

**ALASKA STATE LEGISLATURE**  
**SENATE TRANSPORTATION STANDING COMMITTEE**

April 15, 2004

1:40 p.m.

**TAPE(S) 04-17**

**MEMBERS PRESENT**

Senator John Cowdery, Co-Chair  
Senator Thomas Wagoner, Co-Chair  
Senator Gene Therriault  
Senator Georgianna Lincoln  
Senator Donny Olson

**MEMBERS ABSENT**

All members present

**COMMITTEE CALENDAR**

SENATE BILL NO. 384

"An Act relating to a natural gas pipeline with a terminus at the Cook Inlet Basin."

HEARD AND HELD

**PREVIOUS COMMITTEE ACTION**

BILL: SB 384

SHORT TITLE: ROUTE OF NAT GAS PIPELINE FUNDED BY RR

SPONSOR(S): TRANSPORTATION

03/31/04	(S)	READ THE FIRST TIME - REFERRALS
03/31/04	(S)	L&C, FIN
04/06/04	(S)	TRA REFERRAL ADDED BEFORE L&C
04/15/04	(S)	TRA AT 1:30 PM BUTROVICH 205

**WITNESS REGISTER**

MS. MARY JACKSON  
Staff to Senator Wagoner  
Alaska State Capitol  
Juneau, AK 99801-1182

**POSITION STATEMENT:** Presented the sponsor statement for SB 384 on behalf of the sponsor.

MR. MICHAEL HURLEY  
Senior Commercial Analyst  
ConocoPhillips Alaska

**POSITION STATEMENT:** Testified there was no opposition to SB 384.

MS. WENDY LINDSKOOG  
Director of External Affairs  
Alaska Railroad Corporation (ARRC)  
PO Box 107500  
Anchorage, AK 99510-7500

**POSITION STATEMENT:** Answered questions pertaining to SB 384.

MR. BILL POPP  
Oil and Gas Liaison  
Kenai Peninsula Borough

**POSITION STATEMENT:** Supports the CS to SB 384.

MR. ROBERT VALDATTA  
Stranded Gas Committee  
Seward, Alaska

**POSITION STATEMENT:** Testified on SB 384, expressing the desire to bring additional natural gas to the Kenai.

MR. TOM BROOKS  
Chief Engineer  
Alaska Railroad Corporation (ARRC)  
PO Box 107500  
Anchorage, AK 99510-7500

**POSITION STATEMENT:** Regarding SB 384, offered a brief overview of the Railroad's right-of-way.

MR. HAROLD HEINZE  
Alaska Natural Gas Development Authority (ANGDA)  
Anchorage, Alaska

**POSITION STATEMENT:** Testified on SB 384, emphasizing the importance of getting gas to the Cook Inlet area.

#### **ACTION NARRATIVE**

#### **TAPE 04-17, SIDE A**

**CO-CHAIR THOMAS WAGONER** called the Senate Transportation Standing Committee meeting to order at 1:40 p.m. Present at the call to order were Senators Lincoln, Olson, Co-Chair Cowdery and Co-Chair Wagoner. Senator Therriault arrived while the meeting was in progress.

^#SB384

**SB 384-ROUTE OF NAT GAS PIPELINE FUNDED BY RR**

The committee took up SB 384.

MS. MARY JACKSON, staff to Senator Wagoner, presented the sponsor statement. She testified that there are two mechanisms that have been discussed this session for funding a gas pipeline: Stranded Gas Act and ANGDA. A third method is bonding through the Alaska Railroad Corporation (ARRC). Last year HB 267 passed and authorized the ARRC to issue bonds for a natural gas pipeline from the North Slope. The authority was for a maximum of \$17 billion. It was loosely constructed so there was no limitation on the number or timing of the issuances. The ARRC was given the authority to negotiate with the producers with one or more entities as they saw fit. Co-Chair Wagoner spoke with the CEO of ARRC about that authority and the possibility of constructing a gas line to the Cook Inlet Basin. The result of that conversation is SB 384. The bill amends the language that was approved last year to specifically reference the route to the Cook Inlet Basin. The purpose of specifying that route is to focus on the need for natural gas to the Cook Inlet Basin. The Cook Inlet Basin serves the majority of the residents in Alaska, and they need gas for home consumption. The electrical utilities and the petrochemical industries in the Basin need the natural gas.

