

**ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE**

January 28, 2004

3:35 p.m.

TAPE(S) 04-4

MEMBERS PRESENT

Senator Scott Ogan, Chair
Senator Fred Dyson
Senator Ralph Seekins
Senator Ben Stevens
Senator Kim Elton

MEMBERS ABSENT

Senator Thomas Wagoner, Vice Chair
Senator Georgianna Lincoln

COMMITTEE CALENDAR

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

SENATE BILL NO. 241

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

MOVED SB 241 OUT OF COMMITTEE

SENATE BILL NO. 264

"An Act repealing the time limitation on the authority of the Department of Natural Resources to enter into agreements with a person or persons desiring to own an oil or natural gas pipeline proposed to be located on state land for the purposes of providing for payment of the reasonable costs incurred in preparing for activities before receipt of an application under the Alaska Right-of-Way Leasing Act; and providing for an effective date."

MOVED SB 264 OUT OF COMMITTEE

PREVIOUS COMMITTEE ACTION

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
01/21/04 (S) Heard & Held
01/21/04 (S) MINUTE(RES)
01/28/04 (S) RES AT 3:30 PM BUTROVICH 205

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
01/21/04 (S) Heard & Held
01/21/04 (S) MINUTE(RES)
01/28/04 (S) RES AT 3:30 PM BUTROVICH 205

BILL: SB 264

SHORT TITLE: REPEAL PIPELINE PREAPPLICATION DEADLINE

SENATOR(S): RULES BY REQUEST OF THE GOVERNOR

01/14/04 (S) READ THE FIRST TIME - REFERRALS
01/14/04 (S) RES
01/28/04 (S) RES AT 3:30 PM BUTROVICH 205

WITNESS REGISTER

Mr. Bill Popp
Oil and Gas Liaison
Kenai Peninsula Borough
43335 Kalifornsky Beach Road, Suite 16
Soldotna AK 99669

POSITION STATEMENT: Supported SB 247.

Mr. Harold Heinze, CEO
Alaska Natural Gas Development Authority
Department of Revenue
PO Box 110400
Juneau, AK 99811-0400

POSITION STATEMENT: Supported SB 241

Ms. Marty Rutherford, Deputy Commissioner
Department of Natural Resources
400 Willoughby Ave.
Juneau, AK 99801-1724

POSITION STATEMENT: Supported SB 264.

ACTION NARRATIVE

TAPE 04-4, SIDE A

^#SB247

SB 247-AK NATURAL GAS DEV. AUTHORITY INITIATIVE

CHAIR SCOTT OGAN called the Senate Resources Standing Committee meeting to order at 3:35 p.m. Present were Senators Stevens, Seekins, Dyson, Elton and Chair Ogan. Senators Wagoner and Lincoln were excused. The first order of business to come before the committee was SB 247, sponsored by Senator Wagoner and discussed the previous week.

MR. BILL POPP, Oil and Gas Liaison, Kenai Peninsula Borough, supported SB 247 and said, "We believe there should be a component of due diligence in the process if the Alaska Natural Gas Development Authority Project does, in fact, go forward."

He explained the Cook Inlet Basin accounts for 85 percent of the power generated from natural gas within the Railbelt grid, but proven reserves are estimated to be enough for a 10-year supply. Additional potential reserves are questionable in terms of bringing them to market at this point. The Borough feels that Cook Inlet should be a component of any project, at least during the analysis, to see if that route offers any economies of sale that reduce the overall project cost "... because that's what this project will be all about...."

CHAIR OGAN asked why the Assembly passed a resolution supporting a buyback of gas leases in the Kenai Peninsula when everyone knows about the gas reserves problem. Supporting SB 247 is inconsistent with that position.

MR. POPP replied that a split vote of the Assembly requested buyback of 22,000 acres of state leased properties below Anchor Point in the Homer Bench area. The mayor chose not to veto the resolution and let it go forward based on the fact that there are other ways to resolve the issue. Whether the buyback happens

is another policy that state government would have to make. The administration strongly supports new development of gas resources in the Kenai Peninsula Borough wherever they may be and the south peninsula is a key area.

SENATOR SEEKINS said he was confused by that vote as well and he still isn't clear about what the Kenai Borough Assembly wants the legislature to do. He asked if a spur line from Glennallen to the Southcentral gas distribution grid (page 1, lines 7 - 8) would satisfy demand on the Kenai Peninsula for both residential and commercial uses considering the current decline in existing fields.

MR. POPP replied that the answer is complex and the spur line in the greater scheme of Proposition 3 is a sideshow. The \$12 billion estimate is strictly for the line from the North Slope to Valdez. No cost analysis has been done on the 160 - 190 mile spur line from Glennallen to the Cook Inlet Basin. If the construction from the North Slope to Valdez is successfully completed in 5 to 7 years and on budget, the spur line may be another 2 to 4 years behind that, because of the issues of manpower and simultaneous construction. He did not know what need would be left by the time the spur line was completed.

