) be public and provide at least 30 days' prior public notice of each nonbinding solicitation or similar means through methods reasonably calculated to simultaneously notify all interested parties, including postings on Internet websites, press releases, direct mail notification, and other advertising;

(C) set out the next reasonable engineering increment of capacity, consistent with this chapter;

(D) contain the lessee's good faith estimate of regulated tariff rates for the next reasonable engineering increment of capacity as well as a larger expansion utilizing rolled-in rates to the levels required by this chapter;

(E) set out a good faith estimate of how long it will take to place into service the next reasonable engineering increment of capacity;

(F) contain provisions that permit creditworthy prospective shippers to make binding commitments for expansion capacity in a binding open season to be conducted promptly by the lessee subsequent to the nonbinding solicitation or similar means; in this subparagraph a shipper is deemed creditworthy if

(i) the shipper satisfies the creditworthiness standards for the project's applicable tariffs; or

(ii) for expressions of interest and expansions initiated before the regulatory approval of the creditworthiness standards of the project's tariff, creditworthiness is determined according to the standards that the lessee applies in its initial binding open season; and

(G) commit to promptly and diligently pursue a binding open season for expansion capacity to the extent that expressions of interest demonstrate a market demand on commercially reasonable terms by creditworthy shippers that equals or exceeds the next reasonable engineering increment of capacity; in this subparagraph, "promptly and diligently pursue a binding open season" means that the lessee will act in a manner that is commercially reasonable in the gas pipeline industry in this state regarding timing and execution of relevant actions;

(2) commit that in a binding open season, or in any other solicitation of shipping commitment, the lessee will not require

(A) a prospective shipper to agree to any particular rate other than the regulated tariff rate; or

(B) an existing shipper to pay any rate for a capacity expansion before the date that new expansion facilities go into service;

(3) commit to promptly and diligently pursue all regulatory approvals upon the receipt of acceptable binding commitments for expansion capacity, and commit to promptly and diligently proceed to expand the project at a reasonable engineering increment sufficient to satisfy all demand for expansion capacity so long as additional revenue from existing transportation contracts on the project, plus the projected revenue from binding expansion capacity commitments, cover the costs of the expansion, including fuel costs and a reasonable return on capital as authorized by the Regulatory Commission of Alaska, and the lessee's ability to recover the costs of existing facilities is not impaired; in this paragraph, "promptly and diligently pursue" regulatory approvals and expansion capacity means that the lessee shall act in a manner that is commercially reasonable in the gas pipeline industry in the United States regarding timing and execution of relevant actions;

(4) commit to file, as part of its tariff, its determination of the reasonable engineering increment of capacity based on the design of the project before project sanction and each time the design capacity of the project changes due to modifications of the facilities or operation of the pipeline, other than normal day-to-day changes in pipeline operations;

(5) commit to expand the proposed project in reasonable engineering increments and on commercially reasonable terms that encourage exploration and development of gas resources in this state;

(6) commit that the lessee

(A) will propose and support the recovery of capacity expansion costs, including fuel costs, from all system users through rolled-in rates as provided in (B) and (C) of this paragraph or through a combination of incremental and rolled-in rates as provided in (D) of this paragraph;

(B) will propose and support the recovery of capacity expansion costs, including fuel costs, from all system users through rolled-in rates; a lessee is obligated under this subparagraph only if the rolled-in rates would increase the rates

(i) not described in (ii) of this subparagraph by not more than 15 percent above the initial maximum recourse rates for capacity acquired before commercial operations commence; in this sub-subparagraph, "initial maximum recourse rates" means the highest cost-based rates for any specific transportation service set by the Regulatory Commission of Alaska when the pipeline commences commercial operations;

(ii) by not more than 15 percent above the negotiated rate for pipeline capacity on the date of commencement of commercial operations where the holder of the capacity is not an affiliate of the owner of the pipeline project; in this sub-subparagraph, "negotiated rate" means the rate in a transportation service agreement that provides for a rate that varies from the otherwise applicable cost-based rate, or recourse rate, set out in a gas pipeline's tariff approved by the Regulatory Commission of Alaska; or

(iii) for capacity acquired in an expansion after commercial operations commence, to a level that is not more than 115 percent of the volume-weighted average of all rates collected by the project owner for pipeline capacity on the date commercial operations commence;

