

**ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE**

March 12, 2008

3:38 p.m.

MEMBERS PRESENT

Senator Charlie Huggins, Chair
Senator Lesil McGuire
Senator Gary Stevens
Senator Thomas Wagoner
Senator Lyda Green
Senator Bill Wielechowski

MEMBERS ABSENT

Senator Bert Stedman, Vice Chair

OTHER LEGISLATORS PRESENT

Representative Jay Ramras

COMMITTEE CALENDAR

CS FOR HOUSE BILL NO. 267(RES)

"An Act relating to authorizing the state to join with other states entering into the Wildlife Violator Compact; excluding commercial fishing and big game commercial hunting services from the provisions of the compact; and directing the initiation of civil actions to revoke appropriate licenses in this state based on a licensee's violation of or failure to comply with the terms of a wildlife resource citation issued in another state that is a party to the compact."

MOVED CSHB 267(RES) OUT OF COMMITTEE

Presentation: Cook Inlet Gas - Contracts and Storage; Bullet Line Discussion - ENSTAR

PREVIOUS COMMITTEE ACTION

BILL: HB 267

SHORT TITLE: WILDLIFE VIOLATOR COMPACT

SPONSOR(S): REPRESENTATIVE(S) JOHNSON

01/04/08 (H) PREFILE RELEASED 1/4/08
01/15/08 (H) READ THE FIRST TIME - REFERRALS

01/15/08 (H) RES, FIN
 01/18/08 (H) RES AT 1:00 PM BARNES 124
 01/18/08 (H) Heard & Held
 01/18/08 (H) MINUTE(RES)
 01/28/08 (H) RES AT 1:00 PM BARNES 124
 01/28/08 (H) Heard & Held
 01/28/08 (H) MINUTE(RES)
 02/06/08 (H) RES AT 1:00 PM BARNES 124
 02/06/08 (H) Moved CSHB 267(RES) Out of Committee
 02/06/08 (H) MINUTE(RES)
 02/08/08 (H) RES RPT CS(RES) NT 4DP 2NR 1AM
 02/08/08 (H) DP: SEATON, FAIRCLOUGH, GATTO, JOHNSON
 02/08/08 (H) NR: GUTTENBERG, EDGMON
 02/08/08 (H) AM: KAWASAKI
 02/19/08 (H) FIN AT 1:30 PM HOUSE FINANCE 519
 02/19/08 (H) Moved CSHB 267(RES) Out of Committee
 02/19/08 (H) MINUTE(FIN)
 02/20/08 (H) FIN RPT CS(RES) NT 8DP 1NR
 02/20/08 (H) DP: KELLY, CRAWFORD, STOLTZE, HAWKER,
 NELSON, THOMAS, MEYER, CHENAULT
 02/20/08 (H) NR: GARA
 03/03/08 (H) TRANSMITTED TO (S)
 03/03/08 (H) VERSION: CSHB 267(RES)
 03/04/08 (S) READ THE FIRST TIME - REFERRALS
 03/04/08 (S) RES
 03/10/08 (S) RES AT 3:30 PM BUTROVICH 205
 03/10/08 (S) Heard & Held
 03/10/08 (S) MINUTE(RES)
 03/11/08 (S) RES AT 5:30 PM BUTROVICH 205
 03/11/08 (S) Heard & Held
 03/11/08 (S) MINUTE(RES)
 03/12/08 (S) RES AT 3:30 PM BUTROVICH 205

WITNESS REGISTER

JEANNE OSTNES, Staff to Representative Craig Johnson
 Alaska State Legislature
 State Capitol
 Juneau, AK

POSITION STATEMENT: Testified on behalf of Representative
 Johnson, sponsor of HB 267.

COLLEEN STARRING, Regional Vice President
 ENSTAR Natural Gas Company
 Anchorage, AK

POSITION STATEMENT: Gave PowerPoint slide presentation and
 answered questions.

GENE DUBAY, Senior Vice President
Continental Energy Systems

POSITION STATEMENT: Assisted with ENSTAR presentation and answered questions.

CURTIS THAYER, Director
Corporate and External Affairs
ENSTAR Natural Gas Company
Anchorage, AK

POSITION STATEMENT: Answered questions during presentation.

ACTION NARRATIVE

CHAIR CHARLIE HUGGINS called the Senate Resources Standing Committee meeting to order at [3:38:18 PM](#). Present at the call to order were Senators McGuire, Stevens, Wagoner, and Chair Huggins. Senators Wielechowski and Green joined the meeting in progress. Also in attendance was Representative Jay Ramras.