CO-CHAIR COWDERY moved to adopt the CS for SB 384 [labeled 23-LS1847\H, Cook, 4/7/04] as the working document for purposes of discussion.

CO-CHAIR WAGONER asked if there was any objection. There being none, it was so ordered.

MS. JACKSON acknowledged the intent was not to spend \$17 billion on one pipeline route, but rather that one of the routes should be in place at some point, within the bonds approved by the Railroad Authority to serve the Cook Inlet Basin. Regarding the question as to whether or not a route to the Cook Inlet is a reasonable consideration, she referred to a map from over 10 years ago, Denali Pipeline's route from the North Pole to the Cook Inlet Basin for a [product line]. She emphasized that the route is possible, "It's there," she said.

CO-CHAIR COWDERY referred to the new language in the CS, lines [9 - 11], "except that a portion of the pipeline must follow the

Alaska Railroad right-of-way from the City of Fairbanks to the pipeline terminus at the Cook Inlet Basin." He asked about the Railroad's right-of-way.

MS. JACKSON said she had the same question; the terminus is where the pipeline connects to the existing pipeline.

CO-CHAIR WAGONER said the terminus is in the "Mat Valley" and would be where the 20-inch line comes over from Beluga - where those two would intersect with the Railroad - one could tie in there, back-feed gas back into Cook Inlet, or on through the system.

CO-CHAIR COWDERY suggested the need for further clarification.

SENATOR GEORGIANNA LINCOLN asked if the map [in the committee room] was the same as that included in the committee packet.

MS. JACKSON said the maps were similar. She referred to both maps and pointed out Alaska Railroad's rights-of-way, the joint pipeline from the North Slope.

SENATOR LINCOLN referred to the larger map and asked where the right-of-way for the Railroad and the right-of-way for the pipeline were located.

CO-CHAIR WAGONER responded that currently, there is no pipeline right-of-way, but there is a Railroad right-of-way and also an inter-tide right-of-way for the power line that runs from the Mat Valley to Healy.

MS. JACKSON pointed to the black line on the map, the terminus to the Cook Inlet Basin; that is the existing pipeline going to the Cook Inlet.

CO-CHAIR COWDERY asked about the existing truck line and pipeline.

CO-CHAIR WAGONER responded that the existing pipeline comes from the Beluga gas field and intersects with the 20-inch line. "You can feed back through the Beluga area over into the North Kenai area. Or you can feed around this way into the Anchorage Basin. From Anchorage there are two gas lines that Enstar has that come down towards Sterling and over. It makes a full loop, is what it does, after it intersects with that 20-inch line. But that's in the future." Basically, it is possible to run a spur line from the Fairbanks, North Pole area to Anchorage. He noted that

it's been stated on the public record several times by one or two individuals that it's impossible, but said, "If you look at this map real close, the power line does not go through the Healy Canyon where the Railroad has all the trouble with the Shale slide. It bypasses it. And therefore it eliminates the problem of going through the national park. Because you can bypass the national park quite easily. It's already been done. It is a very feasible route." It's close to the same number of miles if there is a spur line - if the natural gas line did run to the border and then into Canada - it's about the same number of miles as it would be to run the spur line from Delta to Glennallen and around. It would probably have fewer problems with the EIS and permitting because rights-of-way have already been permitted for utility lines and there is the Railroad right-of-way to work with, he explained.

CO-CHAIR WAGONER added that Gary Hartley (ph), who lives in Salt Lake City, was a sub-contractor for Tesoro Oil when Associated Pipeline Contractors designed this pipeline (he pointed to a full package of the design). This pipeline was designed 10 years ago when the companies of Tesoro and Williams were involved in joint discussions of shipping the product between the refinery in North Pole and the refinery in Nikiski because of Williams's limited ability to process a certain portion of the crude that ran through the plant. Tesoro had a more refined process and was going to bring that product down and ship back the other product in the Kenai. That didn't come about, but it shows that it is very possible to put a line into that corridor. They've already pre-engineered and designed it, he stated.