(C) will, if recovery of capacity expansion costs, including fuel costs, through rolled-in rate treatment would increase the rates for capacity described in (B) of this paragraph, propose and support the partial roll-in of expansion costs, including fuel costs, to the extent that rates acquired before commercial operations commence do not exceed the levels described in (B) of this paragraph;

(D) may, for the recovery of capacity expansion costs, including fuel costs, that, under rolled-in rate treatment, would result in rates that exceed the level in (B) of this paragraph, propose and support the recovery of those costs through any combination of incremental and rolled-in rates;

(E) will not enter into a contractual agreement that would preclude the lessee from collecting from any shipper, including a shipper with a contractual rate agreement, the rolled-in rates that are required to be proposed and supported by the lessee under (B) of this paragraph or the partial rolled-in rates that are required to be proposed and supported by the lessee under (C) of this paragraph; and

(F) will propose and support rates that will bear the same percentage change to all rates consistent with this section, including any term-differentiated rates;

(7) commit to offer distance-sensitive rates to delivery points in the state;

(8) to the maximum extent permitted by law, commit to

(A) hire qualified residents from throughout the state for management, engineering, construction, operations, maintenance, and other positions on the proposed project;

(B) contract with businesses located in the state;

(C) establish hiring facilities or use existing hiring facilities in the state; and

(D) use, as far as is practicable, the job centers and associated services operated by the Department of Labor and Workforce Development and an Internet-based labor exchange system operated by the state;

(9) commit to negotiate, before construction, a project labor agreement to the maximum extent permitted by law; in this paragraph, "project labor agreement" means a comprehensive collective bargaining agreement between the licensee or its agent and the appropriate labor representatives to ensure expedited construction with labor stability for the project by qualified residents of the state; and

(10) commit that it will be regulated under AS 42.06 by the Regulatory Commission of Alaska.

* **Sec. 4.** AS 38.35.230 is amended by adding new paragraphs to read:

(11) "commercially reasonable terms" means that revenue from

transportation contracts covers the cost of the expansion, including increased fuel costs and a reasonable return on capital as authorized by the Regulatory Commission of Alaska, as applicable, and there is no impairment of the project's ability to recover the costs of existing facilities;

(12) "reasonable engineering increment" means the amount of the additional capacity that could be added by compression or a pipe addition of a length that is at least a full valve section based on the original pipeline mainline valve locations using a compressor size or pipe size, as applicable, that is substantially similar to the original compressor size or pipe size.

* **Sec. 5.** AS 42.06.240(f) is amended to read:

(f) **<u>Except if right-of-way lease covenants required by AS 38.35.120 - 38.35.121 provide otherwise, in</u>** [IN] addition to other requirements of (a) - (e) of this section, the provisions of this subsection apply to a certificate of public convenience and necessity for a North Slope natural gas pipeline carrier or person that will be a North Slope natural gas pipeline carrier under this chapter:

(1) the person making application shall dedicate a portion of the pipeline's initial capacity sufficient to transport the total volume of North Slope natural gas that has been committed by producers and shippers of North Slope natural gas to tendering for intrastate firm transportation service at the time that the operation of the North Slope natural gas pipeline commences;

(2) upon receipt of the certificate application under this subsection, the commission shall issue a public notice inviting prospective intrastate shippers of North Slope natural gas to file requests for service; a request for service submitted by a shipper in response to a notice issued under this paragraph must include a proof of the shipper's commitment to use the North Slope natural gas pipeline for intrastate firm transportation service, specifying the volume of North Slope natural gas that the shipper will tender for initial intrastate firm transportation service;

(3) in its review of an application submitted under this subsection,

(A) for purposes of evaluating the total volume of intrastate transportation of North Slope natural gas to be accepted for initial intrastate transportation, the commission shall determine total volume based upon written commitments to tender North Slope natural gas for intrastate firm transportation service continuously for a period of not less than three years after the operation of the North Slope natural gas pipeline commences as follows:

(i) each request for service by an intrastate shipper that is a public utility, as that term is defined in AS 42.05.990, for the purpose of furnishing natural gas for ultimate consumption within the state by its customers that individually consume an average annual volume of less than 20,000,000 standard cubic feet of gas per day shall be supported by a written commitment by the public utility that sets out the utility's best current estimate of the average annual volume that the utility will require during the three-year period;

