

**ALASKA STATE LEGISLATURE**  
**HOUSE SPECIAL COMMITTEE ON OIL AND GAS**

April 28, 2005

5:12 p.m.

**MEMBERS PRESENT**

Representative Vic Kohring, Chair  
Representative Nancy Dahlstrom  
Representative Lesil McGuire  
Representative Norman Rokeberg  
Representative Ralph Samuels  
Representative Berta Gardner  
Representative Beth Kerttula

**MEMBERS ABSENT**

All members present

**COMMITTEE CALENDAR**

HOUSE CONCURRENT RESOLUTION NO. 8

Encouraging the Regulatory Commission of Alaska expeditiously to complete its investigation of the Cook Inlet Gas Gathering System.

- HEARD AND HELD

CONFIRMATION HEARING(S)

Alaska Oil and Gas Conservation Commission

Cathy P. Foerster - Anchorage

- CONFIRMATION(S) ADVANCED

HOUSE BILL NO. 254

"An Act directing the Alaska Natural Gas Development Authority to use money appropriated from the Railbelt energy fund and from other sources for preliminary engineering and related work for the construction of pipeline facilities to transport Alaska North Slope natural gas to the Southcentral Alaska gas distribution grid, and amending the definition of 'project' as applied to the work of the Alaska Natural Gas Development Authority; and providing for an effective date."

- MOVED HB 254 OUT OF COMMITTEE

HOUSE BILL NO. 286

"An Act amending the manner of determining the royalty received by the state on gas production by directing the commissioner of natural resources to accept, under certain circumstances, the transfer price of the gas if established by transfer price order of the Regulatory Commission of Alaska; and providing for an effective date."

- MOVED HB 286 OUT OF COMMITTEE

HOUSE BILL NO. 234

"An Act relating to the due date for the payment of oil and gas royalty and net profit shares and amending the rate of interest payable on royalties or net profit shares."

- SCHEDULED BUT NOT HEARD

**PREVIOUS COMMITTEE ACTION**

BILL: HCR 8

SHORT TITLE: COOK INLET GAS GATHERING SYSTEM COMPLAINT

SPONSOR(S): OIL & GAS

04/07/05	(H)	READ THE FIRST TIME - REFERRALS
04/07/05	(H)	O&G
04/14/05	(H)	O&G AT 5:00 PM CAPITOL 124
04/14/05	(H)	-- Meeting Postponed to 4/21/05 --
04/21/05	(H)	O&G AT 5:00 PM CAPITOL 124
04/21/05	(H)	-- Meeting Postponed to 4/26/05 --
04/26/05	(H)	O&G AT 5:00 PM CAPITOL 124
04/26/05	(H)	-- Meeting Postponed to 4/28/05 --
04/28/05	(H)	O&G AT 5:00 PM CAPITOL 124

BILL: HB 254

SHORT TITLE: NAT. GAS SPUR LINE AND DISTRIBUTION GRID

SPONSOR(S): REPRESENTATIVE(S) ROKEBERG

04/05/05	(H)	READ THE FIRST TIME - REFERRALS
04/05/05	(H)	O&G, RES, FIN
04/21/05	(H)	O&G AT 5:00 PM CAPITOL 124
04/21/05	(H)	-- Meeting Postponed to 4/26/05 --
04/26/05	(H)	O&G AT 5:00 PM CAPITOL 124
04/26/05	(H)	-- Meeting Postponed to 4/28/05 --
04/28/05	(H)	O&G AT 5:00 PM CAPITOL 124

BILL: HB 286

SHORT TITLE: VALUE OF ROYALTY ON GAS PRODUCTION  
SPONSOR(S): REPRESENTATIVE(S) SAMUELS

04/26/05 (H) READ THE FIRST TIME - REFERRALS  
04/26/05 (H) O&G, L&C  
04/28/05 (H) O&G AT 5:00 PM CAPITOL 124

**WITNESS REGISTER**

KATE GIARD, Chair  
Commissioner  
Regulatory Commission of Alaska (RCA)  
Department of Commerce, Community, & Economic Development  
Anchorage, Alaska  
POSITION STATEMENT: Provided comments during discussion of  
HCR 8; responded to questions during discussion of HB 286.

CATHY P. FOERSTER, Appointee  
to the Alaska Oil and Gas Conservation Commission (AOGCC)  
Anchorage, Alaska  
POSITION STATEMENT: Testified as appointee to the Alaska Oil  
and Gas Conservation Commission (AOGCC).

JERRY McCUTCHEON  
Anchorage, Alaska  
POSITION STATEMENT: Expressed concerns during discussion of HB  
254.

WARREN KEOGH  
Chickaloon, Alaska  
POSITION STATEMENT: Expressed concerns during discussion of HB  
254.

HAROLD HEINZE, Chief Executive Officer  
Alaska Natural Gas Development Authority (ANGDA)  
Department of Revenue (DOR)  
Anchorage, Alaska  
POSITION STATEMENT: Testified in support of HB 254.