CSHB 267(RES)-WILDLIFE VIOLATOR COMPACT

[3:38:57 PM](#)

CHAIR HUGGINS announced consideration of HB 267. Before the committee was CSHB 267(RES).

JEANNE OSTNES, Staff to Representative Craig Johnson, Alaska State Legislature, on behalf of Representative Johnson, sponsor of HB 267, referred to yesterday's discussion of the database. She gave her understanding that Alaska's open-records law puts these people on the court system's computers. All the Wildlife Violator Compact does is duplicate that onto the database. She pointed out that only adults go on the database, no matter what the age of adulthood is in a particular state. In Alaska, a person receives a fishing or hunting license at age 16, but wouldn't go onto the database until considered an adult, age 18.

[3:40:19 PM](#)

SENATOR MCGUIRE moved to adopt CSHB 267(RES), Version 0. There were no objections and it was so ordered.

SENATOR MCGUIRE moved to report CSHB 267(RES) from committee with individual recommendations and attached zero fiscal note. There being no objection, CSHB 267(RES) was moved out of the Senate Resources Standing Committee.

Presentation: Cook Inlet Gas - Contracts and Storage;

Bullet Line Discussion - ENSTAR

3:40:53 PM

CHAIR HUGGINS announced the committee would hear a presentation from ENSTAR Natural Gas Company ("ENSTAR").

CHAIR HUGGINS welcomed Representative Jay Ramras, crediting his energy-related efforts on behalf of Fairbanks. Noting Chugach Electric was represented, he asked whether anyone was present from the administration; there was no response. He highlighted the importance of potentially bringing energy to the demographic center through Fairbanks and along the Parks Highway.

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COLLEEN STARRING, Regional Vice President, ENSTAR Natural Gas Company, introduced Gene Dubay and Curtis Thayer, noting they would discuss the status of ENSTAR's gas supply contracts as well as some mid-term and long-term goals as a result of contract negotiations. She began a PowerPoint presentation accompanied by a handout, showing a slide labeled "ENSTAR Facts" with the following points:

- Established 1961
- Number of Meters - 128,000+
- Number of Alaskans Served* - 345,600
- Miles of Distribution and Transmission Mains - 3,000+
- Direct Impact on Alaska's Economy - \$306 mil
- ENSTAR Employees - 174 (+60-80 seasonal temp)
- Rank among Alaskan energy Utilities - 1
- New customers in 2007 - 2,376

*128,000 Meters x 2.7 Alaskan Consumers per Meter

MS. STARRING elaborated. She told members ENSTAR serves 80 percent of Alaska's population. The direct impact relates to gas sold to residential and commercial customers, \$306 million a year. The number of employees rises in summer due to adding construction employees. Also, ENSTAR is the only natural gas utility in Alaska. In response to Senator Wagoner regarding seasonal workers, she said those are employed through ENSTAR.

3:44:48 PM

MS. STARRING showed slide 3, a map of the Southcentral distribution system, including lines owned by ENSTAR and others as well as gas fields from which the current supply comes. She turned to slide 4, "Cost Comparison: Percentage of Annual

Bill," which had pie graphs comparing 1998 and 2008. It showed the average bill in 1998 was \$3.77 per thousand cubic feet (Mcf), whereas for 2008 it is \$8.57/Mcf. The average consumption per household was similar: 179 Mcf in 1998 versus 173 Mcf in 2007. But the average annual bill was \$675 (\$56.25/month) for 1998 versus \$1,483 (\$124/month) for 2007.

MS. STARRING explained that the increase isn't due to ENSTAR's costs. In 1998, ENSTAR's cost to the customer was \$1.92, whereas in 2008 it is \$1.70. Reductions were achieved through operating efficiencies. However, the cost of the commodity has risen 80 percent, which is passed directly through to the customer, without ENSTAR deriving a profit from it. Although the average residential bill in 2008 was \$1,483, ENSTAR's portion was only \$294; in 1998 the residential cost was \$675 a year, with ENSTAR's share at \$352. So ENSTAR's costs have decreased. She turned the presentation over to Mr. Dubay to discuss current gas contracts.

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GENE DUBAY, Senior Vice President, Continental Energy Systems ("Continental"), in response to Senator Wagoner, began by explaining that Continental is a holding company that owns both ENSTAR in Alaska and SEMCO Energy, a gas utility serving about 300,000 Michigan customers. Continental also has entered into an agreement to acquire most of the gas customers in New Mexico. It is a privately held company.