(ii) each request for service by an intrastate shipper that is not a public utility, as that term is defined in AS 42.05.990, and each request for service by a public utility for the purpose of furnishing natural gas for ultimate consumption within the state by a customer that individually consumes an average annual volume of 20,000,000 or more standard cubic feet of gas per day, that purchases North Slope natural gas from a North Slope natural gas producer, must be supported by one or more contracts for the purchase of the North Slope natural gas on a take-or-pay basis that extends for a period of not less than three years after the operation of the North Slope natural gas pipeline commences;

(iii) the commission may consider peak volumes specified in the written commitments of North Slope natural gas producers and purchase contracts; and

(B) the commission shall set out in its order granting a certificate of public convenience and necessity the total volume of intrastate North Slope natural gas that the North Slope natural gas pipeline carrier shall accept for intrastate transportation; the total volume may not exceed the volume substantiated by written commitments and contracts that comply with the requirements of this chapter;

(4) if the North Slope natural gas pipeline carrier wants to transport North Slope natural gas within the state in excess of the amount set out in the statement of total volume in the pipeline carrier's certificate of public convenience and necessity, the pipeline carrier may apply for authority to transport a greater volume of North Slope natural gas within the state than the carrier is required by the commission to transport in its order entered under (3)(B) of this subsection; the commission shall grant the authority requested by the pipeline carrier if the commission determines that the pipeline carrier's transportation of a greater volume is consistent with public convenience and necessity.

* **Sec. 6.** AS 42.06 is amended by adding a new section to read:

Sec. 42.06.275. Conditional certificate. (a) If an applicant for a new natural gas pipeline has not obtained or committed financing, or does not possess firm commitments for the transportation of natural gas on its proposed pipeline, the commission shall issue a conditional certificate if it finds that

(1) the applicant has otherwise met the requirements of AS 42.06.270; and

(2) construction of the new natural gas pipeline would be in the public interest.

(b) The commission may specify the conditions on which the conditional certificate is issued, including a limitation on the duration of the conditional certificate.

(c) If the commission subsequently finds, on application or its own motion, that all conditions placed on the conditional certificate have been satisfied, the commission shall issue a certificate under AS 42.06.270.

* **Sec. 7.** AS 42.06.310 is amended by adding a new subsection to read:

(e) Notwithstanding (d) of this section, a North Slope natural gas pipeline carrier that transports North Slope natural gas exclusively between any point within the state and another point within the state shall, when ordered by the commission, extend or enlarge its pipeline or storage facilities under the standards set out in AS 38.35.121.

* **Sec. 8.** AS 42.06.630(6) is amended to read:

(6) "firm transportation service" means service by a natural gas pipeline carrier that is not subject to a prior claim by another shipper or another class of service **and is not subject to reduction unless the pipeline's overall capacity is diminished**; service constitutes "firm transportation service" if the service receives the same priority as any other class of firm transportation service.

* **Sec. 9.** AS 42.06.630 is amended by adding a new paragraph to read:

(20) "common carrier," with respect to natural gas pipelines, includes a common carrier that offers to all shippers both firm transportation service and interruptible transportation service.

* **Sec. 10.** This Act takes effect immediately under AS 01.10.070(c).

FISCAL NOTE

STATE OF ALASKA
2009 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: **SB 136**
(S) Publish Date: 3/2/09

Identifier (file name): 0052-DNR-OGD-02-26-09
Title: Natural Gas Pipelines that Originate and Terminate In-State
Sponsor: Rules Committee
Requester: Governor

Dept. Affected: Natural Resources
RDU: Resource Development
Component: Oil and Gas Development
Component Number: 439

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information					
OPERATING EXPENDITURES	**FY 2010**	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**
Personal Services							
Travel							
Contractual							
Supplies							
Equipment							
Land & Structures							
Grants & Claims							
Miscellaneous							
TOTAL OPERATING	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
CAPITAL EXPENDITURES							
CHANGE IN REVENUES ( )							

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts							
1003 GF Match							
1004 GF							
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other Interagency Receipts							
TOTAL	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Estimate of any current year (FY2009) cost:

POSITIONS

Full-time							
Part-time							
Temporary							

ANALYSIS: *(Attach a separate page if necessary)*

This bill would amend the Alaska Right-of-Way Leasing Act to require intra-state natural gas pipelines, which are over a certain value and require a state right-of-way lease, to offer expansion and expansion rates that promote new entrants into the line. It would also clarify the relationship of common carriage and firm transportation within the Pipeline Act.