PAUL FUHS, Volunteer Lobbyist  
for Backbone 2  
Anchorage, Alaska  
POSITION STATEMENT: Provided comments and responded to  
questions during discussion of HB 254.

SARA NIELSEN, Staff  
to Representative Ralph Samuels

Alaska State Legislature

POSITION STATEMENT: Presented HB 286 on behalf of Representative Samuels, sponsor.

JIM POSEY, General Manager  
Anchorage Municipal Light and Power (ML&P)  
Anchorage, Alaska

POSITION STATEMENT: During discussion of HB 286, provided comments and responded to a question.

MARK MYERS, Director  
Central Office  
Division of Oil & Gas  
Department of Natural Resources (DNR)  
Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 286, provided comments, and responded to questions.

MARTIN T. SCHULTZ, Commercial Analyst  
Audit Section  
Central Office  
Division of Oil & Gas  
Department of Natural Resources (DNR)

POSITION STATEMENT: Responded to questions during discussion of HB 286.

#### **ACTION NARRATIVE**

**CHAIR VIC KOHRING** called the House Special Committee on Oil and Gas meeting to order at [5:12:37 PM](#). Representatives Rokeberg, Kohring, Samuels, Kerttula, and Gardner were present at the call to order. Representatives Dahlstrom and McGuire arrived as the meeting was in progress.

#### **HCR 8 - COOK INLET GAS GATHERING SYSTEM COMPLAINT**

CHAIR KOHRING [announced that the first order of business would be] HOUSE CONCURRENT RESOLUTION NO. 8, Encouraging the Regulatory Commission of Alaska expeditiously to complete its investigation of the Cook Inlet Gas Gathering System.

CHAIR KOHRING noted that the Regulatory Commission of Alaska (RCA) has developed a preliminary decision regarding the Cook Inlet Gas Gathering System (CIGGS), thus rendering HCR 8 unnecessary. He asked Ms. Giard to comment on the preliminary decision.

5:14:01 PM

KATE GIARD, Chair, Commissioner, Regulatory Commission of Alaska (RCA), Department of Commerce, Community, & Economic Development (DCCED), relayed that in response to a complaint filed by Agrium U.S., Inc., in October 2004, the RCA initiated a process by which to determine whether CIGGS was in violation of AS 42.05 - the Alaska Public Utilities Regulatory Act - and AS 42.06 - the Pipeline Act. The RCA, in late March of 2005, determined that Union Oil Company of California (Unocal) and Marathon Oil Company - as owners of CIGGS - were public utilities and thus qualified to be regulated under AS 42.05, and then immediately exempted those two companies from RCA regulation for the remainder of the pleading cycle. Ms. Giard recommended that members read the RCA's order on this issue, particularly pages 18-21, and noted that the RCA has also issued an order that schedules a prehearing conference for May 4, 2005, at which the issues of settlement procedures and consolidating the pleading schedule will be discussed.

[HCR 8 was held over.]

CONFIRMATION HEARINGS(S)

Alaska Oil and Gas Conservation Commission

5:17:07 PM

CHAIR KOHRING announced that the committee would next consider the appointment of Cathy P. Foerster to the Alaska Oil and Gas Conservation Commission (AOGCC).

5:17:38 PM

CATHY P. FOERSTER, Appointee to the Alaska Oil and Gas Conservation Council (AOGCC), stated:

My training and experience as a petroleum engineer make this position in the Alaska Oil and Gas Conservation Commission [AOGCC] seem to be the ideal place for me to serve the state of Alaska. I've had a variety of engineering assignments, from reservoir development to facility design. I've also had opportunities to supervise and manage broad groups of people, from small, highly technical groups of engineers and scientists to large operations groups [consisting] of ... skilled and unskilled laborers.

Most of my early experience was "onshore Texas" and "offshore Louisiana," but for the last 13 years I have worked the North Slope of Alaska, from well operations at Prudhoe Bay to new field developments on the western North Slope. I'm particularly proud of a few of my Alaska work experiences and would like to share them with you.

[5:18:53 PM](#)

MS. FOERSTER continued:

When I first came to Alaska I was operations superintendent for the Prudhoe Bay wells group during the time when that group helped to pioneer coil tubing drilling in Alaska. Now, I was not one of the brilliant, technical people doing this groundbreaking work; I was merely an enabler for them. Later, I had the privilege of leading the strategic business-review team that initiated the West Sak development that Alaska is enjoying today. And, more recently, I was part of the consulting team that prepared an analysis for the Department of Natural Resources [DNR] on how to assist new operators in acquiring access to North Slope facilities.

Throughout my career I've been blessed with wonderful opportunities to learn and contribute at the same time, and I see this appointment as another such opportunity. I'm especially pleased and honored to have the opportunity to serve the people of Alaska as part of such a well-respected commission and in concert with such intelligent, honest, ethical, and hard working gentlemen as my co-commissioners. ...

[5:20:03 PM](#)

CHAIR KOHRING asked Ms. Foerster what she sees as being her role at the AOGCC.