MR. DUBAY showed slide 5, a bar graph titled "Gas Supply: January 2008 Outlook" that had billion cubic feet (Bcf) on one axis and years 01 through 19 on the other. He highlighted the near term, 2009-2013, when there'll be an unmet requirement for which they're entering into contracts; that was shaded black and white, labeled "Under Negotiation." The key also had categories for Beluga, Moquawkie, Unocal Conditional Option, Marathon-APL4, Unocal, and Undesignated.

MR. DUBAY read from slide 6, "Three Driving Principles," which said:

1. Assure a safe reliable supply of natural gas for our customers.
2. Achieve the lowest price possible for our customers.

3. Continue encouraging exploration, thereby increasing the natural gas reserves.

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MR. DUBAY turned to slide 7, "Gas Supply Contract Timeline," which had the following points:

February 2007:	ENSTAR solicited gas through RFP
March 2007:	Producers respond
March 2007-Present:	Negotiations (supply & gas storage)
December 2007:	Term Sheets signed with two producers
Mid-March 2008:	Target to submit for Regulatory approval
March-Oct. 2008:	Regulatory process
January 1, 2009:	2.1 Bcf shortfall if contracts not approved

MR. DUBAY elaborated. He said in February 2007 ENSTAR solicited new proposals through a request for proposals (RFP) process. Although negotiations began in March 2007, those didn't get a good footing until the administration and the producers saw a way to extend the license on the liquefied natural gas (LNG) plants. There are clean agreements, he said, but not yet approved at the appropriate levels. He indicated the agreements are expected to be signed in the next couple of weeks and then filed with the Regulatory Commission of Alaska (RCA).

MR. DUBAY, in response to Senator Wagoner and Chair Huggins, explained that the agreements have been negotiated and it is expected that the producers will sign them; there are no remaining business issues to his knowledge. After those are signed, they'll be filed with RCA and go through its process; he expressed hope that those will be approved in October 2008.

SENATOR WAGONER asked what happens if those aren't approved by October. Recalling that the last agreement presented to RCA was turned down, he also asked what happens if one or both are turned down after RCA's review. He added that he wasn't finding fault, but this process leaves a lot to be questioned.

MR. DUBAY agreed, saying he didn't know. The producers will have an out if there isn't timely approval, but whether they'll exercise that is up to them. Ideally, there'll be approval and the producers won't exercise that option if it's not timely.

SENATOR WAGONER asked what the producers would do if they took the out, such as looking for other commercial customers.

MR. DUBAY replied he couldn't speak for them, but could relay what he believed they'd described. Part of their concern is that they'd have to deliver on the agreement, which requires certain infrastructure. If the agreement isn't approved in a timely fashion, would they spend what is required for the infrastructure? He surmised the answer would be yes, because there'd be expectations. In theory, if the agreement is signed the day before delivery is required, they could be breaching the agreement because of inability to meet the requirement. That is their conundrum in moving forward.

CHAIR HUGGINS conveyed optimism, asking whether that feeling was realistic.

MR. DUBAY said he believed so.

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SENATOR WIELECHOWSKI joined the meeting.

SENATOR WAGONER remarked that he wasn't quite so optimistic. He asked: If there isn't approval, what happens to the customers that they've contracted with? And what will the company do?

MR. DUBAY answered there are two potential outcomes if the agreements aren't approved in a timely fashion: There may be a legal path to force a resolution or they may begin to talk about curtailment, how to deliver less on peak days, for instance.

[3:53:53 PM](#)

SENATOR GREEN joined the meeting.

SENATOR WIELECHOWSKI highlighted the projected 2.1 Bcf shortfall if contracts aren't approved. He asked how long that would be.

MR. DUBAY returned attention to the bar graph, slide 5. He said that would be in 2009, ramping up in 2010 through 2013. That shortfall would grow over time.

SENATOR WIELECHOWSKI asked whether that is per year.

MR. DUBAY replied initially it would be about 2 Bcf, but the total gas under the contract is 37 Bcf.

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MR. DUBAY turned to slide 8, "Gas Supply Contracts," which had the following points:

- Supply Commitment subject to U.S. DOE approval of LNG export authorization
- ENSTAR to develop gas storage 2011
- ENSTAR will work with producers for DNR acceptance of price to be paid as value of the State's royalty share
- ENSTAR target for RCA approval: October 2008

MR. DUBAY explained that the supply contracts are subject to U.S. Department of Energy (DOE) approval of the LNG export authorization. Because ENSTAR has some burden for deliverability, by 2011 it must either develop a storage service or purchase it from others.

MR. DUBAY further explained that these contracts don't have a full-requirement obligation; there is some obligation for the utility going forward. There is an agreement with the producers to work with the Department of Natural Resources (DNR) on acceptance of having the price to be paid as the value of the state's royalty gas.