These amendments are expected to increase commercial and regulatory predictability, ensure access to gas pipeline capacity, and promote additional industry activity in Alaska resulting in additional state revenues.

Prepared by: Kevin Banks, Director
Division: Oil and Gas
Phone: 269-8802
Date/Time: February 26, 2009

Approved by: Tom Irwin, Commissioner
Natural Resources
Date: February 26, 2009

FISCAL NOTE

STATE OF ALASKA
2009 LEGISLATIVE SESSION

Fiscal Note Number: 2
Bill Version: SB 136
(S) Publish Date: 3/2/09

Identifier (file name):0052-CED-RCA-03-02-09
Title: Natural Gas Pipelines
Sponsor: Rules Committee by Request
Requester: Governor

Dept. Affected: DCCED
RDU: Regulatory Commission of Alaska
Component: Regulatory Commission of Alaska
Component Number: 2417

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information					
OPERATING EXPENDITURES	**FY 2010**	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**
Personal Services							
Travel							
Contractual							
Supplies							
Equipment							
Land & Structures							
Grants & Claims							
Miscellaneous							
TOTAL OPERATING	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
CAPITAL EXPENDITURES							
CHANGE IN REVENUES ( )							

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts							
1003 GF Match							
1004 GF							
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other Interagency Receipts							
TOTAL	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Estimate of any current year (FY2009) cost: ______

POSITIONS

Full-time							
Part-time							
Temporary							

ANALYSIS: *(Attach a separate page if necessary)*

This legislation would revise carriage requirements for natural gas pipelines originating and terminating within Alaska, allowing a carrier seeking to obtain a noncompetitive right-of-way lease to provide either common or contract carriage. The legislation would revise certification requirements for natural gas pipelines, establishing a conditional certificate that allows the carrier to become certificated before it obtains or commits financing or receives firm commitments to transport natural gas. The legislation would also allow the carrier to provide firm and interruptible carriage under tariff, contract, or both.

(Continued on Page 2)

Prepared by: Bob Pickett, Chairman
Division:
Phone 907-276-6222
Date/Time 03/02/09 9:00am

Approved by: Emil Notti, Commissioner
Department of Commerce, Community and Economic Development
Date 3/2/2009

(Revised 9/10/2008 OMB)

