

**ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE**

January 21, 2004
3:35 p.m.

TAPE(S) 04-1, 2

MEMBERS PRESENT

Senator Scott Ogan, Chair
Senator Thomas Wagoner, Vice Chair
Senator Fred Dyson
Senator Ben Stevens
Senator Ralph Seekins
Senator Kim Elton
Senator Georgianna Lincoln

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

HOUSE CONCURRENT RESOLUTION NO. 10

"Relating to restoration of riparian habitat that is vital to the fisheries resources of the state."

BILL HEARING POSTPONED

SENATE BILL NO. 241

"An Act making an appropriation to the Alaska Natural Gas Development Authority; and providing for an effective date."

HEARD AND HELD

SENATE BILL NO. 247

"An Act amending the definition of 'project' in the Act establishing the Alaska Natural Gas Development Authority; and providing for an effective date."

HEARD AND HELD

PREVIOUS ACTION

BILL: SB 241

SHORT TITLE: APPROP: NATURAL GAS DEVELOPMENT AUTHORITY

SENATOR(S): THERRIAULT

01/12/04 (S) PREFILE RELEASED 1/2/04

01/12/04 (S) READ THE FIRST TIME - REFERRALS
01/12/04 (S) RES, FIN
01/21/04 (S) RES AT 3:30 PM BUTROVICH 205

BILL: SB 247

SHORT TITLE: AK NATURAL GAS DEV. AUTHORITY INITIATIVE
SENATOR(S): WAGONER

01/12/04 (S) PREFILE RELEASED 1/2/04
01/12/04 (S) READ THE FIRST TIME - REFERRALS
01/12/04 (S) RES, FIN
01/21/04 (S) RES AT 3:30 PM BUTROVICH 205

WITNESS REGISTER

Senator Gene Therriault
Alaska State Capitol
Juneau, AK 99801-1182
POSITION STATEMENT: Sponsor of SB 241

Mr. Harold Heinze
Alaska Natural Gas Development Authority
411 W. 4th Ave.
Anchorage, AK 99508
POSITION STATEMENT: Supports SB 241

Mr. Nels Anderson, Jr.
Dillingham, AK
POSITION STATEMENT: Supports SB 241

Mr. Paul Fuhs
Backbone 2
No address provided
POSITION STATEMENT: Supports SB 241

Mr. George Briggs
Dillingham Chamber of Commerce
Dillingham, AK
POSITION STATEMENT: Supports SB 241

Mr. Spud Williams
Dillingham, AK
POSITION STATEMENT: Supports SB 241

Mr. Ray Scandura
RPC Energy Services
Dillingham, AK

POSITION STATEMENT: Supports SB 241

Mr. Steve Porter
Deputy Commissioner
Department of Revenue
PO Box 110400
Juneau, AK 99811-0400

POSITION STATEMENT: Answered questions about SB 241 and SB 247 but took no position

Ms. Mary Jackson
Staff to Senator Tom Wagoner
Alaska State Capitol
Juneau, AK 99801-1182

POSITION STATEMENT: Presented SB 247 for the sponsor

ACTION NARRATIVE

TAPE 04-1, SIDE A

CHAIR SCOTT OGAN called the Senate Resources Standing Committee meeting to order at 3:35 p.m. Senators Wagoner, Dyson, Seekins, Ben Stevens, Lincoln Elton, and Chair Ogan were present. He then introduced staff Linda Hay, Shosh Seligman, and Chris Fannin. He announced the committee would take up SB 241.

^#SB241

SB 241-APPROP: NATURAL GAS DEVELOPMENT AUTHORITY

SENATOR GENE THERRIAULT, sponsor of SB 241, informed members that SB 241 would appropriate the remaining \$2.15 million of the Alaska Natural Gas Development Authority (ANGDA) board's request for \$2.5 million made last year. He told the ANGDA board members to be prepared to justify the need for the appropriation to the legislative committees. He noted that [after ANGDA was created by initiative] last year, the Legislature appropriated \$150,000 to the ANGDA board to pull the organization together and make a proposal for additional money. He worked with members of the board and the administration to secure another \$200,000 from the Legislative Budget and Audit Committee to undertake a benefit analysis of in-state use. His primary interest is to quantify the economic benefit to Alaska citizens if North Slope natural gas is made available through any delivery system. He believes that information would be useful to the Legislature regardless of the entity involved in a natural gas project. ANGDA has

entered into a contract to gather that information with Northern Economics, Inc.

SENATOR THERRIAULT told members that if the Legislature is asked to enact tax deferrals or relief of any kind that would cost the citizens of the state, the Legislature should know the value that will accrue to the state to offset that cost. He believes the Legislature should ask ANGDA board members to be prepared to determine how it can partner with any project to improve the project's economics through ANGDA's tax exempt status if the state receives a proposal to take the resource to market overland through Canada. He would like to know whether ANGDA can help with the economics of an overland project. He suggested that ANGDA might own the line from the North Slope to Delta to tidewater, thereby lowering the cost of the infrastructure. He said several legislators from the Southcentral area of the state are interested in accessing natural gas, which ANGDA board members have discussed. That question could also be part of an in-state benefits analysis.

SENATOR THERRIAULT told the committee that the ANGDA board provided a spreadsheet, with a timeline, that describes how it proposes to use the appropriation. He said as Senate President, he referred the bill to the Senate Resources and Finance Committees. He expects the Senate Finance Committee to focus on the cost justification. He asked that the Senate Resources Committee focus on how the ANGDA entity can be used to help with the economics of any proposal, how it can work as a stand-alone project and how much that will cost. He informed the committee that he and ANGDA board members were available to answer questions.