SENATOR GENE THERRIAULT read the new language, "except that a portion of the pipeline must follow ..." referred to the smaller map, and asked about the gold colored [line].

CO-CHAIR WAGONER explained this shows the current line as proposed by ANGDA into Valdez. The red line to the west is the spur line into Cook Inlet Basin. This map shows the different routes, although it doesn't have the route to the border.

SENATOR THERRIAULT asked if any of these routes would be available.

CO-CHAIR WAGONER replied yes.

MS. JACKSON pointed out that the black, yellow, and maroon lines are currently ANGDA-authorized. The red line is not authorized.

SENATOR LINCOLN asked about the bridge, and questioned if this would interfere with the proposed Knik Arm Bridge.

CO-CHAIR WAGONER said no, that there's a 20-inch pipeline, a high-powered pressured line that's already in place that comes around. It starts from the south. There's a line that comes from Beluga.

SENATOR LINCOLN asked about the fiscal note.

MS. JACKSON said she had spoken with Steve Porter about the fiscal note. She pointed out that this is an amendment to a measure that was passed last year that had a fiscal note; she had copies of the bill and the fiscal note from last year.

SENATOR LINCOLN asked if that bill had passed.

MS. JACKSON said yes.

SENATOR LINCOLN asked if that would be sufficient to cover the additional spur.

MS. JACKSON said she didn't know but suggested that the measure that passed - and this could be debated - was all-encompassing. The bill authorizes the issuances of up to \$17 million in revenue bonds to pay for 70 percent of the construction based upon current estimates. The Railroad would bear no liability, have no responsibility for re-payment. The fiscal note, done by the Railroad Corporation, has FY 2006 as its first impact year - \$163,000 in costs - to be offset in revenues that would be re-cooped through the sale of the bonds. She suggested there would not be a fiscal note on a portion of a route that had already been approved.

SENATOR LINCOLN asked how this would interact with ANGDA.

MS. JACKSON said it would not.

CO-CHAIR WAGONER added that eventually, it could.

MS. JACKSON agreed that could occur in the future.

CO-CHAIR WAGONER pointed out that in the future, ANGDA may get together with the Railroad and work out a mutual agreement regarding construction. All this does is define that there is a route. It's just another alternative to bring gas into Cook Inlet. He emphasized that Cook Inlet is the only manufacturing

site for natural gas product currently in the state. There are two manufacturing units: Agrium, producing ammonia and urea, and ConocoPhillips that produces LNG. There are currently problems with gas reserves in Cook Inlet and with maintaining the necessary level of production to keep those plants operating. Possibly in 2009 or 2010, there will be a need for additional gas supply.

MR. MICHAEL HURLEY, Senior Commercial Analyst with ConocoPhillips Alaska, testified that the company, in conjunction with BP and Exxon Mobil has been working on commercializing North Slope gas resources via a pipeline from the North Slope, down the highway route, through Canada and into the Lower '48. This bill helps to insure that the potential benefit from the Railroad financing not be limited in any way. "Whether it's our company and our partners, or whether it's an independent gas pipeline company, there is potential for the Railroad bonds to bring benefits to the project to help the economics of that project. We would like to encourage the committee to make sure that there's flexibility in how those bonds can be used." He said he couldn't comment specifically on the CS but thought that more flexibility in Railroad bonding would be better for the project and for the opportunity to commercialize stranded gas.

SENATOR DONNY OLSON asked if there was any opposition from Mr. Hurley or who he represents relating to SB 384.

MR. HURLEY confirmed there was no opposition. He added that the thinking is that it's appropriate for the state to maintain flexibility and to use Railroad bonds in whatever way works to most effectively commercialize the gas.

CO-CHAIR COWDERY asked if/when this project goes forward, would the use of Railroad bonds need the Legislature's approval, even with the passage of SB 384.