FISCAL NOTE # 2

STATE OF ALASKA **BILL NO. SB 136**
2009 LEGISLATIVE SESSION

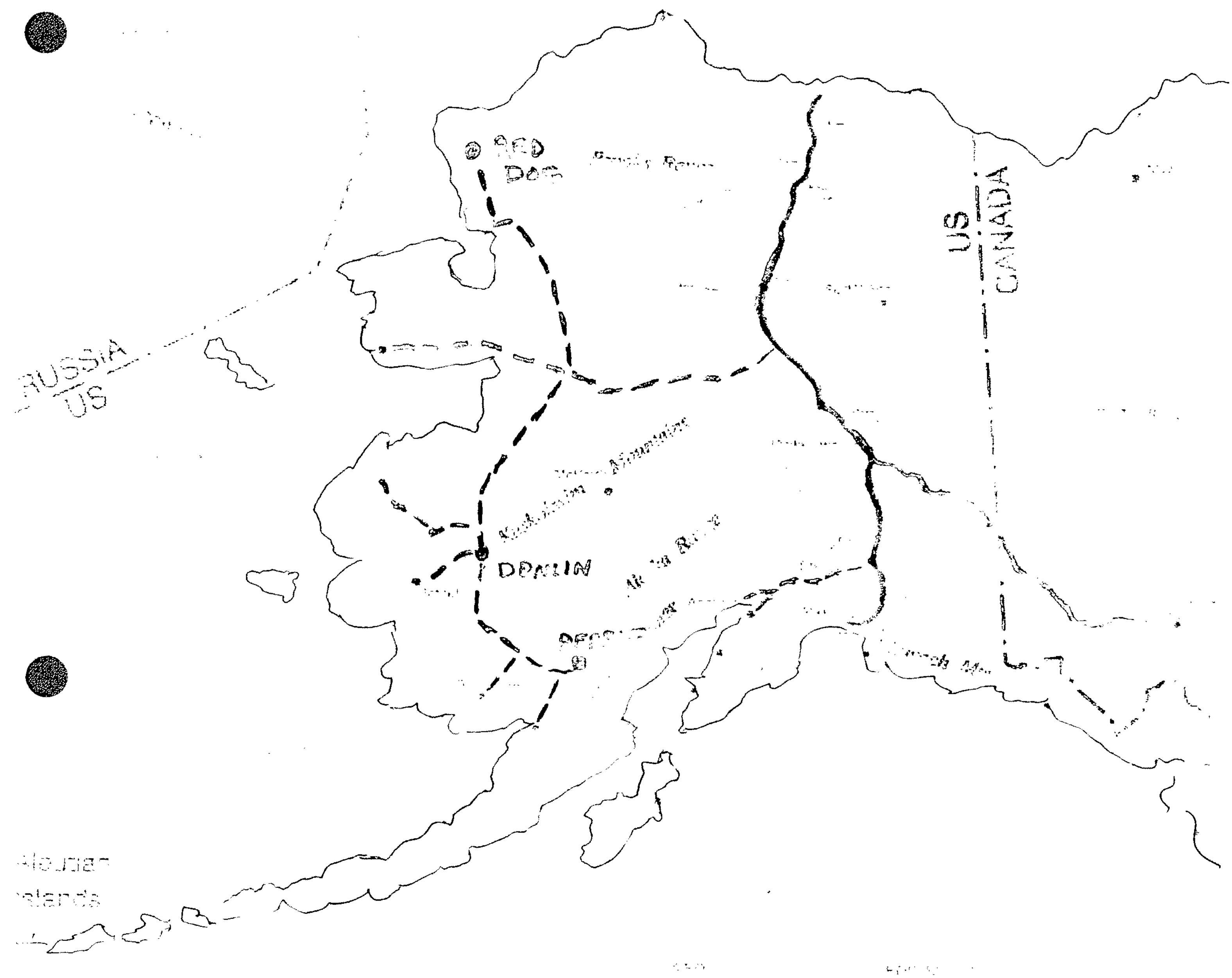
ANALYSIS CONTINUATION

(Continued from Page 1)
The Regulatory Commission of Alaska (RCA) receives and processes certificate applications for natural gas pipelines that originate and terminate within Alaska, and regulates the rates of those natural gas pipeline carriers.

Since this legislation does not change the RCA's authority or duty to certificate instate natural gas pipelines, the RCA should not incur additional work based on the passage of this legislation.

SB136

Western Alaska Energy Corridors



MAINLINE

SPURLINE

CONTACT: PAULFUHS@EARTHLINK.NET
907-351-0407

Western Alaska
Energy Corridors

Gas Spurline Concept

By: Paul Fuhs
paulfuhs@earthlink.net
907-351-0407

CONCEPTUAL DESCRIPTION:

This paper describes a possible gas spurline to Western Alaska which should be evaluated for its potential to provide reasonably priced energy to mines, fisheries operations and the people of Western Alaska.

Alaska is the largest energy producing state in the United States and should make that energy available to its own people at a reasonable price. Access to North Slope gas reserves makes this a real possibility.

Efforts to use renewable energy can help communities but they are often periodic in nature so a redundant diesel system must be maintained and periodically operated utilizing additionally required switch gear. This limits cost savings to rate payers. Methane and Propane are ideal energy carriers since they can also be used for home heating and cooking which are often larger cost factors for rural families than electricity.

Now is the time to invest in energy infrastructure that will last for generations into the future.

PRIMARY PLAN ELEMENTS:

1. Build spurlines off any of the proposed mainlines or bullet lines from the North Slope to connect communities along the way with methane. Methane is the easiest gas to separate from a rich gas stream and can be sent by pipeline without requirements for storage at the consuming community. A primary spur trunkline should be run along the Yukon to connect to the major mines of Donlin Creek, Red Dog and Pebble as anchor customers. Service lines should be continued to communities along the way and within reasonable distance to service. Methane pipelines require substantial outlay of capital to install, but once they are in place, their maintenance and operations costs are low. Delivery of methane would also eliminate the substantial costs of managing diesel delivery and storage. Building

a gas trunkline through Western Alaska would also spur development of smaller mining properties and encourage gas exploration in the region since any discoveries would have a gas transportation system in place.