CHAIR OGAN announced that Senator Seekins joined the committee a while ago. He then noted that committee members had no questions of the sponsor and asked Mr. Heinze to testify.

MR. HAROLD HEINZE, Chief Executive Officer of ANGDA, was testifying before the committee via teleconference from Anchorage. He told members he has been employed by ANGDA since July of 2003. He introduced ANGDA board members Bob Favretto, Dan Sullivan, John Kelsey, Scott Heyworth and Andy Warwick (who was participating via teleconference from Fairbanks). He explained that ANGDA is a public corporation of the state, meaning it functions in some ways as a state agency and in other ways as a private agency. He referred to a handout that

justifies ANGDA's \$2.15 million request and made the following comments about its three main points:

...the benefits to the State of Alaska and basically the ballot initiative that set up the Alaska Natural Gas Development Authority passed by a very large percentage. If you ask people what they voted for and why they voted so strongly for it, one of the two answers you get is that the people lack the confidence that whatever is done with the North Slope gas - that it would derive direct benefits to Alaska.

So, one of the first focuses of the board was to identify those potential benefits and you should have in front of you somewhere an exhibit that says 'Benefits to Alaskans' and ... if you look at that chart in some detail, you will find that we have identified ways that Alaska gas could be directly impacting probably 99 percent of the population of the state. We think that is an extraordinarily important focus for whatever we do.

What we found is that, as we looked at those potential uses of gas in the state, that there was not enough opportunity in terms of that volume to assure that the project or delivering that gas was economic. Basically, while Alaska uses are important, they are so small in volume you cannot construct any major project that delivers them because of the small size.

We were able then to kind of look at how a project like this, in terms of an export project, would work with those Alaska benefits and that synergy is very important and that was what led us to look at an export project as our focus. Once you start to look at that export project, then a lot of the benefits became easy to identify and frankly become fairly easy to deliver.

The second thing we did in the benefits area is that we realized that the current analysis of major projects, in particular the gas projects in Alaska, was very limited. Generally people have talked only in terms of investor type measures - rate of return or return on investment or even present worth. And those are fine for the people that are actually investors in

the project but they do not portray in anyway the value to Alaska of a project.

So people then turned around and they started to add a measure of wellhead value or basically revenues to the state as a measure of the benefit. And what we found was that that really is a very unsophisticated measure of the total impact on Alaskans of these kinds of major projects. So we have contracted for - and working away already - is a contractor building a transparent publicly usable spreadsheet model that will integrate all of the benefits, including the economic impacts, the job impacts, the reduced cost of heating homes and so on, etcetera - everything we can think of that is a potential benefit of one of these projects and integrate it into one measure. When that project is finished in the middle of March, then that result will become available for use in analyzing any and all projects.

We will certainly continue on to do further work with the model to input, in particular, specific benefits we think we can attribute to a group like the Authority. For instance, the Authority has the ability through contracting, through work rules and other things to cause things to be built with a higher Alaska hire percentage than maybe some other entities. And we want to understand what the impact of that is in terms of total benefits to Alaska. We have every reason to believe it will be significant but as we finish our work in June, that full result will become available.

The second basic area that ANGDA makes a contribution in has to do with what I call broadly the business structure issues. This is to recognize that one of the very powerful things we discovered very quickly, as we started to look at how the Authority could do its business and what powers and opportunities it was given, was we realized in performing a public service of transporting a public resource, was tax exempt. And we then have looked at business structures that will allow us to pass that tax avoidance on to lowering the cost of service of delivering the gas. That contribution is probably more significant than any other single factor that has ever been discussed in

terms of making these projects work and I'll show you some numbers in a little bit that maybe will illustrate how much that is but I would ask you to realize that is an extraordinarily important and powerful tool. It is a tool that can be applied not only to the LNG project, but it is a tool that can influence the marketability of North Slope gas to any market under any circumstance.

Now there is a lot we have to understand about the dos and don'ts of how to keep that tax advantage. But I assure you it is extraordinarily important in terms of the totality of what the state has to contribute towards bringing that public resource to market.

We also obviously, as part of that, will look at the funding and a large number of other issues of who we can relate to, how we can relate to them, and how best to structure our business. These are issues that are of billion dollar impact so we have tried to hire some of the best people we can find anywhere to advise us on the structure issues.

And then finally, we talked specifically about the project that we are working on, which is an export project. I have provided in the information I gave you a table that shows the ANGDA project concept and costs, which shows basically four different project elements: a treatment plant on the North Slope, a pipeline, a liquefaction plant, and the LNG tankers. The total cost of those elements is \$12 billion. Again, this is based upon fortunately a lot of public work that is available as a result of Yukon Pacific's efforts and frankly because of some results that have been released by other people. It does not represent, at this point, any detailed engineering. There are a lot of improvements, we believe, that can be made in the quality of that cost estimate. However, our opinion at this point is that the estimate is probably high rather than low and, again, each of the individual elements there is part of our funding requirement to refine the quality of those estimates and, in particular, look for the opportunities for cost savings.

In this case, the money you'll see is barely over a million dollars to accomplish that. You all are aware, for instance, the producers have recently done a study. They spent over \$100 million to look at a high quality cost estimate for their project. To even do this estimate in a feasibility phase if I was back in [the] private sector, I would estimate the cost to do this at 10 or 20 or 30 times more than what I've allowed for here. One of the reasons we can do this for a lesser cost frankly is that there is a lot of information available to us. Yukon Pacific has been more than willing to share information with us. We also get some very free expert advice from a company called Mitsubishi and that allows us to place confidence in some of these numbers without having spent a lot of money.

3:55 p.m.