MS. FOERSTER replied:

Primarily my role will be to serve the people of Alaska in the four prongs of our mission statement: prevent waste of hydrocarbons, encourage the operators to maximize recovery of hydrocarbons, to protect the

groundwater, and to protect owners' correlative rights. It's been a while since there's been a reservoir engineer in the engineering commissioner position, so I see that I'll have the opportunity to bring a reservoir engineering perspective to the post, and I think this is a very important thing at a time when one of our biggest issues is going to be ... setting a rate for gas withdrawal when we get a gas pipeline and decide to blow down the gas cap at Prudhoe Bay. That's really a reservoir engineering set of issues.

[5:21:13 PM](#)

CHAIR KOHRING commented that he saw the role as a steward of the state's resources, and said: "You are just one of three people who have an incredibly important position, to make sure that we're getting our monetary share ..., our royalties and so forth, and that everything's being reported correctly and properly. Do you foresee any challenges with that?"

MS. FOERSTER responded that she considers the position to be challenging, adding, "I think I'm qualified to do the job; I think I have the honesty and the ethics to do it properly, and the experience and the intelligence to do it right."

CHAIR KOHRING noted that Ms. Foerster's resume is very substantial, and opined that she seems eminently qualified for the position.

[5:22:13 PM](#)

REPRESENTATIVE DAHLSTROM made a motion to advance from committee the nomination of Cathy P. Foerster as appointee to the Alaska Oil and Gas Conservation Commission. There being no objection, the confirmation was advanced from the House Special Committee on Oil and Gas.

[5:22:33 PM](#)

REPRESENTATIVE ROKEBERG reminded members that signing the reports regarding appointments to boards and commissions in no way reflects individual members' approval or disapproval of the appointees, and that the nominations are merely forwarded to the full legislature for confirmation or rejection.

CHAIR KOHRING concurred.

HB 254 - NAT. GAS SPUR LINE AND DISTRIBUTION GRID

[Contains mention of HB 253.]

[5:23:22 PM](#)

CHAIR KOHRING announced that the next order of business would be HOUSE BILL NO. 254, "An Act directing the Alaska Natural Gas Development Authority to use money appropriated from the Railbelt energy fund and from other sources for preliminary engineering and related work for the construction of pipeline facilities to transport Alaska North Slope natural gas to the Southcentral Alaska gas distribution grid, and amending the definition of 'project' as applied to the work of the Alaska Natural Gas Development Authority; and providing for an effective date."

REPRESENTATIVE ROKEBERG, speaking as the sponsor, presented HB 254 to the committee. He explained:

This legislation creates the statutory authority for the Alaska Natural Gas Development Authority [ANGDA] to use money appropriated from the Railbelt energy fund to initiate and continue the preliminary engineering design and construction of a gas transmission pipeline, or spur line, for delivering gas from the principal North Slope natural gas pipeline to [the] Southcentral Alaska gas grid system.

What this bill does is somewhat different: it clarifies the project definition and expands the ANGDA scope of work to include a spur line route, adjacent to the Parks Highway, to "Southcentral" from an appropriate northern point of the main gas line. So if we build the main gas line, we could look elsewhere rather than Glennallen. It also ... provides that another route, a direct or so-called "bullet line," all the way from Prudhoe Bay to Southcentral, could be undertaken and looked at by the authority.

It also keeps and reiterates the spur line from Glennallen to Southcentral, and the primary pipeline from Prudhoe Bay to Valdez. ... So it doesn't diminish any of its authority; it actually just expands it in two ways: to clarify that they can look at the so-

called "Parks Highway route" as a spur, and then a straight bullet [line]. ...

5:25:21 PM

REPRESENTATIVE ROKEBERG continued:

Additionally ... I would point out that in Section 2, ... subsection (c) on page 3, ... there are provisions here that [specify] the authority shall include provisions to implement ... "recovery of costs" methodologies for the expenditure of the fund that's included in the companion bill [HB 253], of some \$8 million, from the private sector, and also, in subsection (d) on page 3, will agree to cooperate with federal grantees.

When [we] worked on this bill, it came to my attention ... [that] a consortium of the Cook Inlet Tribal Council and a subsidiary of ENSTAR Natural Gas Company have been granted \$3 million to work on the Parks Highway route that a lot of people weren't really aware of. So what [subsection] (d) does is recognize that there may be some activity on that particular spur line, and with [the] ANGDA now working and looking at permitting the Glennallen/Mat-Su Valley gas distribution hook-up, that there's already work underway. So this language is intended to have cooperation so there can be trading of material, and we don't want to duplicate these precious dollars for planning. ...

REPRESENTATIVE ROKEBERG concluded:

The main difference here is that [the bill] ... recognizes that we ought to start looking at a bullet line in terms of our long-range future and this other routing, so we don't get locked into just one system. So if we don't get a line that goes all the way to Valdez, we have alternatives, albeit there's certainly been conversations about, even if the highway route were the primary transportation route, [the fact that] you might want to come through Glennallen, given costs. But until we do this type of work, we don't know. ...