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SENATOR WIELECHOWSKI asked: What is the average per Mcf that is paid now for gas? And what is ENSTAR asking RCA to approve?

MR. DUBAY answered the average is about \$7, but \$8 delivered. That's an index price. These contracts are index-related, with a trailing index average. If the index stays flat, the agreements won't have a significant additional cost beyond what is paid today. If the index runs up, the price goes up; if the index goes down, so does the price. What is filed with RCA will address ENSTAR's ability to hedge these contracts to reduce volatility in case of a cataclysmic event that affects the price for a couple of months, for example.

SENATOR WIELECHOWSKI surmised it will be indexed to something like Henry Hub, now at almost \$10 per Mcf. He said for Henry Hub and other indexes, it's for gas that can be sold to many different pipelines. However, the Cook Inlet gas they're buying is stranded.

MR. DUBAY replied they won't use the Henry Hub index. As an analogy, in the summertime he pays \$300 a night for a hotel room that's \$100 at other times. He said he's not an advocate for the producers, but for these index-related contracts they're not paying more than a utility in Oklahoma, Texas, or Michigan. So he doesn't feel that the producers in the negotiations have taken advantage of any lack of liquidity in this market.

SENATOR WIELECHOWSKI asked how much it costs to extract the gas. He noted he'd heard about a dollar or less.

MR. DUBAY said he had no idea.

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MR. DUBAY turned to slide 9, also labeled "Gas Supply Contracts," which had the following points:

Two Contracts

- Terms: 2009-2013
- Total Volume Commitment (combined) = 37.6 Bcf
- Energy price is a composite index comprised of multiple pricing points

Pricing Structure

- Base Load Gas
- Seasonal Gas
- Needle Peak Gas

MR. DUBAY explained that there are two contracts to take them through 2013 with the unmet requirement. The total volume is approximately 37 Bcf. The pricing is index-related. They'll get a discount for base load gas and will have some premium for seasonal and needle peak gas; those volumes were graphed in slide 10, "Tier Pricing Structure."

MR. DUBAY showed slide 11, "Portfolio Volume Summary," noting there is little volume purchased in the needle peak category. Those are the volumes for which they'll ultimately develop storage for these contracts, beginning in 2011. Initially, it will be a little over 0.5 Bcf, but that will climb. By 2013,

they'll need 1.3 Bcf coming out of storage to meet requirements in the community.

MR. DUBAY, in response to Chair Huggins, returned to slide 10, "Tier Pricing Structure," a graph showing daily volumes by month for 2007; a key showed the needle peak, seasonal, and base tiers. He said more infrastructure is required for unusual days with highest demand; that gas most often comes out of storage or some other "peaking" facility, and there is more value associated with it. The tiered pricing in these negotiations somewhat reflects the cost of gas at the needle peak.

MR. DUBAY pointed out that, conversely, gas taken every day through the summertime should cost them less. It is easier to produce and requires less infrastructure. There'll be an incentive to fill storage with that gas, which they can take in summer at a flat rate. There'll be a price difference between tiers. He turned the presentation back to Ms. Starring, noting ENSTAR is looking at storage as an intermediate-term requirement.

4:02:31 PM

MS. STARRING showed slide 12, "Gas Storage Options," which said the following:

- Acquire and develop in-field storage reservoir
- \$50 Million

- Construct a North Cook Inlet peak shaving plant
- \$175-200 Million

- Continued export of LNG from existing Kenai plant and add peak shaving for ENSTAR
- \$5 Million (equipment only cost)

- Use existing Kenai LNG plant if LNG export ceases
- To be negotiated with owners of plant

MS. STARRING explained that in 2011 ENSTAR will have a shortfall of less than 1 Bcf of gas. After analyzing options to deal with that, their top choice is to acquire in-field storage, existing fields in Southcentral Alaska; they believe this would cost about \$50 million to develop, would be the most cost-effective, and would be the least labor-intensive as far as getting a plant ready to go.

CHAIR HUGGINS asked what that \$50 million would buy.

MS. STARRING replied it would buy the rights to the reservoir, the field itself, the gas that would be purchased, as well as the compression and vaporization equipment associate with that storage field to get it to ENSTAR's lines and to the customers. In-field storage isn't a solution for large volumes of gas. It would be purely to assist with peak seasonal needs.

MR. DUBAY added that for gas which goes into the field, a lot of gas is never taken out. This cushion gas is a big slice of the cost.

CHAIR HUGGINS clarified for listeners that the gas would be pumped into a cavity in the ground.