The Kenai Borough already has an industrial base that relies on plentiful supplies of natural gas, which is now over 120 BCF annually (between the Agrium nitrogen plant and the LNG export plant). Also, eliminating hundreds of miles of pipe would drop the cost of the project. Expanding an existing LNG plant, which can be done according to Conoco Phillips would eliminate the need for a new plant completely. Use of existing capacity, dock and support facilities and workforce can also reduce a project's cost. That's why the borough thinks this route should be looked at before a final route is chosen.

SENATOR SEEKINS related that Senator Wagoner had graphically explained to the committee how, eventually, demand for residential gas in the Anchorage Bowl would bring the supply for commercial prospects to zero without some additional gas supply. He asked Mr. Popp if he agreed.

MR. POPP replied that a pattern of growth is taking place in the gas heating utility market that is showing that market will be taking a bigger and bigger bite out of the overall supply situation within the Cook Inlet Basin. High demand days will necessitate utilities shutting down supplies.

That's becoming more and more pronounced with each passing year with our current deliverability and supply situation in the Cook Inlet Basin.

The ongoing exploration activities will not solve problems for the 15 - 25 year horizon and longer term supply needs will have to be found elsewhere.

SENATOR ELTON said this committee has talked about funding for ANGDA and Chair Ogan's bill, which expands the scope of ANGDA to the highway route and pushes back the date for the report by six months to January 1, 2005. He said although that proposal makes sense, the appropriation is for \$2.15 million to accomplish the existing scope of work. He asked if the scope is expanded and the fiscal note as well, would the borough consider providing matching funds.

MR. POPP replied that he would have to ask the Assembly and Mayor. He noted that between \$12 million and \$14 million worth of industry research has been performed on the route that is being added. It is available - as is the Yukon Pacific research - for a price, probably commensurate with the amount previously spent. If \$2.15 million is sufficient to gain access to Yukon Pacific's research about the key pieces the Valdez route requires, he thought a proportional amount may be required for the research generated by the previous pipeline task force. The task force's research was based on the premise that industry could not do it at a reasonable rate of return.

CHAIR OGAN recalled that over \$100 million was spent for design and permitting, and expressed concern that a route change will require a new EIS, engineering studies and permits. He didn't know why BP decided that route wasn't feasible and said, although he would love to see it happen, he didn't really feel that it would.

MR. POPP understood his concerns and added that any number of permits are still outstanding for the Valdez terminus, itself. Seven hundred million metric tons of rock must be removed to create a flat site and a barge operation must be permitted. Industry officials indicated that they believe the Railbelt route is permittable. Probably an EIS would have to be done, but that issue would arise with the Valdez terminus, as well. Those issues must be balanced and a fair comparison of routes should be made.

CHAIR OGAN asked if Agrium and the LNG plant currently use 60 BCF each per year.

MR. POPP replied that those are round numbers; the LNG plant uses approximately 70 BCF per year depending on temperature conditions and other variables. At peak efficiency and full capacity, Agrium could use 55 BCF per year.

CHAIR OGAN said the Valdez proposal is for about 530 BCF per year for LNG. He asked if a new plant to process that much more gas would have to be built.

MR. POPP replied that the existing plant is operating at capacity now, but the existing footprint and dock facilities can be expanded for larger capacity without the removal of anything but trees and overburden. If a new plant is necessary, a number of sites within the Cook Inlet Basin are readily buildable.

SENATOR SEEKINS asked if the Valdez line were built, whether the Anchorage Bowl would depend on the deliquification plant from Valdez for natural gas?

MR. POPP replied that is a good question. The industrial base would be the first to go, because home utilities would take priority over industrial uses. Hundreds of jobs would be lost. Gas could be imported to Anchorage, maybe even from a foreign source.

CHAIR OGAN asked Mr. Popp to relay to the Assembly his and Senator Seekins' concerns about its mixed messages. Legislators want a consistent message for or against gas development.

MR. POPP said that the Assembly might be entertaining the Chinese national gas buyer who is coming to Alaska in a couple of weeks along with the vice president of the Korean National Gas Company.

CHAIR OGAN thanked him for his testimony and held SB 247 for further work.

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4:02 - 4:04 p.m. - at ease

^#SB241

SB 241-APPROP: NATURAL GAS DEVELOPMENT AUTHORITY

CHAIR SCOTT OGAN announced SB 241 to be up for consideration.