REPRESENTATIVE ROKEBERG asked for the committee's support [of the legislation].

5:27:33 PM

REPRESENTATIVE GARDNER asked whether the fund that Chugach Electric [Association] has been talking about using for other projects is the Railbelt energy fund.

REPRESENTATIVE ROKEBERG replied:

There are, right now, two fund sources. One is the so-called Railbelt energy fund: it's the balance that's worth some \$28 million, [and] it's the refunded portion of [an] electrical gridline that was planned to go from Glennallen into the Sutton area, I believe, and that didn't work out, and [so] the money was refunded or reappropriated back into the Railbelt energy fund.

There's additionally another pot of money, if you will, that's under [the Alaska Industrial Development and Export Authority (AIDEA)] of \$40 million, which was the interest earned on monies that [were] appropriated through the legislature and [the] AIDEA for what's called the new Southern Intertie route, which was a direct electrical transmission line between Anchorage and the Kenai peninsula. ... [It] was ultimately decided that that project would not go forward. So there is approximately \$68 million, if you will, available in designated money sources.

What I did to avoid the "intermural" utility wars between competing interests was [to] just focus the thrusts of my bill and its companion bill on the \$28 million. The companion appropriation bill provides \$8 million for the gas line spur study, and a cumulative \$20 million to the City of Seward, Homer Electric Association, and Chugach Electric [Association] to upgrade the old, existing southern intertie and increase the repair and maintenance on that line.

I believe there is significant deferred maintenance when they were talking about doing this other route, and there is some controversy about whether or not they should do that. My opinion is: I think it's appropriate for the legislature to appropriate this

money because it removes that cost from the ratepayer's base.

[5:30:06 PM](#)

REPRESENTATIVE ROKEBERG added:

The utility could go out and bond this money, or borrow it, but then they can turn around and increase the costs to our constituents. This money has been sitting here for a long time. We've been talking about the northern intertie. Fairbanks got their money. I mean, the Railbelt in the southern section really hasn't received good benefit for the balance of that money, and I'd like to see those monies used for that purpose ... [and] spend them before somebody else spends them. ...

[5:31:07 PM](#)

JERRY McCUTCHEON stated:

Just because you see lots of activity on the gas line, you should not assume it's for real, or that they are actually trying to secure gas or a gas line. They make money churning; the cost of churning plus profit is then stuck in the gas consumer's bill as if it were real. It is only the illusion of the pursuit of [the] gas and a gas line that counts. For example, a recent full page ad by the Alaska Gas Port Authority offering to purchase four billion cubic feet of gas a day ... [was paid for by] a Lower 48 gas company, [Sempra Energy], who will stick their gas customers with the costs - (indisc.) all the costs they can plus profit. Sempra [Energy] will probably charge off \$25 million to \$50 million before they are done. It is the illusion and your gullibility that counts, not reality. The oil companies are doing the same thing to their customers - it's a game they play.

You, as a taxpayer, are being stuck with the state costs of this charade by [Governor] Murkowski. Back in the late '70s and early '80s, the gas promoters stuck the ... [Lower] 48 gas bill payers with over a billion dollars in costs. That's so much for the ads. Mr. Chairman, HB 254, whatever reason there was for [the] ANGDA, [the] ANGDA has been eclipsed when the

[Alaska Gas] Port Authority acquired the rights to [Yukon Pacific Corporation's] right-of-way permits. And, more importantly, when [ENSTAR Natural Gas Company] went public with ENSTAR's gas line studies, the operation of [the] ANGDA is at best been a study in sophistry. Mr. Heinze has gone around the state espousing wildly optimistic [sophistic] statements that [the] public is desperate to hear and have been led to believe are possible.

There is no longer a reason to fund [the] ANGDA, for there is nothing [the] ANGDA can do that private enterprise could not do better, at substantially less cost, but also more realistically - private enterprise without (indisc.) state funds. Every route that [the] ANGDA may wish to study, ENSTAR has already studied or is studying. ENSTAR has most of the answers; [the] ANGDA has confusion, sophistry, and waste.

[5:33:58 PM](#)

MR. McCUTCHEON continued:

A most important thing is, ENSTAR cannot rely on anything [the] ANGDA does; it has to do it for itself. It's got its whole system at stake. I've listened to Mr. Heinze peddle his sophistry for hours at [the] ANGDA's board meetings, for meeting after meeting. There is nothing that [the] ANGDA can do that ENSTAR can't do ... [and do] it without state funds. [The] ANGDA is just duplicating ENSTAR; ENSTAR must do its own studies, ENSTAR's whole investment is in Alaska - it's at stake - and ENSTAR cannot and will not rely on somebody else's studies, least of all [the] ANGDA's. It is time to let [the] ANGDA die in committee. If [Governor] Murkowski wants to fund [the] ANGDA out of his budget, that is his call, but not a wise one - it is not one the legislature should aid and abet. Thank you, Mr. Chairman, ... for allowing the public to testify.