SERVING OTHER MARKETS:

2. Serve coastal Alaska with propane. ANGDA has already completed a feasibility study completed by PND Engineers on requirements for shipping and receiving infrastructure. Their analysis showed that delivering propane was feasible to ice free ports using traditional shipping methods and shippers. Propane contains two and a half times the heat energy of methane but requires more storage capacity than diesel which is a factor for communities that freeze in for 5 months of the year.
3. Gas supply can be obtained through commercial arrangements with private leaseholders or through accessing the state's royalty gas as "royalty in kind". If the state's royalty gas is used, consideration for pricing of energy to rural Alaska could be considered in the state's evaluation.
4. ANGDA has already done an initial market feasibility study on value added processing of North Slope gas liquids and has found that Alaska could be a competitive supplier of feedstocks for a petrochemical industry. This could be another industrial anchor market which would increase the economies of scale and reduce energy prices to consumers in railbelt and rural Alaskan communities.
5. Identify efficiencies of creating regional electrical generating facilities using gas and connecting them to local communities through interties.
6. A financing plan for this infrastructure is necessary and could include long term bonds based on commercial gas purchase agreements from industrial and utility anchor markets, state grants, federal grants through the Denali Commission, DOD appropriations to connect military bases, etc.
7. This plan should be coordinated with the Alaska Energy Authority's current initiative to identify alternative sources of local energy.
8. Alaska Department of Environmental Conservation should complete an analysis of the reductions in carbon dioxide emissions and other as a result of this energy distribution plan.

Senator Lyman F. Hoffman
Senate Finance Committee - Co Chair

Alaska State Legislature • State Capital • Juneau, AK 99801-1182
Toll Free 1-866-465-4453 • (907) 465-4453 • Fax (907) 465-4523

District S
Adak
Akiachak
Akiak
Akutan
Aleknagik
Amchitka
Atka
Atmauthlauk
Attu
Belkofski
Bethel
Chefornak
Chernofski
Chignik
Chignik Lagoon
Chignik Lake
Clark's Point
Cold Bay
Dillingham
Dutch Harbor
Eek
Egegik
Ekuk
Ekwok
False Pass
Goodnews Bay
Ivanof Bay
Kasigluk
Kin[illegible]e
Kin[illegible]non
Kipnuk
Koliganek
Konggiganak
Kwethluk
Kwigillingok
Lower Kalskag
Manokotak
Mekoryuk
Naknek
Napakiak
Napaskiak
Nelson Lagoon
New Stuyahok
Newtok
Nightmute
Nikolski
Nunapitchak
Oscarville
Perryville
Pilot Point
Platinum
Port Heiden
Portage Creek
Quinhagak
Saint George Island
Sant Paul Island
Sand Point
Shemya Station
South Naknek
Togiak
Toksook Bay
Tuluk[illegible]
Tun[illegible]k
Tun[illegible]
Twin Hills
Ugashik

October 3, 2008

Harold Heinze, Executive Director
Alaska Natural Gas Development Authority
411 W. 4th Avenue, First Floor
Anchorage, AK 99501

Dear Harold,

I am writing to request that you perform an analysis of delivering natural gas (methane) to Western via a pipeline. As you know, responding to the economic crisis in rural Alaska due to high energy prices is one of my highest priorities. My understanding is that one of the primary missions of ANGDA is to connect Alaskans to our energy resources on the North Slope.

I believe some of the existing and proposed mines in Western Alaska could provide a base demand for the gas and then extensions could then be made to communities within reach of the mainlines. This gas supply could also provide an energy source for regional electrical generation that could be connected to communities by interties. I would like this analysis to provide what the long term operating and maintenance costs of such a gas distribution system would be.

I understand that you have existing contractors on retainer that have experience in distribution of natural gas and I am also assuming that you are in a position to hire additional help if necessary. Please let me know if that is the case.

While I believe the analysis may show that constructing this distribution system may not be feasible from a commercial point of view, I am interested in knowing what the capital costs on installing this system would be so that we can weigh that against other alternatives the state and federal governments are considering. Viewed in that way, it may be worth it to make the investment.

I appreciate your work for Alaska on expediting delivery of reasonably priced energy to Alaskans. I will await your answer to my request.

Sincerely,

Lyman Hoffman
Co-Chair, Senate Finance Committee
Alaska State Senate

RECEIVED
OCT 10 2008
Alaska Natural Gas
Development Authority