MR. HAROLD HEINZE, CEO, Alaska Natural Gas Development Authority (ANGDA), emphasized the importance of timing right now in terms of finishing the charge that is provided under ballot measure 3. About four months are left in ANGDA timeline. His motives for finishing on time have to do with the law and with the LNG market, which is evolving dramatically. He explained:

If we're going to play, if we're going to have a chance, we have to decide to make some movement and to show that the project has legs.... The study in June will provide those legs, if they are there, and then you can look at it and make whatever judgments you want as to whether we proceed or not. Remember, the funding here is the funding to finish that. The rest of the...funding would come from the financial markets, not from the State of Alaska....If the project is viable, we believe we can raise the money.

We are at a crucial point. Very frankly, if we don't have funding in a matter of weeks here, our ability to execute a quality feasibility study for you is greatly diminished. We're up against the wall now in terms of getting all this work done....

CHAIR SCOTT OGAN said he had worked for a gas producer and usually gas is sold by entering into a memorandum of understanding (MOU) or something similar. He asked Mr. Heinze how he saw ANGDA's role in the marketplace.

MR. HEINZE replied that he has finessed ANGDA's approach to the producers as commercial and knows he can make a deal with them. If there is an economically viable transportation project, he believes they would want to ship gas on it.

The first thing he would do following a determination of feasibility is go to the open season type process where one offers up the transportation capability. People who are interested in it come forward. The two recent stranded gas applications promise the exact same kind of treatment as a very early step. It is anticipated that all three gas companies would come forward with the stranded gas applications, but just one company coming would make sufficient economics to make its project work. If no one came forward during the open season, he would offer to buy the producer's gas or work to have a downstream market buy it.

CHAIR OGAN asked if the Authority would be the transporter of the gas and noted that trucking companies usually don't buy something to sell down the line. He asked who buys and who sells under his scenario.

MR. HEINZE replied that the ballot measure gave ANGDA broad authority, but ideally the state would provide only a portion of the transportation or maybe just the liquefaction plant. "We were given a mission to help the project."

The Authority is having conversations with various down-stream companies and hopes to continue them. On the up-stream side, the producers have said that they would consider an offer to buy their gas and have also said they would consider shipping it. In fact, that would be their preference. He is not concerned about whether they do it, but when they do it. He hadn't seen anything from the producers' side that accelerated the timeline.

CHAIR OGAN noted that the language under "Powers of the Authority" said "acquire natural gas supply" and asked him where ANGDA would get the money.

MR. HEINZE replied that it is fairly normal in these types of projects to enter into a whole series of interlinking contracts with terms and contingencies; everything falls into place at once.

SENATOR ELTON said he is frustrated about not getting anything [in terms of the \$2.15 million general fund appropriation from the Department of Revenue in SB 241] and asked if removing "ANGDA" would mitigate some of the reluctance DOR has to support the request.

MR. HEINZE replied that is a constructive suggestion, but his main concern is that one of the unique abilities the Authority brings to the project is its tax-exempt status. He suggested that putting the governor and his chief of staff in control of the organization might neutralize that status.

SENATOR ELTON recapped that Mr. Heinze said time is of the essence and asked if having another six months to accomplish the job instead of three would take some of the pressure off ANGDA and assure a better quality product.

MR. HEINZE replied that he didn't want to speak for the board, but its members have presented themselves clearly. They would prefer to have an answer now, even if it's the one they don't

want to hear. Second, the Authority has a broad role to play and feel it would be best to fulfill its current mission by June so that it could become an effective force in whatever considerations of the other routes. He advised:

If we don't look at the LNG route through Valdez, nobody else will and we'll never know if it offered Alaska benefits that far exceeded the benefits of any other project. This is the one time to look at it; the one and only shot at it. And if we don't look, we'll never know. If we wait until next year or the year after to look and let the timing be driven by the highway project, I think we will have lost the opportunity for the LNG project to be meaningful in that regard. There may be some things in the Authority's structure that would fit happily with the choice that's been made and the choice will have been made to go down the Highway....

SENATOR ELTON asked if he plans to do a bifurcated report - one in June and then a supplemental report on a highway route six months later.

MR. HEINZE replied that it is his intention to meet the statutory requirement. If [the Legislature and governor] are undecided about whether to pursue the project by the middle of the year, they might as well concede the LNG marketplace for an extended period of time. Many valuable pieces of information will be contained in the report that the Legislature may want in front of it as it considers the Stranded Gas Act applications.

SENATOR ELTON said he is sympathetic to ANGDA's request and wanted to know why the administration wasn't responding.

CHAIR OGAN inserted that he should ask the administration.

SENATOR ELTON retorted that he had, but had received no answer.

SENATOR SEEKINS asked if ANGDA had had any conversations with the producers to date as to whether or not they would ship their gas on a pipeline if it existed and was a state-owned asset.