[5:35:13 PM](#)

WARREN KEOGH said:

I would first voice my reservations with HB 254, [which] ... further defines the ANGDA project, but

especially to the use of money appropriated from the Railbelt energy fund, particularly the \$8 million earmarked for [the] ANGDA in the companion bill, HB 253. And my concerns come about in part because it's my feeling that [the] ANGDA has moved too quickly in its preliminary planning work for the so-called spur line from Glennallen to Palmer. And [the] ANGDA has rather rapidly expended, I think, ... about [\$300,000] to \$500,000 for preliminary engineering, environmental, financial, public outreach, and other efforts in the past five or six months. And things have moved a bit too quickly, in my estimation, and, as a result, some mistakes have been made in the pipeline routing and also in the ANGDA right-of-way application to [the] DNR that was submitted ... just a couple of weeks ago.

And I'll just give three quick examples. ... The first would be an issue of public process. The ANGDA board meeting [on] April 4 was not properly noticed - public notice appeared in an obscure Department of Revenue web page on late Friday morning for a 10 a.m. ANGDA meeting the following Monday, [and] public notices did not appear in print in the newspapers 'til Monday morning of the meeting day. Another example of public outreach: this is about a 150-mile long pipeline, the terminus of which goes through numerous parcels of private property in the City of Palmer.

Those of us in Chickaloon ... have recently become aware of the pipeline routed through our community; I took it upon myself to call numerous people - private homeowners and property owners in [the] Palmer area. The pipeline, in case you're not aware, is routed to end in the vicinity of a gravel pit where the Trunk Highway hits the Parks Highway. So I called some folks along the Trunk "road" and places further up the line - approximately a dozen this past Sunday afternoon ... - and not a single person, with the possible exception of one person, was ... aware that the pipeline was planned or routed through their private property. And I suggest, with a project of this magnitude, where an application has already been submitted, that people should be better informed.

[5:38:25 PM](#)

MR. KEOGH continued:

One last example ...: in my community of Chickaloon we were not apprised, that I am aware of, as a community, of this pipeline being routed through our property along a proposed route until rather late in the stage, when the route has already been determined without our input or advice. As a result of that, last night the Chickaloon community council, after approximately 20 or more citizens have worked on a resolution for the past 2 weeks, we passed a resolution, which the community council will deliver to [the] ANGDA here in the next couple of days. ...

Basically it's a resolution stating, generally, that we support the efforts of [the] ANGDA to bring North Slope gas to Southcentral Alaska, but request further study of other routes and it's impacts. And it's about a two-page statement, but essentially ... our community respectfully requests that [the] ANGDA suspend their permit and right-of-way acquisition process until all routes from the Alaska North Slope to Southcentral have been thoroughly assessed for their suitability and their economic, social, and environmental impacts, and that the public process for this project include proper notice and sufficient time for meaningful comments from the Chickaloon community council.

[5:39:49 PM](#)

MR. KEOGH asked that if the ANGDA is to receive further funding, that the ANGDA be held accountable for "what they do and what they don't do." He commented, "This testimony comes about as a result of what, in my view, is the rather hurried efforts of [the] ANGDA to acquire the pipeline right-of-way.

[5:40:30 PM](#)

REPRESENTATIVE ROKEBERG commented that the bill should be consistent with the Chickaloon community council's goal in that it looks at other routes.

[5:41:00 PM](#)

CHAIR KOHRING asked the representative from the ANGDA to give consideration to Mr. Keogh's concerns.

HAROLD HEINZE, Chief Executive Officer, Alaska Natural Gas Development Authority (ANGDA), Department of Revenue (DOR), testified in support of HB 254. He went on to say:

There are probably just two major points I'd like to make about the bill, and then I would like a little bit of chance, maybe, to respond to the previous testimony. Two things. One, this bill is the bill that will facilitate the looking at what I consider to be a more direct route from the North Slope to the Cook Inlet area. Right now, our funding and our efforts ... have been looked at from the point of view of tying into either a highway pipeline going down through Canada, or a pipeline following a route to Valdez, Alaska, along the Trans-Alaska Pipeline System [TAPS]. And that's why we've focused on the Glennallen to Palmer connection, because it was the missing link in terms of different ways that one might get gas to Cook Inlet. But it was done very clearly with the intention of fitting in with those projects on it.

Representative Rokeberg's bill represents an opportunity to expand that horizon; HB 254 very clearly is directed towards the other parts of those efforts to find a way down. Currently we are aware that there is a proposal involving Cook Inlet Tribal Council, [ENSTAR Natural Gas Company], and some other parties, that is looking for federal funding to study that route. There have been some previous studies, but in terms of ... the spur line, we would believe that this would provide the kind of grubstake we would need to really look seriously at that route and bring it to a level of design and engineering and permitting and other things that would make it real.

[5:43:28 PM](#)

MR. HEINZE went on to say:

The other point ... I'd really wanted to make about the bill is that we view this funding as a grubstake. We believe that the Railbelt energy fund provides that opportunity to get the project going. The project would be financed of itself at a much larger sum and, once it was financed, we would expect that it would

generate revenues sufficient to pay back the fund very quickly. And that would be [the] ANGDA's intent, ... to pay this money back. We look at this as a loan, a grubstake, whatever you want to call it, for us.