MS. STARRING affirmed that, saying most are existing gas reservoirs that are depleted or have little deliverability left in them. Those can be filled with gas for seasonal peak needs.

[4:04:37 PM](#)

SENATOR WAGONER asked: For a typical field, what percentage of gas is recovered after putting gas into the field?

MS. STARRING answered it depends on the characteristics of the field itself. Reservoir engineers are looking at that and have come up with different numbers, depending on the field. There should be more data in the next few months.

SENATOR WIELECHOWSKI asked: Does the fact that ENSTAR doesn't have this storage reservoir cause the price of gas to be higher than it would be, because of the spikes?

MS. STARRING replied that currently the producers are taking care of this deliverability need. They have storage available to them, and ENSTAR has relied on that in the past for the full-requirement contracts. As they've moved through these negotiations, however, the environment has changed. She said it is incumbent on ENSTAR to take care of its long-term needs. In further response, she said they pay a reservation or fee to hold that gas available. Although she didn't know what ENSTAR is paying in the current contract, she offered to find out.

CHAIR HUGGINS recalled that the base tier for stored gas would imply a lower rate.

MR. DUBAY explained that they would fill storage in a summer off-peak period with gas in a base tier or a discount to that base tier.

SENATOR WIELECHOWSKI asked: Has ENSTAR figured out what kind of cost savings the consumers will see if \$50 million is spent to acquire this?

MS. STARRING answered no.

MR. DUBAY added it might be 1.0 times an index, as opposed to 1.5 for needle peak gas. The index will provide an absolute dollar figure, but not until the time when the gas is put in and then taken out. However, it will be known in the contract what the difference is between the index price and that needle peak.

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CHAIR HUGGINS surmised this negates ENSTAR's reliance upon the LNG plant as a reserve, assuming successful storage.

MR. DUBAY affirmed that, ultimately.

MS. STARRING continued with slide 12, noting ENSTAR had eliminated the second option, constructing a peak shaving facility; the most expensive, it would have required ordering the steel to build the tank now and would have added \$23/Mcf to the cost of the gas. As a third option, they've talked with the producers at the Kenai plant about opportunities to simultaneously export LNG and divert gas to storage for ENSTAR; they are in discussions now and believe the equipment would cost about \$5 million.

MS. STARRING noted as a fourth option, if the producers choose not to ask for relicensing after the current 2011 period, ENSTAR would be willing to partner with others to purchase that facility to operate as a storage facility for ENSTAR, or else to have the producers continue to own it and sell a storage service to ENSTAR and perhaps other utilities.

MS. STARRING returned to the third option in response to Senator Wagoner and Chair Huggins. She explained that the gas is diverted before being converted to LNG and then regasified. The cost is for infrastructure - the compression and the regasification equipment they'd have to install at the plant.

MR. DUBAY added that right now the gas never comes out of a tank for ENSTAR. They'll divert what hasn't been liquefied yet. This would be gasifying it.

SENATOR WAGONER asked: If ENSTAR can negotiate a deal with ConocoPhillips to do peak shaving or a storage reservoir, will those assets then be regulated by RCA?

MS. STARRING answered that right now the utility expects the storage to be regulated, whether it is a service that is purchased or something ENSTAR does internally.

[4:12:38 PM](#)

MS. STARRING showed slide 13, "Develop In-field Storage," with the following points:

- Storage gas needed for seasonal swings in existing underground reservoirs
- Deliverability rate increases with amount of pad gas
- Potential to supplement deliverability with LNG vaporized from Kenai plant while LNG export continues
- Regulatory approval
- New cost to consumer
- Services currently provided by producer; shifts to ENSTAR in 2011

MS. STARRING provided details. She said the more base gas or pad gas is in the reservoir, the more it increases deliverability of that field. It could potentially assist with ENSTAR's peak needs. Also, there is a potential to supplement that deliverability with LNG vaporized from the Kenai plant if the plant continues to export. All these require regulatory approval, and it is a new cost to the consumer. Right now, those services are provided by the producers, but that would become ENSTAR's obligation in 2011.

SENATOR WAGONER asked whether the new cost to consumers would be the same per Mcf for both residential users and commercial users such as those that generate power.

MR. DUBAY answered that it will be determined through the regulation.