If you take the \$12 billion as a starting point, and you start to look at the economics of the project, the first calculations I made are illustrations on a table called 'NOTIONAL Cost of Service Comparison' and these numbers are a single value expression of the cost of moving North Slope gas ... to a port in, say, the West Coast. The first entry in the table is \$2.90. That is the number I would calculate if I was a commercial business investing in a high risk project such as this kind of a transportation project and expecting to earn a fairly high rate of return. And what I got was \$2.90.

Now the way you use these kinds of numbers is - to get you a rough feel of where you are in terms of the market and everything else - if, for instance, I was to assume the market at the wellhead price was \$1, I would add \$1 to the \$2.90 and that would say the value delivered or the value I've invested in getting the gas to market in, say, Long Beach, is \$3.90 - \$2.90 plus \$1. Well, if you looked at the marketplace in Long Beach today, it would be something over \$5. Well, you yell Hallelujah at that point because that's a good deal because you're getting \$5 for something that, including your return on your investment and everything, you spent \$3.90. Unfortunately the problem is that people don't project that the price in Long

Beach will be \$5 for an extended period of time. The price they do project is much more in the range of \$3 to \$3.50. And, again, if you ask a lot of experts and poll a lot of folks, very few people predict prices below \$3 but most would not predict prices over \$3.50 in the long term.

So if I was a commercial company, I would conclude, based on [those] kinds of numbers and that kind of thinking, that the project is not economic. That is what basically ConocoPhillips told us in July of last year and that's what led to this calculation because I said somehow that isn't reflecting what the Authority would do.

That leads to the second column. As a public service transporting the gas, we are not taxable. If you eliminate the tax, the number \$2.90 drops to \$2.20. And now if you add a \$1 wellhead value to that and it's \$3.20 sitting in the port of Long Beach, [indisc.] I'd be very happy today with \$5 but I am very resilient even in a world where prices are ranging between \$3 and \$3.50. And then I did one more calculation to try and test what at the extreme - and I say at the extreme the Authority could do - if it wanted to lower its cost structure to the absolute lowest number it could visualize. And I made the assumption that instead of building a pipeline, we're building a highway for gas, because when we build a highway in the state of Alaska, we don't ask ourselves the rate of return. We believe that the economic activities we generate by connecting A and B is worthy of the investment and all we require is that we be able to service the debt of the bond that we built the highway with. And if we took that approach on the pipeline, now our cost of service number drops to \$1.65. And that is important because when we look at all the other projects that we would have to compete with, \$1.65 is superior to all those projects.

So that says, at the extreme, the Authority has the ability to compete even in a highly competitive world, even in a world where we have some disadvantages. But, the tremendous advantage of an infrastructure approach or approach that could not pay federal income tax is very significant.

4:00 p.m.

CHAIR OGAN said he has listened to a lot of energy analysts at Energy Conference meetings this year and heard that a lot of gas is closer to tidewater with a much cheaper wellhead price. He asked about the cost of building a liquefaction plant.

MR. HEINZE said in this case, ANGDA included a cost of \$4 billion. However, a modern-designed plant would cost less.

CHAIR OGAN said he was told the cost was about \$1.5 billion but suggested the cost may be cheaper in some other foreign countries. He then stated, "The overriding consensus of all the talking heads in the oil industry and the analysts is that the world is awash in LNG right now." He expressed concern that a stand-alone project might not be as economical as a project designed around the hub concept. He said what is most important now is that ANGDA justify why it needs the money.

MR. HEINZE stated that ANGDA is very sensitive to the fact that the LNG project is one that would have to compete in the market. However, that can be said about any project that moves Alaska gas to market. The [state] has not had any extensive discussion about the market penetration issues related to any of the projects. He pointed to two key slides he included in ANGDA's briefing package. One shows the Asia-Pacific key LNG suppliers, which proves Chair Ogan's point that a lot of gas is available. That gas is controlled by entities such as Shell, ExxonMobil, BP, Chevron Texaco and ConocoPhillips. He told members the five "mega-majors" have, by merger, made it clear that they intend to be very dominant factors in LNG. Within the last month, ExxonMobil and ConocoPhillips announced major investments in Qatar. In addition, BP has announced major supplies from Indonesia to the West Coast. The market is very dynamic and competitive.

MR. HEINZE said the basic fundamentals of what he is trying to describe are illustrated on the next table, entitled 'Estimated Cost of Service Comparison to the West Coast of North America,' produced by ConocoPhillips. ConocoPhillips broadly explained how it calculated the numbers. The table shows the prices delivered from various countries to the West Coast vary from \$2.20 at the low end to \$2.90 at the high end for Alaska LNG. He said he has already discussed how ANGDA can very successfully compete with any of those prices. He said he is not prepared at this moment

to prove that but the information available provides enough insight with which to determine that ANGDA has the opportunity to compete. The people who will ultimately make that judgment are not in Alaska; they are most likely the bankers who will decide whether to loan the state the money and they will provide the test of whether the project economics are there.

4:05 p.m.

SENATOR DYSON asked Mr. Heinze to address the problems associated with the Jones Act and the ability to build, buy or rent tankers in this world market.

MR. HEINZE said that ANGDA has taken the view that the Jones Act is an issue that must be dealt with. It creates a problem in that the portion of gas shipped to the West Coast must move in more expensive tankers. The question of how much more expensive those tankers will be is open. The Jones Act clearly mandates that the tanker hulls must be U.S. built; it is also clear that the tankers' interiors could be installed at a foreign shipyard. ANGDA has looked at ways to reflag some of the older U.S. built tankers and at other logistical approaches to the problem. He offered to furnish the committee with papers made available to ANGDA by the Attorney General's Office that illustrate the range of solutions available. He said he has not concluded which solution is best. He pointed out:

In any case, the Jones Act impacts \$2 billion of the \$12 billion investment and even when I paint the worst case of the Jones Act, it won't add but a half billion dollars to the cost estimate ... We don't have to have all the tankers be from American shipyards.