[And] ... just in brief comment as to the previous testimony, on the record, [the] ANGDA started, seriously, both public notice and contracting processes related to this spur line last September. We were very open about it; as a matter of fact, we ran some ads in the "Frontiersman" and other local publications - full-page color ads indicating what we were doing and why we were doing it in terms of meeting the energy needs of Southcentral. At that time, then, ... one of our first efforts, as we started our contractors around the first of this year, was to actually have an individual go out and do a certain amount of public outreach. At that time, the funds and the time were limited, but we did contact a few people in the Chickaloon area.

[5:44:48 PM](#)

MR. HEINZE continued:

Since then, I personally have gone up there and I have spent time in both Sutton and Chickaloon. We had some good meetings at the community council, received some very good suggestions, and we've actually been able to incorporate a number of those suggestions into the application. The exact routing in the Chickaloon area is something that we will study further, just as [in] several other places along the line, ... as we go through it.

The application, right now, on the table, is for state land only. It has nothing to do with the private land. And, in particular in the Palmer area, we've felt that we would probably be using existing utility right-of-ways that have been granted there by both ... the state and the borough. So again, we've not addressed, in any great detail - and the funding was not sufficient at this point to address in any great detail - what we would do with the private contractors. There [are] ... additional funds in the supplemental budget to allow us to do those kind of

efforts, and we look forward to, hopefully, that being approved, and moving on.

5:46:27 PM

REPRESENTATIVE ROKEBERG referred to the supplemental budget vetoed by the governor, and asked whether the money earmarked for the ANGDA, assuming it is budgeted in another bill, would be sufficient to sustain the ANGDA through all of 2006.

MR. HEINZE offered his understanding that the \$2.17 million that was passed by the legislature in the fast track supplemental bill but vetoed by the governor is now part of the "working amendments" to the supplemental bill currently in the Senate Finance Committee. He added:

That \$2.17 million is the sum of money to take this next step ... [of] - once we receive a right-of-way to cross the state the land, which is the dominant land position along the way - ... dealing with issues of very specific design in certain areas along the pipeline, acquiring right-of-way, doing the permitting and other types of work like that, that are necessary to basically put together the funding package for the project. And, again, this will be a bonded-type package as a utility company, and the \$2 million gets us towards that next step. ...

We would be prepared to issue those contracts at a time that is fairly coincident with whatever contract or whatever agreement is made, or reached, on the North Slope project, whether it be down the highway or to Valdez. And the reason for that is, we believe that it is wisest to do the spur line as a pre-build into the big project, to cut the time delay in getting the critically needed gas to the Cook Inlet area. ... That is all that money does, and it, very frankly, barely does that. That's cutting it pretty tight on a number of items in that budget. But that is entirely different from what we would see as the need for the broader issue of getting North Slope gas to Cook Inlet, if necessary, even by some direct route or some other route.

5:50:17 PM

PAUL FUHS, Volunteer Lobbyist for Backbone 2, explained that Backbone 2 is a citizen organization promoting gas line development in Alaska. He stated that [the bill] is important in order for Alaska to maintain all of its options for bringing gas down [from the North Slope]. He said, "While we support the bigger projects and hope that they go through, ... there's no guarantee that any of the big projects are going to move forward quickly." He added:

The other thing that's important about this, from the strategic sense of bringing the gas to Southcentral Alaska, is that we know the biggest battle is to secure a gas supply for the project, and there's been a lot of discussions about that lately, ... [regarding the things] that the state might do to help make that happen if, in fact, there's no willingness on the part of the producers to either produce the gas themselves or to sell it to anybody else. This project, as proposed as a bullet line, is a 24-inch line and could operate with the state's royalty gas from the North Slope, and it is critical that we bring the gas to Southcentral.

[5:51:58 PM](#)

MR. FUHS noted that the price for gas has been going up and is projected to double in the next five years. He also predicted that "without getting Alaska gas, we're going to lose the LNG [Liquid Natural Gas] plant in Kenai," and noted that LNG is not considered a manufactured product. He mentioned that there is also propane in the gas, and therefore propane could be shipped to coastal and rural Alaska to provide relief regarding high energy prices. He opined, "I do think this is an appropriate use of the Railbelt energy fund because energy's critical, both to the cost of living [for] ... people in Southcentral and to the competitiveness, as a region, as a place for businesses to operate." In addition, he offered his belief that the ENSTAR Natural Gas Company would be interested in "this" because it would be a tax-exempt corporation. Such accounts for about 35 percent in federal taxes and net proceeds, and those savings can be passed on to the consumers and users of gas in Southcentral.

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CHAIR KOHRING asked if the proceeds from the Alaska Railroad bonds could be used to build a gas line.

MR. FUHS replied affirmatively, and added that the "federal guarantees" could also be used for this project.