[4:14:12 PM](#)

MS. STARRING noted slide 14, "Build Peak Shaving Plant in North Cook Inlet," pertained to the eliminated second option. She turned to slide 15, "Producers Continue to Export LNG from Kenai Plant & Provide Peak Shaving to ENSTAR," which had a photo of an LNG tanker and the following points:

- Contingent on DOE authorization for LNG export through 2011 and thereafter
- Minimal capital and operating expense to add 50 MMscfd of LNG vaporization
- LNG export if approved for March 2009-2011
 - Exporting 99 Bcf over two years
 - Plant can be diverted to Utility needs
 - LNG available for re-gasification
 - 300 MMcf of LNG available in tanks after tanker is filled

MS. STARRING added that ENSTAR believes the expense is reasonable. Currently, the LNG relicensing that is pending approval allows for 99 Bcf of gas to be exported over the next two years. The plant can be diverted and has helped in peak-need situations for utilities in the inlet. She gave her understanding that a tank can be operated with only 60 million cubic feet (MMcf) in it, so there are some opportunities to divert that LNG into gas.

CHAIR HUGGINS asked whether ENSTAR has any information that is less than optimistic that the LNG licensing will be renewed.

MS. STARRING replied no; ENSTAR supported renewal through the negotiations of its gas-supply contracts and has no reason to believe the current licensing won't be approved for 2009-2011.

CHAIR HUGGINS recalled reading articles about the administration's facilitating of continuation of the practice. He asked if that was accurate.

MS. STARRING said yes.

SENATOR WAGONER asked: If an LNG tank is being modified and the LNG is being converted back, being regasified, and put into

ENSTAR's lines, what is the cost per Mcf for that process? He surmised that cost would be passed through to the customer.

MS. STARRING affirmed that, saying she thinks this option is about \$4 per Mcf as an additional cost. She apologized for not having exact information, but said they'd just started to seriously analyze these.

CHAIR HUGGINS requested that she provide that information later.

[4:17:37 PM](#)

MS. STARRING turned to slide 16, "Peak Shaving via Kenai Plant if LNG Export Ceases," which had the following points:

2.25 Bcf of LNG storage

Modify for LNG vaporization and add compression

Option 1 - Producers continue to own and operate

Option 2 - ENSTAR purchases facility

- Regulatory/grandfather issues to investigate
- Costs involved with purchase:
 - Environmental
 - Age of equipment
 - Timing on discontinued export
 - Partner w/utilities for cost-effectiveness

MS. STARRING explained that if the producers don't ask to renew their license past 2011, ENSTAR believes there'd be a little more than 2 Bcf of storage capability at the current tanks; those could be modified for vaporization and compression could be added, and they could be used as a storage facility for ENSTAR and other utilities. They've talked to the producers, and both contracts have language that refers to the fact that if the producers choose not to relicense, ENSTAR could possibly negotiate and acquire that facility, or else they may be interested in maintaining that facility and providing that service to the utility.

MS. STARRING, in response to Chair Huggins, agreed in that case ENSTAR would contract the storage service from them. She said there are costs involved with a purchase, including environmental costs and the age of the equipment, which they're analyzing; there also are grandfathering clauses related to the tanks. She mentioned the timing on discontinued export and also

said they'd look to probably partner with other utilities if ENSTAR purchases that facility for storage.

CHAIR HUGGINS recalled that the LNG plant in Kenai is the oldest LNG operation in the U.S.

SENATOR WAGONER said in the world.

[4:19:06 PM](#)

SENATOR WIELECHOWSKI asked: If ENSTAR does a gas-storage project, how would electric-utility gas customers and residential gas consumers be charged to access that?

MR. DUBAY answered that's part of the regulatory process. While ENSTAR doesn't have a proposal today, one way to do it is this: If a Native corporation took one of these fields and was willing to sell ENSTAR a service, he believes - though he doesn't know the legalities - that ENSTAR would go to RCA and present a service contract for a certain amount. He surmised ENSTAR would buy the service on behalf of all its customers.

MR. DUBAY added that if another utility wanted the service, it would contract for it as ENSTAR had, or else it could request that ENSTAR buy more service and then provide it to the utility. Or perhaps ENSTAR would purchase rights to the field, try to develop the storage, and ask RCA to approve its investment to provide that service to its customers.

SENATOR WIELECHOWSKI asked whether gas storage for utilities is a regulated business activity.

MR. DUBAY responded that sometimes it's unregulated, but in many jurisdictions it's regulated.

MS. STARRING paraphrased slide 18, "Market Outlook," which had the following points:

We have moved from a market of excess deliverability to an environment where deliverability does not meet demand

- Cost of natural gas increases
- More supply contracts needed; smaller volumes
- Pipeline system more complicated to operate

Higher energy costs are not good for Utilities

- Commodity costs are a pass-through with no additional profit for the Utility

- Consumers use less
- Slower payments and higher bad debt
- Consumer satisfaction decreases
- Increased theft of service

New Rate designs are needed that will allow a utility to encourage conservation

- A rate structure that encourages conservation is good public policy

MS. STARRING noted the pipeline system has become more complicated to operate as a result of trying to mesh together all these contracts and to ensure adherence with each contract.