He said he does not see the Jones Act issue as threatening the economic viability of the project.

CHAIR OGAN asked Mr. Heinze if his assumption of \$1 is a price the gas producers would be willing to accept.

MR. HEINZE said he would not negotiate price in public for many reasons. In addition, ANGDA was given the authority to buy and sell gas if that is necessary. At this point, ANGDA has not determined, as a matter of business structure, whether it would be a transporter of gas or a buyer and seller of gas. He referred to the conceptual schedule and pointed out that one of the first things to happen when ANGDA determines feasibility is

that an open season would be declared. ANGDA will determine whether it needs to be a buyer and seller of gas only after that occurs. It is possible that ANGDA could propose such a great project that all gas owners would rush forward, requiring ANGDA to consider expanding the gas line. He said he used \$1 because of the ease of the arithmetic but he has reason to believe the producers turned down an offer of 75 cents and, because \$1.35 showed up in the national energy legislation, he believes that is the high number an investor would consider in a risky project. If ANGDA were to offer a price for a no-risk project, he suspects it would be lower than \$1. That is how he would approach the problem if ANGDA were the buyer.

CHAIR OGAN said he has been hearing, "Build it and they'll sell you the gas."

MR. HEINZE said the project schedule illustrates some of the more project-oriented steps necessary to move through a feasibility phase that allows one to obtain funding. The first step involves the \$2.5 million appropriation that will pay for the feasibility study to be completed by June of 2004. That study will provide enough information from which Governor Murkowski, the Legislature and the public can determine whether this project is worthwhile. If the project is deemed as such, a series of things will happen over the subsequent 24 months. ANGDA would sell \$200 million worth of financial instruments to investors who are willing to accept a lot of risk. The \$200 million would be used to determine who wants to ship on the gas line, the details of the design, the necessary financial arrangements, the required permits and other information to present to the investment banks who do not want to take risk and would sell \$10 million worth of bonds.

MR. HEINZE said if ANGDA receives this appropriation, its milestone will be the June report because unless ANGDA, Governor Murkowski, the Legislature, and the public see the project as feasible and want to go forward, there will be no way to raise money.

SENATOR LINCOLN asked Mr. Heinze if ANGDA has developed any criteria to be used by the four groups to determine the feasibility of the project. She also asked whether his reference to the public means he is proposing that the question be put before the voters.

MR. HEINZE said the bill contains a list of 11 requirements to be addressed in the development plan. He believes the list contains the kinds of things necessary to use as a decision-making tool. Regarding feedback from the public, he believes the governor and Legislature will seek feedback from their constituents. In addition, any broad consensus shows up quickly through the media. In addition, ANGDA has considered issuing a grubstake bond certificate and offering Alaskans the opportunity to participate in the high-risk investment group. He said a recent poll conducted by a local television station revealed that 40 percent of those polled believe the gas line is the most important issue before the Legislature this session.

SENATOR LINCOLN asked how ANGDA proposes to get the approval of the Legislature.

MR. HEINZE said if Governor Murkowski and the Legislature believe this to be a very important topic, they might convene a special session. He then said the last part of his presentation involves the funding plan, which is broken into three major categories. The ANGDA category represents the cost of the Authority itself. The business contract category is comprised of contractors who will answer the business related questions regarding taxation, marketing, financing and the economics. The last category represents those contractors that would be looking at project related issues. He noted ANGDA has already spent the \$350,000 it was authorized to spend on contracts. A minimal amount of the additional \$2.15 million would go to ANGDA itself; the vast majority will be spent on contracts, primarily for engineering design. He said the contract money would be spent by June of this year. The business contractors will provide advice that is relevant to any project, any structure, and any business aspect of ANGDA. The project contracts will be a little more specific and will focus on the design aspect and the route to Valdez.

4:20 p.m.

SENATOR LINCOLN said she was just notified that Governor Murkowski will be holding a press conference tomorrow on the natural gas pipeline. She asked if that press conference is in conjunction with what ANGDA is doing.

MR. HEINZE said he knows no more than Senator Lincoln and presumes the press conference is about potential sponsors of another gas pipeline. He emphasized that ANGDA, since its

inception, has looked at ways to make its project fit with a highway project; it sees itself as compatible and not in competition with a gas line that follows the highway route.

TAPE 04-1, SIDE B

CHAIR OGAN announced that he expects to receive information from the Alaska Oil and Gas Conservation Commission (AOGCC) next week on the effect of the drawdown on gas from the Prudhoe Bay unit. He asked committee members to review that information. He then noted that Senator Elton joined the committee some time ago and asked Mr. Anderson to testify.

MR. NELS ANDERSON, Jr., thanked Senators Therriault and Wagoner for introducing SB 241 and SB 247. As a supporter of the initiative that created ANGDA, he appreciates the fact that the Legislature is following through on that initiative. He expressed confidence in Mr. Heinze's ability to move this project forward; he has diligently moved ahead despite the fact that ANGDA has not been adequately funded. ANGDA needs all of the support it can get as it presents an opportunity for all Alaskans to lower their costs of energy and it will provide jobs, especially in Bristol Bay. In addition, it will bring new revenue to the state treasury, benefiting schools and communities.

MR. PAUL FUHS, representing Backbone 2, told members that Backbone 2 is a citizen organization dedicated to the expeditious development of Alaska's North Slope gas reserves in a way that would provide maximum benefits to Alaskans. Backbone 2 is made up of past and current political leaders, union and municipal representatives and ordinary Alaskan citizens. Backbone 2 will be publishing a series of full-page ads and will be launching a website.