CHAIR KOHRING mentioned passage of a bill a few years ago authorizing the use of up to \$18 billion in low interest rate tax-exempt bonds as a funding source to build a gas line.

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REPRESENTATIVE ROKEBERG asked Mr. Fuhs if he could work with Representative Rokeberg's office on that issue.

MR. FUHS replied that he would.

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CHAIR KOHRING, after ascertaining that no one else wished to testify, closed public testimony on HB 254.

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REPRESENTATIVE KERTTULA asked if the bill was written such that it is in essence a loan to the ANGDA.

REPRESENTATIVE ROKEBERG referred to subsection (c) on page 3, and explained that it is actually an appropriation. He said:

The idea is ... to look and see if we can get the recovery of those costs, pay it back to the Railbelt energy fund from the private sector. ... The idea here is to get the preliminary work done in a more timely manner and seek to form an organization ..., some type of authority which can take advantage of the taxes and funding perhaps, but it would be a project entity from which this group could recover the funding.

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REPRESENTATIVE MCGUIRE moved to report HB 254 out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, HB 254 was reported from the House Special Committee on Oil and Gas.

HB 286 - VALUE OF ROYALTY ON GAS PRODUCTION

[5:57:41 PM](#)

CHAIR KOHRING announced that the final order of business would be HOUSE BILL NO. 286, "An Act amending the manner of determining the royalty received by the state on gas production by directing the commissioner of natural resources to accept, under certain circumstances, the transfer price of the gas if established by transfer price order of the Regulatory Commission of Alaska; and providing for an effective date."

SARA NIELSEN, Staff to Representative Ralph Samuels, Alaska State Legislature, sponsor, presented HB 286 on behalf of Representative Samuels. She stated:

House Bill 286 is a simple housekeeping bill that was brought forward by [Anchorage] Municipal Light and Power (ML&P). This bill amends current statute by adding language that allows the Department of Natural Resources [DNR] to use the gas transfer price set by the [Regulatory Commission of Alaska (RCA)], much like DNR uses the contract price for gas. The transfer price is the rate that ML&P is required to charge itself for the Beluga Field gas that [it] uses.

[The Department of Natural Resources] agreed to let ML&P ... continue to use the current statute based on the "ML&P/Shell" contract even after ML&P bought Shell's interest in the field, but that contract expires at the end of this year. While ML&P's share in the Beluga River Field will assure ML&P of a supply of gas without this legislation, ML&P will be unable to continue to use current statute for its gas. The proposed change is consistent with the purpose of the original law, and also will help ensure that Anchorage electric consumers have certainty and stability in their electric rates.

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JIM POSEY, General Manager, Anchorage Municipal Light and Power (ML&P), by way of introduction, reiterated a few of Ms. Nielsen's comments.

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REPRESENTATIVE ROKEBERG asked how the price is set.

MR. POSEY replied that the RCA sets a transfer price that's based on the interest payments on the \$120 million that [ML&P]

used to buy the field. He added, "It is a price set by the RCA that allows us to sell it to ourselves and have a reasonable rate without having harm to our rate payers."

CHAIR KOHRING ascertained that regulatory counsel for ML&P was available for questions.

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MARK MYERS, Director, Central Office, Division of Oil & Gas, Department of Natural Resources (DNR), stated that the DNR supports HB 286. He added:

It was ... recognized previously by the legislature that utilities need a stable price, and under AS 38.05.180(aa), they ... don't have to use our "higher of" provision - they actually use the sales price in providing gas to their customers. And then the state gets that sales price, not the "higher of" value, which [is] an average of those received by other producers from the same producing area. So [it] provides a mechanism to provide a stable rate and base for royalty gas sold to public utilities, and it recognized [that] the good of a public utility is in the best interest of the state. So we have an unusual situation here, where the public utility [that] uses the gas is also the gas producer, and that's never been covered in our law before.

So this amendment allows that affiliated producer and marketer/seller of the gas to use a simple value. And, again, sometimes there can be concerns of affiliated transfers, that they don't represent actual value; however, in this case, because you have an independent price-setting agency, ... [the] RCA, that provides sort of an independent review of that price to make sure it's not artificially low or unreasonable. So in this case, again, if [the] DNR would disagree, they still could go back and challenge it, but in general I think we would be satisfied with the RCA. ... So we're very comfortable; this is well within the intent of what [the original AS 38.05.180(aa)] was supposed to do.

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REPRESENTATIVE ROKEBERG said that according to prior testimony, it seems as though the prices would be relatively low if they are based solely on the interest rates paid on the original purchase price. He asked how the state's interests will be protected.

MARTIN T. SCHULTZ, Commercial Analyst, Audit Section, Central Office, Division of Oil & Gas, Department of Natural Resources (DNR), explained that under HB 286, the ML&P - or any other entity - would still have to apply to the DNR to have its gas valued at the transfer price, which would be reviewed by the DNR commissioner, and the DNR could decline to use the transfer price to establish royalty value if the commissioner believes that that price is unreasonably low. He mentioned that proposed AS 38.05.180(aa)(2) outlines the aforementioned review process.