[4:22:07 PM](#)

MS. STARRING told members that to alleviate the above-listed problems, ENSTAR believes new rate designs are needed, with a rate structure that encourages conservation as good public policy. As ENSTAR files a rate case this year, it will be looking to put such designs in place and bring them before RCA.

CHAIR HUGGINS asked what one of those would look like.

MS. STARRING answered there's a move to unbundle costs, recouping the utilities' costs in a flat fee, similar to how telephone or cable service is provided. That way, customers aren't penalized for higher volumes in the colder winter months or for some homes without good insulation, although they pay for the commodity - the gas.

CHAIR HUGGINS asked how that encourages conservation.

MR. DUBAY replied it encourages the utility to encourage conservation. This clarifies for customers what the utility costs and what the commodity costs.

SENATOR WIELECHOWSKI asked whether ENSTAR has analyzed what that flat fee would be for residential consumers and businesses.

MS. STARRING responded that ENSTAR is in the process of doing that and has ballpark figures, but not an exact cost.

SENATOR WIELECHOWSKI asked about the ballpark figures.

MR. DUBAY replied that in Michigan it was \$25 a month for a residential customer.

SENATOR WAGONER asked: If ENSTAR goes to ConocoPhillips' LNG plant and adds equipment that allows shaving during peak demand, is the \$4 per Mcf just the price of the regasification process, rather than the price of the gas at the end of the process?

MS. STARRING affirmed that. She turned the presentation back to Mr. Dubay to discuss long-term goals.

4:24:52 PM

MR. DUBAY showed slide 19, a map labeled "Natural Gas Options for South Central Alaska" that had a key depicting the following: Highway Route (2,100-3,700 miles), Port Authority/LNG Route (800 miles), Primary Spur Line (300 miles - Parks Highway), Secondary Spur Line (290 miles - Delta Junction-Wasilla), Bullet Line (760 miles).

MR. DUBAY explained that although at the beginning of this year they didn't know from the producers how much gas would be available or for how long, now they know. From discussions, they haven't sensed that the producers will extend and have greater volumes; today the producers are unwilling to commit for new volumes past 2013. Also, ENSTAR has more of an idea about timing for the larger line.

MR. DUBAY said ENSTAR believes it needs to access the North Slope gas to ensure community needs are met, as well as the needs of customers and ENSTAR. It is a solution to knock down energy costs for Fairbanks consumers and to keep the industrial load in the community as well as the associated jobs.

MR. DUBAY noted they need to start making decisions this year, and they'll try to come back with a proposal to go to the Foothills or Prudhoe Bay with a smaller-diameter line. They're working with the producers to reach an agreement under which the producers sell into the line and sell the commodity to ENSTAR. They're also working with others to flange up the engineering and financing.

CHAIR HUGGINS asked which producers this refers to.

4:27:40 PM

CURTIS THAYER, Director, Corporate and External Affairs, ENSTAR Natural Gas Company, clarified that the producers they're talking about for Cook Inlet are Marathon, ConocoPhillips, and Unocal. For the North Slope, when looking towards the Foothills, they're talking about Anadarko. They haven't had those discussions with the three big North Slope producers.

CHAIR HUGGINS surmised ENSTAR is looking at sources other than the legacy fields for the natural gas, then.

AN UNIDENTIFIED SPEAKER answered yes.

4:28:25 PM

SENATOR WAGONER referred to information on slide 20, "Bullet Line Project," which had the following points:

Foothills/Prudhoe Bay to Anchorage

- About 660 miles
- \$3.3 Billion
- TAPS/Parks Highway Route
- North Slope: 35+ TCF
- Foothills: 7-13 TCF (Estimated)
- Nenana Basin: 3-5 TCF (Estimated)

Opportunities/Benefits:

- Provide for Alaska's long term needs
- Create value-added products in Alaska
- Economic growth & stability

SENATOR WAGONER mentioned the \$3.3 billion. He asked: Is that treated gas from a gas treatment facility that will be done by the producers, or does that include a gas treatment facility that ENSTAR would build?

4:29:00 PM

MR. DUBAY replied Anadarko believes it has a dry gas. It would be a dry gas delivered into the line.

MR. THAYER added that Foothills gas is dry, so there would be no conditioning plant. In further response, he indicated Anadarko believes it is drier than Cook Inlet gas.

CHAIR HUGGINS surmised this is optimal gas from everyone's perspective. Ultimately, if it's going to someone's house in the Matanuska-Susitna area, it would be less expensive.