MR. FUHS said that Backbone 2 sees potential benefits to public ownership of the project. Almost every other jurisdiction in the world that controls its resources participates in similar projects in an ownership fashion to provide more benefits to its citizens. In Qatar, ConocoPhillips agreed to a 30 percent take while Qatar will receive 70 percent. He said it is hard to imagine that ConocoPhillips would not be willing to participate in some way with one of the states in America. Backbone 2 believes one of the main benefits of the ANGDA project is that it could actually be built. The heads of ConocoPhillips, BP and ExxonMobil have recently stated that the Canadian highway

project is not economically feasible without price subsidies. He asked members to take that into consideration when it decides whether to take the stranded gas applications seriously.

MR. FUHS said a few companies have shown that the ANGDA project could generate \$1 billion per year for Alaska, based on a 12 percent rate of return. The oil companies say that is not enough, they want a 15 to 20 percent return. He said legislators need to decide whether \$1 billion per year is enough for Alaska in its current fiscal environment. The choices, if the state cannot raise revenues through resource development, are taxes, loss of permanent funds and further reduction of government services. He said if LNG can be transported to tidewater, it could be moved around the state. At a recent presentation in Anchorage, Enstar said the last contract it signed resulted in a 14 percent increase in gas in Southcentral and that in five years it will be cheaper to import LNG from Indonesia to Cook Inlet than to buy from the producers in Cook Inlet.

MR. FUHS said it is not unusual for governments to be involved in gas projects these days. Several countries and the states of Wyoming and Georgia formed authorities similar to ANGDA to build projects that the private sector would not build, especially in the area of transportation. He said the funding for ANGDA could also help provide some of the analysis that Senator Ogan included in his bill, SB 271, in terms of potential financing for a portion of the Canadian line. He pointed out ANGDA's tax exempt status will provide a 30 percent reduction in income tax. The ANGDA initiative was written to give ANGDA the flexibility to partner with the private sector. He said he provided members with the results of Proposition 3 by election district to show how their constituents voted on the initiative. He asked members to respect the will of their constituents and support this legislation. He added that the highest wellhead price, worldwide, that Backbone 2 has been able to find is 85 cents in Trinidad so \$1.35 is outrageously high. He repeated that ANGDA's model is based on \$1.

CHAIR OGAN commented the wellhead price contracts are not public information.

MR. FUHS agreed and told members that BP complained because it had to pay too much at the wellhead for its LNG project in Trinidad so the information was published in a trade publication, which is where Backbone 2 found it.

CHAIR OGAN questioned how Backbone 2 would know that the price isn't higher elsewhere.

MR. FUHS said at the Asia Pacific Conference held in Anchorage, a few different analysts from Asia posted wellhead prices. He said it is his understanding that Mr. Heinze plans to contract with Wood-Mackenzie for information on international projects.

MR. GEORGE BRIGGS, Director of the Dillingham Chamber of Commerce, said the Dillingham business community is very concerned about the cost of energy. West coast communities experience a very high cost of energy, which translates to added expenses to citizens and high energy costs make it very difficult to attract new business. If ANGDA is funded, it can provide information about a better energy delivery system to communities. The Dillingham Chamber of Commerce supports this legislation.

CHAIR OGAN asked Mr. Griggs if Dillingham is planning to ship LNG in.

MR. BRIGGS said that would be the ultimate goal.

MR. SPUD WILLIAMS, testifying on his own behalf, told members he believes SB 241 is appropriate in that it shows BP is serious about developing the gas. He believes BP has held the gas hostage so that it would not compete while it developed fields all over the world and solidified markets in overseas markets. He noted when ARCO began talking about developing Alaska gas, it was taken out of the picture and all of a sudden ConocoPhillips became a partner in the gas fields on the North Slope. He pointed out the study ConocoPhillips did was based on natural gas only, not on natural gas liquids. That study showed a 10 percent margin, which is considerable on a project of that size and excluded a large potential profit margin from natural gas liquids. The original gas line feasibility studies from Prudhoe Bay to the coast showed that natural gas liquids and the other resources listed by Mr. Heinze, such as the petrochemical industry, in large part made the project feasible. Other governments involved in a gas line would want to strip the natural gas liquids because they know its worth.

MR. WILLIAMS indicated the petrochemical industry will provide long-term employment. He said the state must tax the gas in place so that it is a liability to the [producers] before they let that gas free.

CHAIR OGAN stated, for the record, that he told the Canadian energy minister that Canada couldn't have all of the liquids.

MR. RAY SCANDURA, representing RPC Energy Services, told members the cost of the infrastructure for a gas line is substantial and the marketability of the liquefied natural gas will be the deciding factor. Alaskans pay the highest prices for their daily energy use because Alaska is at the end of the run. This project will give Alaskans a reliable fuel supply. He believes that although the cost savings are difficult to calculate, the marketability will pay for the infrastructure and the long-term benefits to rural Alaska will be immense.

4:41 p.m.

SENATOR LINCOLN asked Deputy Commissioner Porter to respond to Mr. Heinze's comment regarding the Governor's press conference tomorrow that the ANGDA project will go hand-in-hand with a highway route gas line.

MR. STEVE PORTER, Deputy Commissioner of the Department of Revenue (DOR), said the state's position is consistent with Mr. Heinze's response. DOR believes that ANGDA can bring many benefits to the state, whether building the gas line or complementing it with a spur line or another form of support.