REPRESENTATIVE ROKEBERG asked whether ML&P pays royalty fees to the state.

MR. SHULTZ said yes.

REPRESENTATIVE ROKEBERG asked for clarification.

MR. SCHULTZ said that ML&P currently pays royalty on the gas it uses "internally" at its affiliated utility, and that price is based on the negotiated third party contract price that was used when [Shell Western E&P Inc.] sold gas to ML&P. Therefore, currently, the "higher of" value is not applied to that gas.

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MR. MYERS added that the royalty rate itself is consistent with the "under the lease" contract. The only question left to debate is what the actual sale price would be, since the gas is being taken "in-value" rather than "in-kind." He predicted that the RCA would not want to use a price if it were determined to be artificially low, and also that the DNR would not allow such a price anyway. The goal is to treat the ML&P just like every other utility and provide it with a long-term stable price.

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REPRESENTATIVE ROKEBERG said it seems like one could, under the bill and using the transfer price, have a price lower than what it is currently.

MR. SCHULTZ reiterated that if the transfer price was determined to be an unfair price, then the DNR commissioner would decline to use it.

[6:09:49 PM](#)

REPRESENTATIVE ROKEBERG asked whether a finding would have to be made any time there's a change in the price.

MR. MYERS said he didn't think the question would automatically go back to the RCA; instead, the issue would be decided by the commissioner of the DNR. He added that if ML&P's "rate base was based" on a higher gas sales price, then it could go to the RCA and ask for a rate increase.

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REPRESENTATIVE ROKEBERG noted that proposed AS 38.05.180(aa)(1)(B) says, "the transfer is an affiliated interest, as that term is defined in AS 42.05.990, and the transfer price between the lessee and the utility is established by an order of the Regulatory Commission of Alaska". He asked whether that language applies to a different set of circumstances.

MR. MYERS explained that that language is the default; if the DNR doesn't think that that price is justifiable, it can decline to use it. He reiterated that AS 38.05.180(aa)(2) outlines the review process criteria, and that the ML&P could go to the RCA and ask for a rate increase.

REPRESENTATIVE KERTTULA referred to page 2, line 13-14, and noted that it says in part, "and ... unless". She characterized that sentence construction as confusing, and asked for clarification.

MR. SCHULTZ replied that under the way the statute is currently structured, which will remain the same even with the change proposed by the bill, the producer makes an application to the DNR for the treatment specified in AS 38.05.180(aa) and it gets to use its contract - or, under a change proposed in the bill, its transfer price - unless the commissioner makes a written finding declining to use that price. Thus, if the DNR didn't issue any finding, the contract price or transfer price would be used.

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REPRESENTATIVE KERTTULA noted that line 9, page 2, contains the word "or", and suggested that its use may constitute a grammatical error.

[6:14:32 PM](#)

KATE GIARD, Chair, Commissioner, Regulatory Commission of Alaska (RCA), Department of Commerce, Community, & Economic Development (DCCED), said that the RCA has read the legislation and is comfortable with it. In response to questions posed earlier, she said:

The RCA issued order number U-96-36, ... which discusses and clarifies, for the members, the method of calculating the transfer price that is discussed in this legislation. And annually, from this point forward, ML&P will file with us a calculation of their transfer price, and it's based on their actual production costs times their debt-service ratio. So they'll take their costs - and for purposes of illustration, let's just pretend it's a \$1 million - then they'll multiply that \$1 million times their debt-service coverage rate, which is 1.6. So we then will calculate from that; we'll have their actual production costs and we'll have their debt-service coverage that we set, and we'll ... review their proposed calculations to us of the ... transfer price.

So to answer the questions that Representative Rokeberg ... [asked], the calculation will be fully analyzed and vetted here within the commission. Frequently, when ML&P proposes or brings forward a tariff, which they'll do every single year now - we've ordered them to do that - there's an opportunity ... for the public advocate, which is an arm of the attorney general, to participate in the evaluation of that calculation. And so there is, through this process, a coming to the RCA - a mechanism for the public to weigh in. And obviously the advocate would be looking at those costs, making sure that they're not too low or too high, as well as [having] an opportunity to opine on whether ... they're fair and reasonable.

So all of that is brought before us, and we take it into consideration when we make a calculation. And I

appreciate that the Department of Natural Resources probably wanted to put a failsafe ... [mechanism in the bill], but believe, truly, that it'd be a very rare event, where we would fully vet a calculation of this nature and then that it would have a problem with it.

[6:17:22 PM](#)

CHAIR KOHRING, after ascertaining that no one else wished to testify, closed public testimony on HB 286.

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REPRESENTATIVE ROKEBERG moved to report HB 286 out of committee with individual recommendations and the accompanying zero fiscal notes. There being no objection, HB 286 was reported from the House Special Committee on Oil and Gas.

#### **ADJOURNMENT**

There being no further business before the committee, the House Special Committee on Oil and Gas meeting was adjourned at [6:20:00 PM](#).