MR. HEINZE responded that the producers had been asked that question numerous times and have responded in the affirmative. He has been reluctant to have that conversation with them formally, because the Authority has not determined the

feasibility of the project and wants to be fairly certain the answer would be yes.

SENATOR SEEKINS asked if ANGDA could at some point sell futures to pay for construction of the line.

MR. HEINZE replied that the gas is available - about 8 bcf per day. The only speculation would be on the cost of transport and whether there is a market down-stream. Then ANGDA could borrow money.

TAPE 04-4, SIDE B

4:30 p.m.

SENATOR SEEKINS asked if he would view a legislative decision to not fund ANGDA's request now to be the will of the Legislature to not proceed with the initiative's mandate.

MR. HEINIZE replied that he would rather hear right now if that is the Legislature's decision. Members of the Authority could move on, but he thought it would be a big disappointment for the state.

You would have lost a look down a project that may hold some very interesting benefits for Alaska that you'll never realize any other way....You will have lost an opportunity to look at some interactions with another project that could represent how the states contribute towards it with federal money rather than state money....Very frankly, those benefits are pretty considerable....

In June, I am not going to have spent or done the work that the producers did with \$100 million. What I would ask you to think about is how much of the \$100 million do you know about. What do you know? I will suggest in June; I will give probably 10 to 100 times more information than they are going to give you. That might be worth something to you right there to just have the insights as to how these projects work, how it interrelates and all those other things.

CHAIR OGAN commented that the charge of the committee is not to necessarily see how the project fits in with all the other finances, but whether it is necessary for the good of the people

and commercializing gas. He noted there were no further comments.

SENATOR SEEKINS moved to pass SB 241 from committee with individual recommendations. There were no objections and it was so ordered.

SENATOR ELTON suggested that the Chair send a message to the Finance Committee about Mr. Heinze's concern with timeliness.

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4:30 - 4:32 p.m. - at ease

^#SB264

SB 264-REPEAL PIPELINE PREAPPLICATION DEADLINE

CHAIR SCOTT OGAN announced SB 264 to be up for consideration.

MS. MARTY RUTHERFORD, Deputy Commissioner, Department of Natural Resources (DNR), said the purpose of this bill is to repeal the sunset date in AS 38.35.145(c), the statute that allows DNR to enter into agreements with perspective lessees to recover the cost for preliminary work on a pipeline right-of-way lease application. That provision ended on December 31, 2003. She explained:

As a little background, Mr. Chairman, pipeline right-of-way lease applicants must submit very detailed applications that require a lot of engineering and design work. To do that, applicants expend a great deal of resources - just to complete that application. The applicants have found and told us that it's very useful to have agencies involved in the pre-application so that they are aware of both permitting issues at an early stage and detailed information that we can provide them prior to getting their application complete. We've also found that agency participation during the pre-application phase expedites the review and approval of the project ultimately.

This ability to enter into reimbursement agreements has been used most recently for pre-application work on the Pt. Thompson project before that project was delayed and the Kenai Kachemak pipeline extension. It might be useful for you to hear some of the types of assistance provided at this stage. They include such things as identification and explanation of applicable state law and the regulatory requirements as well as

an explanation of the regulatory process, identification of land ownership, not only state, but federal and private. That affects who an applicant must deal with to complete a pipeline right-of-way lease. Another thing would be an identification of any restrictions that exist on affected state lands which might interfere with our authorizing a right-of-way lease or hinder an applicant's ability to begin construction. These things might include a third-party interest such as a utility right-of-way or outside influences such as archeological sights. We also identify potential environmental issues such as difficult stream crossings. Our assistance could include reaching out to other affected parties. We have done that in the past to help an applicant with entities such as utilities that do have the right-of-way or other landowners or even competing applicants for the same right-of-way. We help an applicant to understand the other party's interest and to help resolve those conflicts.

Our assistance can be with helping an applicant to develop an initial project application and perhaps one of the most important aspects for a large project - our ability to enter into reimbursement agreement for the pre-application work allows us to staff up in a timely fashion. So when an application does come in the door, we can move the project through quickly.

MS. RUTHERFORD said the pre-application work is completely applicant initiated. Without this legislation, DNR is not able to work with the applicants until receiving an application. The fiscal impact of passing this is zero, but the impact of not passing it is significant. Without it, they can't enter into a reimbursable service agreement and don't have any general funds available to provide this type of assistance.

CHAIR OGAN asked when this bill was originally passed and about the discussion of the sunset date in 2003.

MS. RUTHERFORD replied that she thought it was passed in 2000 and she couldn't find out why the sunset date was added.

SENATOR SEEKINS moved to pass SB 264 from committee with zero fiscal note and individual recommendations. There were no objections and it was so ordered.

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CHAIR OGAN adjourned the meeting at 4:37 p.m.