SENATOR LINCOLN asked Deputy Commissioner Porter if he has worked with the cost figures provided by Mr. Heinze on ANGDA's conceptual schedule.

DEPUTY COMMISSIONER PORTER said the \$200 million and \$10 billion estimates are reasonable for those stages of the project. DOR has not concluded whether \$2.5 million is necessary to fulfill ANGDA's statutory responsibility. However, DOR supports providing the Authority with the funds necessary to answer questions on this or any other project so that the state can make good decisions.

SENATOR ELTON asked Mr. Porter if he believes the role Mr. Heinze plays would cost the amount being requested from the general fund as a supplemental to the FY04 budget.

DEPUTY COMMISSIONER PORTER said DOR is currently evaluating that amount and does not have a specific amount to recommend at this time.

SENATOR ELTON stated:

Clearly, this isn't a surprise - I mean [ANGDA] began speaking months ago about the need for an additional amount of money. When do you anticipate that the administration will be done with the review to make the recommendation, whether it's less or more than the amount requested?

DEPUTY COMMISSIONER PORTER replied DOR began to work with the Authority last summer to get the additional \$200,000 to make sure that ANGDA maximizes what that money is used for. He said DOR is now moving into the next phase; it would have been helpful to have the information the Authority will collect but DOR is going to have to make some decisions prior to getting it. DOR will have to sit down, look at each element, identify the cost associated with each element and make recommendations.

SENATOR ELTON said the committee is now talking about a four-month window instead of a six-month window and noted one can make a decision by not making a decision.

CHAIR OGAN told members he does not intend to move the bill from committee today and asked Mr. Porter to let him know when the administration will have a recommendation.

SENATOR BEN STEVENS asked if the committee should expect ANGDA to ask for more money if tomorrow's press conference delivers news that would lead ANGDA to look at alternative ways to participate.

DEPUTY COMMISSIONER PORTER said DOR's goal, over the next few weeks, is to look at the plan to move forward on gas and the gas line and the associated costs in 2004 and 2005 and come to the legislature with a package, whether that is the ANGDA project or any other option. DOR needs a little time to evaluate the future of the state and make a determination on the cost.

SENATOR BEN STEVENS commented the request in SB 241 is for \$2.1 million for due diligence on the North Slope liquefaction facility, to transport and to build the ships. He asked:

But what happens if there's another proposal that comes in? Are we going to look at ANGDA doing two or three different diligence exercises or are we going to

... how are we going to interface with a proposal that comes forward? If that interface is perhaps at a lesser extent, are you going to readjust that request?

MR. HEINZE told Senator Stevens the money requested by ANGDA is to finish the charge provided for in Ballot Measure 3. That charge is very project specific. If ANGDA were asked to be the sponsor of an entirely different project, ANGDA would have to go out and contract for answers to new design questions. ANGDA has a great deal of information about the route from Prudhoe Bay to Valdez from Yukon Pacific and others, so it has been able to minimize the engineering cost. However, if ANGDA was asked to be the project sponsor and had to design a pipeline from the North Slope to the Canadian border, that would take a considerable sum of money. One group in the state has already done that; if it made that design available, ANGDA could do a good job at a low cost. ANGDA does not know what the governor is going to announce at this time. If the governor announces that another entity is going to do the design work, he would not expect ANGDA to require much, if any, additional money.

DEPUTY COMMISSIONER PORTER said he believes Senator Stevens is asking if DOR is going to require ANGDA to do additional things for other issues if the state receives other project proposals. ANGDA will comply only with that charge unless the Legislature changes that charge. The Legislature passed another piece of legislation known as the Stranded Gas Development Act. Negotiations for financial incentives with an applicant under that Act would not involve ANGDA.

SENATOR BEN STEVENS pointed out that [SB 247] does change the statute and again asked if the legislature should anticipate another funding request from ANGDA if it passes SB 247.

DEPUTY COMMISSIONER PORTER said it should. If the Legislature asks ANGDA to do more work, ANGDA would require more cash for additional contractors.

SENATOR ELTON commented that he is ready to vote for anything but he believes the problem is that this and the previous administration have talked about only one way to get this project done. He thinks the time has come for the state to give the resources to those who are thinking outside of the box, whether that is an LNG to tidewater project or pipeline builders instead of producers. He said he is tired of waiting for the producers to get this project going. He is somewhat distressed

that the [administration] does not have a response to the appropriation bill before the committee. The appropriation request comes as no surprise to anyone. He added that he believes the committee should move the legislation quickly before the four-month window becomes even shorter.

CHAIR OGAN said he concurs with some of Senator Elton's comments; he is also tired of talking about this issue and wants to see action. He announced the committee would take up SB 247.

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^#SB247

SB 247-AK NATURAL GAS DEV. AUTHORITY INITIATIVE

MS. MARY JACKSON, Staff to Senator Tom Wagoner, prime sponsor of SB 247, explained to members that SB 247 adds another route for ANGDA to review. Senator Wagoner believes it is in the public's best interest to study another route to provide points of comparison. She told members she distributed copies of a resolution unanimously passed by the Kenai Peninsula Borough Assembly that supports this legislation. Regarding the fiscal note, she discussed the legislation with Deputy Commissioner Porter and Mr. Heinze and they determined that SB 247 would cost more money. Mr. Heinze was forthcoming about the design costs involved. She asked Deputy Commissioner Porter to compare the fiscal note for SB 247 to the governor's bill and two differences were apparent. The governor's bill asks for a work plan - an outline of how to develop, which will cost less. SB 247 provides for a development plan. She said the dollar values should be available to the committee at the next hearing of the bill. She said that Senator Wagoner believes that due diligence is appropriate.

5:00 p.m.