MR. HURLEY said he wasn't sure but perhaps the legislation from a year or two ago may have provided for that ability.

MS. WENDY LINDSKOOG, Director of External Affairs for the Alaska Railroad Corporation (ARRC), testified that she believed the authorization was put in place last year, and this would just amend that authorization to include a potential portion of a pipeline.

CO-CHAIR COWDERY said this was why he had brought up the question on the CS; maybe the language should be broadened so that there wouldn't be problems.

CO-CHAIR WAGONER said the bill would be held over and that could be done.

SENATOR LINCOLN referred to Mr. Hurley's prior testimony of wanting to ensure that there was flexibility and also stating there was no objection to the bill. She pointed out that the bill as amended says, "a portion must follow." She asked, regarding the CS, if Conoco has reservations about the legislation as presented.

MR. HURLEY said the CS says "must" and that causes concern, but if it is going to be re-worded to be more flexible, this would be better and more in the state's interest.

MR. BILL POPP, Oil and Gas Liaison for the Kenai Peninsula Borough, spoke in support of the CS, while also recognizing there would be additional wordsmithing. Support is for the concept to bring gas down the Railroad corridor, the Railbelt to the Cook Inlet Basin to address long-term energy needs for 70 percent of the state's population residing along the railbelt and relying on 85 percent of their electrical power being generated by natural gas turbines. This is a significant issue for the Cook Inlet Basin and Kenai Peninsula Borough and will have long-term impacts if methods and means are not identified to help support the construction of North Slope gas being brought to the Cook Inlet Basin. As Co-Chair Wagoner referenced earlier, a substantial portion of the state's value-added industry for the petrochemical industry is based in the Nikiski industrial site in the Kenai Peninsula Borough. That site represents 65 percent of the employment of the state's petrochemical workers. Two of the major employers, ConocoPhillips and the Agrium Nitrogen Plant, rely specifically on a plentiful supply of reasonably priced gas to maintain operations. Their vision is not only to maintain those operations but also to help to expand operations within the Cook Inlet Basin - not necessarily within the Kenai Peninsula Borough but throughout the Basin - to take advantage at monetizing and getting value-added products generated from North Slope gas that could be brought to the Cook Inlet Basin. This would take advantage of the transportation hubs located here, the railroad, the port, airport, and so forth. Also, the long-term economic health of the Basin hinges on natural gas. He urged the

committee to pass the bill to assure the energy future of the Cook Inlet Basin.

2:08 p.m.

CO-CHAIR COWDERY asked if he had a copy of the CS and received confirmation that he did. He said it would probably be appreciated and beneficial if Mr. Popp could work with staff on the wordsmithing.

MR. POPP responded it would be a privilege.

MR. ROBERT VALDATTA testified from the Stranded Gas Committee in Seward in support of Mr. Popp's idea of the Kenai Peninsula being serviced on natural gas. He said that 10 - 15 years ago, Seward applied for permits, and Enstar was going to build a natural gas line but it did not materialize. They are still in favor of that, but also have good harmony with the Railroad, so by bringing natural gas through the Railroad, or through permitting in the future, either way they hope the natural gas line comes down the Kenai so that enough gas is there to support Seward's future endeavors. He said they would work with Mr. Popp on these issues.

CO-CHAIR WAGONER announced he would close this portion of the hearing. He asked if there was anyone else wanting to testify, and received no response. He asked if Tom Brooks was on-line.

MR. TOM BROOKS, Chief Engineer with Alaska Railroad, offered a brief overview of the Railroad's right-of-way from Fairbanks to Anchorage. Basically the Railroad has a 200-foot-wide right-of-way from Fairbanks to Cook Inlet Basin. It's continuous and generally the Railroad has exclusive use of that right-of-way. The Denali Park area is an exception, as that right-of-way is restricted to the traditional uses that have been employed, i.e. railroad and communication lines. Those were the uses under federal ownership. Generally the Railroad's title for a right-of-way is in good shape for a pipeline with the exception of the park service and the Healy Canyon. That has been identified as having slide areas and shales, and that area is a priority for reconstruction. Beyond that, the right-of-way and railway engineering standards are compatible with pipelines.