CHAIR OGAN expressed concern that he has studied this issue for 10 years. Yukon Pacific representatives testified in the past that the route from Prudhoe Bay to Cook Inlet could not be done. He also expressed concern that Yukon Pacific spent over \$100 million on research, development and design and the committee is now discussing reinventing the wheel. He said the clock would have to start again for another environmental impact statement (EIS) and permits, and that route would run alongside Denali National Park. He speculated that the fiscal note could be huge and the project would be delayed for years.

MS. JACKSON said, according to her conversation with Mr. Porter and Mr. Heinze, the fiscal note is expected to be about \$1 million. She repeated that the issue is one of due diligence and to provide for a thorough discussion.

CHAIR OGAN said his district would benefit greatly from having the route go through it.

SENATOR WAGONER said one reason he submitted this legislation is that the Kenai Peninsula currently has the only two petrochemical manufacturing plants in Alaska that manufacture products other than fuels. Agrium manufactures urea and ammonia and Phillips manufactures LNG. He believes it is well worth the state's while to look at an expansion of this nature given the supply problems those two manufacturers have. He added:

It doesn't have to be gas in Cook Inlet Basin in the Kenai, just gas supplies coming into and gridding into the system that serves the Mat Valley - Wasilla, your area and Anchorage, would alleviate the demand on the gas that is currently being produced on the Peninsula and being shipped to Anchorage on both the west side and from the Cook Inlet. There's currently pipeline capacity that runs to Anchorage - there's two pipelines. Their total capacity is a little over 200 mcf per day and, the other side coming across the Inlet, if it could be put together, there could be another 100, 150 mcf. So, the capacity is there to bring that gas down if needed on the Peninsula or we could stop pushing the gas through the lines up into Anchorage by bringing a supply from the Slope to Anchorage. That's one of the main reasons.

The other reason is, like I said, maybe the LNG plant won't be feasible. Maybe the LNG project won't be feasible and the one thing you have to understand, while LNG is a very desirable fuel, LNG does not produce a large amount of jobs and a large payroll for Alaska.

To just give you a cost benefit of wages, the Agrium plant throughput on the Kenai Peninsula is less than that throughput for the gas that feeds the LNG plant there. The LNG plant, including the platform, which produces their gas, employs close to 50 people. Agrium employs 250. So the value really in this gas, when you

start manufacturing with this gas, is with the jobs produced so if we bring that gas down there and supplement what they're getting now for Agrium and they can run at full capacity again, that holds those jobs in place. If we develop somewhere along that system a method to use the liquids to provide feedstock for the plastics industry, that also would be much more labor intensive in those plants than an LNG plant. So I think we should look at all aspects. That's why I did the bill. I think the people of Alaska should demand that we broaden the scope of the project.

CHAIR OGAN said he finds the Kenai Peninsula Borough Assembly's policy to be inconsistent given it has passed a resolution asking for the buy back of other gas uses.

SENATOR WAGONER suggested asking the Assembly to explain next week.

SENATOR SEEKINS said his understanding of the intent of SB 247 is to try to find a market for gas that can be sold for a profit for the citizens. He said to make a profit, one not only has to have a product, but also a willing buyer. He said in the near future there would be a market for natural gas in the Anchorage Bowl. If the state can meet that market by selling a resource that belongs to the people of Alaska at a profit, he supports that. He has never believed the state needs to support one project over another. He informed members he was a member of the Governor's North Slope Natural Gas Economic Advisory Committee under Governors Hickel and Egan, which was when the state began talking about trying to find a market for the gas and gas liquids. At that time he was told the gas liquids could fuel five world-class petrochemical facilities. He said he is looking to find the value - where the gas can be sold soon for its worth for the long run. He asked if he is correct in assuming the liquid markets and the ANGDA project would be looking at the same markets.

SENATOR WAGONER said he does not believe [ANGDA] has gone that far into the project since it has only talked about LNG production. He does not believe it has looked at markets or what it would do with the liquids.

TAPE 04-2, SIDE A

SENATOR WAGONER continued that there are a lot of liquids and a lot of potential, which would be accompanied by jobs and increase the economic base.

MR. HEINZE said that ANGDA's board hasn't taken a position on SB 247, partially because ANGDA's project brings gas into the Cook Inlet area and would be dealing with industrial, commercial and residential uses as well as power generation. He said it is very important to the Authority that gas is brought in via the spur line that has been specified in the initiative, from Glennallen to the Cook Inlet area. That reference is found not only in the benefit analysis but also in the schedule and the funding request. Additionally, sufficient feedback regarding the route from Fairbanks to the Cook Inlet area indicates there will be difficulties. He added that the hardest situation from a project management perspective is when one is faced with several difficult choices, and one has to choose "the least worst."

MR. HEINZE continued that at least one company, or a group of companies, has invested millions of dollars in studying the direct route to Cook Inlet, and that information is not available to the public. He said that gaining access to that information is one of the first things he would do. That company also operates the LNG plant and he said he has asked for cooperation in the past but has not received it, and therefore it's difficult for him to get excited about "working their problem."

SENATOR ELTON asked what amount of money would be required if ANGDA's statutory authority is expanded. He said a precise answer would be helpful when the bill is due for passage.

5:11 p.m.

CHAIR OGAN said that an analysis of the regulatory hurdles and inclusion of the approximate timelines would be helpful.

MS. JACKSON if Chair Ogan was requesting information for both SB 247 and SB 241.

CHAIR OGAN responded that work had been done from the North Slope to Fairbanks but he questioned how long it would take to get an EIS and the necessary permits, and what the approximate timelines would be to continue on from Fairbanks.