CO-CHAIR WAGONER said when he talked with Pat Gamble before going to the Energy Council in Washington D.C., he mentioned to the Congressional delegation that a package would be provided

showing where the gas line would supposedly bypass the part in the Healy Canyon.

SENATOR LINCOLN referred to the CS, the Alaska Railroad right-of-way from Fairbanks to the terminus at the Cook Inlet Basin, and asked if testimony was that the Railroad has no objection to utilizing that right-of-way in the manner as stated in the bill.

MR. BROOKS confirmed that was correct.

CO-CHAIR WAGONER asked if the high pressure, 20-inch gas line coming out of the Beluga field intersects with the Railroad right-of-way at any place.

MR. BROOKS said there are high pressure gas lines in the right-of-way but said he didn't know if that particular gas line intersects the right-of-way or not. He said he believed it comes pretty close, if it doesn't intersect.

CO-CHAIR WAGONER said he could check into this with Enstar.

SENATOR LINCOLN referred to the CS and asked Mr. Heinze if there was concern with any overlapping that may occur, or funding that may bring this in question regarding ANGDA.

MR. HAROLD HEINZE, Alaska Natural Gas Development Authority (ANGDA), testified that he was in Anchorage with Steve Porter and that unfortunately he did not have a copy of the CS but wanted to emphasize the importance of getting gas to the Cook Inlet area, as this would impact the energy and heating bills of about half of Alaska's population. He estimated that about \$100 million of disposable income per year is at stake from that one sector of the economy, and he supports anything that would get gas to Cook Inlet, and to tidewater so it could be available to other parts of the state. The second point is that as a public corporation, ANGDA has looked at a variety of financing to help projects for getting gas up the North Slope. He reminded members that this Railroad bonding capability is unique as it was authorized through an act of Congress. He noted care needs to be taken regarding whatever the general tax rules are. He reflected, as someone in the private sector responsible for some major pipeline - in some cases near the railroads or railroad right-of-ways - that when the decision is made to lay a long length of pipeline on the railroad right-of-way, there are safety considerations for both the railroad and the pipeline. He said he hopes the language would allow for the alignment of things to be in parallel but necessarily in the right-of-way,

which at times may be a very narrow juncture, and there are safety concerns. There have been issues in the past where railroads and pipelines have interacted and generally everybody loses when that happens.

SENATOR LINCOLN said in looking at the maps that were presented by the Denali Pipeline Project and in consideration of where the railroad is at the optional route and the proposed pipeline route, it varies on each page; she said she couldn't judge the distance regarding whether it goes off of that 200-foot right-of-way. The language is very specific that it must follow that right-of-way through that whole area from Fairbanks to Cook Inlet. She said she was sure that is the part Co-Chair Wagoner would be looking into, as to where it doesn't intersect.

Co-CHAIR WAGONER confirmed this would be addressed. He told Mr. Heinze they would send him a copy of the preliminary engineering study and the map.

MR. HEINZE said he thought there was a copy available at the Joint Pipeline Office, which is where his office is. He suggested that the Joint Pipeline Office be included in the discussion of exact alignment because of their expertise in pipeline safety and transportation.

CO-CHAIR WAGONER said Mr. Porter would be contacted regarding fiscal notes.

CO-CHAIR COWDERY asked Mr. Brooks if the Railroad has rights-of-way greater than 200-feet.

MR. BROOKS responded that rights-of-way are generally 200 feet, and that in some areas there are reserves that exceed that, but generally it is 200 feet.

CO-CHAIR WAGONER asked if within the 200 feet, "you're not always in the center of the right-of-way with your tracks, are you?"

MR. BROOKS replied, "Generally we are but there are a few places where we've re-aligned or done other things that put us slightly askew from the exact center."

CO-CHAIR WAGONER asked if there were any other questions. He thanked people for their input and announced that SB 384 would be held in committee.

There being no further business to come before the committee,  
Co-Chair Wagoner adjourned the meeting at 2:25 p.m.  
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