MR. NELS ANDERSON, JR. testified from Dillingham via teleconference and said that SB 247 makes sense if it doesn't delay moving SB 241 as quickly as possible. If the Authority has the available money, then the needs of Cook Inlet can be considered. He said, "It's been said before that the oil and gas companies have been holding 35 trillion cubic feet of gas hostage up there in the North Slope, and we've just got to get it moving." The \$250 million that the Authority needs would help to answer a lot of the questions that have been asked. He said as a supporter of the initiative and of ANGDA, it is imperative that SB 241 be enacted.

MR. HEINZE said he would contract out the additional work that this would place on ANGDA. The additional considerations of an alternate route, in terms of the business question, would not add to the cost, but clearly, design considerations would cost additional money. He said, "Don't give me any unfunded allocations or initiatives in this case. If you want me to do something, I'd be very happy to do it, but give me the resources to do it with at the same time."

MR. SCOTT HEYWORTH, speaking on his own behalf, testified via teleconference from Anchorage and provided the following testimony:

If Senator Wagoner's SB 247 to amend ANGDA law passed, ANGDA would be burdened with an impossible situation. And all of this diversion is going against the law voters passed approving the Valdez route - not the one to Kenai. Yukon Pacific Corporation [YPC] started with the Kenai route. It was rejected. A Kenai routing can never be permitted. And it would only delay us forever.

I had an expert, maybe one of the best in Alaska, even the United States, do a complete review of the YPC SEIS. The SEIS is bullet proof, impossible to overturn, it would take from 5-10 years to even get to a new EIS ruling, but you cannot possibly get past the Congressional approval part. Then and only then can you start the permitting process - another 10 years - total of a 20-year delay - plus the environmental lawsuits.

There are two main reasons it will never fly: 1) It is physically impossible to use the railroad right-of-

way for a gas pipeline because of the physical limitations of avalanches, geo-technical, and sloping problems. For instance, the Alaska Railroad is just cut right into the sloped banks of hillsides in places - it leaves no room on either side for the siting of a pipeline. And, 2) To date, since 1980, no one has even tried to get a right-of-way through the ANILCA, Title 11 statute/law. No one even knows how you go about it. And if you can't use the ARRC right-of-way, which you can't, you MUST then get a congressional vote to go through Denali Park in some new right-of-way alignment - which Congress will never ever allow per the existing EIS law. We can't get ANWR through folks, and somebody wants Congress to put a gas line through Denali Park? It's not going to happen.

This is directly stated out of the EIS: 'All three Cook Inlet alternatives are considered to be highly unfavorable due to the project time delays that would be involved in any attempt to secure congressional approval when the proposed route to Anderson Bay would avoid the Denali National Park entirely,' the EIS said because this route to Anderson Bay [indisc.] far less likely to meet with permitting delays. And that's absolutely true because it took YPC 14 years to get this permit...to sum it up, this delay would be 20 years or longer and we can't wait any longer and we have a permitting project, and, as Mr. Heinze explained to you, we have all the infrastructure and with the spur line, to get all the gas Kenai will ever need.

I'll sum it up here. Kenai will get gas quickly with the existing infrastructure Enstar has, if we just build a 140-mile spur line from Glennallen to Palmer. This spur line from Glennallen comes after the main line is built, is made economical by the huge revenues from the main line going into LNG exportation from Valdez. It's called economies of scale. The spur line then hooks into the existing Enstar infrastructure that Senator Wagoner referred to earlier that goes right into Kenai today. Using the 2 twin gas lines - 12 inch and 16 inch - you can push gas right into Kenai using the Enstar system by simply reversing the flow of direction. Enstar has confirmed this for us in front of ANGDA.

When we expect capacity from 2.2 feet per day to 3.0 the extra 800 million cubic feet per day can go down to spur to Southcentral and into Agrium and Nikiski. Our studies show potential cheap new gas under \$3.00 delivered. New Cook Inlet gas is coming into the basket today at over \$4.00, per Tony Izzo from Enstar, who testified here. Kenai will then have all the cheapest, plentiful gas it wants. And all of Southcentral gets very cheap gas forever with ANGDA. So please, I just bring to your attention that the EIS [indisc.] will take 10 or 20 years to have a permitted project. We're going to help Kenai. Kenai can expand the LNG plant, they can expand ANGDA. But Alaska cannot wait 10 or 20 more years.

SENATOR WAGONER asked if a spur line could be built to the Cook Inlet without a 20-year delay, why a larger line couldn't be built over the same terrain without delay.

MR. HEYWORTH responded that it would be impossible to obtain Kenai's export permit; the permit has already been issued to the highway project and to the LNG project down to Valdez. He stated that the amount of gas off the slope has already been allocated to those two projects and permitting a third export project won't happen.

SENATOR WAGONER said, "We already have permits to export product."

MR. HEYWORTH replied that there is not license to export 2.2 bcf, to date.

SENATOR SEEKINS said that having flown through Windy Pass hundreds of times in his own aircraft and knowing the lay of the land, he asked if, by following the power line route from Healy to Cantwell, the challenge of the Denali Park area could be bypassed.

CHAIR OGAN remarked that there would be time for this debate later.

SENATOR WAGONER asked if Mr. Heyworth was speaking for himself, ANGDA, or for Yukon Pacific [Corporation].

MR. HEYWORTH responded that he was speaking for himself. He explained that his knowledge of the EIS and the permitting process was thorough and that he didn't write the initiative because he knew the spur line to Kenai wouldn't be permitted and because the large time delay of 5, 10, or 15 years didn't make sense to him.

CHAIR OGAN asked if there was any further testimony. Hearing none, he thanked committee members and adjourned the Senate Resources Standing Committee meeting at 5:25 p.m.

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