SENATOR WIELECHOWSKI asked what size the line would be, what the tariff is anticipated to be, and whether there'd be off-take points for Fairbanks or elsewhere.

MR. DUBAY answered that the line would be 0.5 Bcf a day. The tariff depends on whether the industrial load continues, Agrium or the LNG plant; that knocks down the tariff significantly for

the community. Ideally, there'd be a fertilizer plant and an LNG export facility, in which case he believes the tariff would be less than \$2.

CHAIR HUGGINS emphasized that the industrial load is important because it lowers the cost for domestic customers. He said they're talking about the preferred customers for the natural gas - Alaskans.

MR. DUBAY agreed Alaskans are the preferred customers. He said there is energy for Anchorage, Fairbanks, and along the line, but the industrial load anchors that cost.

CHAIR HUGGINS requested confirmation that ENSTAR's course of action wouldn't affect the amount of gas available for a larger-diameter line, one through Canada, for instance.

4:31:36 PM

MR. DUBAY replied that it may facilitate it; there wouldn't be the in-state complexities. He opined that it makes the other solution simpler.

CHAIR HUGGINS highlighted the importance of doing this in the near term. He requested confirmation that this can be done.

MR. DUBAY affirmed that.

SENATOR GREEN suggested this also promotes further development of gas fields once there is an established market.

MR. THAYER agreed. He addressed slide 21, which had the following list:

- ENSTAR
- Chugach/ML&P
- LNG
- Fairbanks Natural Gas
- Agrium
- Fairbanks Power
- Power Generating Fuel Switching

MR. THAYER explained that if the source is the Foothills when looking at a bullet line, it resolves a lot of politics around the North Slope and the producers. They can go right to the Foothills. Of course, ENSTAR would be a customer and, in time, Chugach Electric and Municipal Light & Power. The LNG plant could be the Kenai plant or another that is different from or in

addition to the existing plant. Fairbanks Natural Gas would be a customer, and Agrium possibly would come back in. He also mentioned Fairbanks Power and fuel switching due to economics.

MR. THAYER said power plants in Southcentral Alaska are mainly gas-driven. In Fairbanks and other areas, they get economy energy sales out of Anchorage that are being limited now due to the supply in Cook Inlet, but they'll be switching from other fuel sources. Also, in Fairbanks there are two military bases as well as a refinery that uses its own products for its power and that could easily use natural gas.

[4:33:47 PM](#)

CHAIR HUGGINS asked what the total demand would be for all the customers just described. First, however, he called on Senator Wielechowski.

SENATOR WIELECHOWSKI asked how serious this project is. For example, do they have financial partners? Can they hold an open season? Or is it just being discussed theoretically?

MR. DUBAY replied he doesn't believe they have a choice. He highlighted the commitment of ENSTAR/Continental to this project, although it may take a few months for their various constituencies to embrace this idea.

MR. DUBAY also opined that the community doesn't have a choice; while it might take some time to rally around that, he doesn't think it's realistic to import LNG and pay the price for occasional cargo for that, or to take gas off the larger line, with an uncertain future and timing if there is to be the required gas. If there isn't gas to put in the pipes, he said, ENSTAR's investment in the community doesn't yield what is needed. And the community bears a much bigger cost if there is some alternative fuel for the heating requirements.

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MR. THAYER added that ENSTAR did an analysis in 2006. If Southcentral Alaska had to switch to fuel oil at 2006 prices, the fuel alone would cost \$0.5 billion a year. That's without conversion costs, trucks on the road, and so forth. Fairbanks Central Gas charges about \$22/Mcf, which is on par with what they pay for fuel oil with the same Btu content. That's where, in Anchorage, they have the lowest prices in the country.

MR. THAYER turned to the project timeline, saying a lot has come together fairly quickly. Much depends on Anadarko, which is

spending money this drilling season and is hoping to have results in the next couple of months. Anadarko is the one that approached ENSTAR about ENSTAR's involvement in a transmission line, which they're greatly interested in.

MR. THAYER reported having met with local Native corporations in Anchorage, which also want to invest and be part of this project. He concluded by saying they're trying to bring everyone together, but through private enterprise.

SENATOR WAGONER surmised building this gas line would run up against many of the same time requirements that a 60-inch line would have - environmental impact statements, permitting, and so on - although it might be compressed somewhat, since it's all within Alaska.

MR. DUBAY offered the belief that they can get the gas when they need it. They're committed to spending the resources needed to finalize the engineering study, he said, and believe they can have the gas in 2014.

CHAIR HUGGINS surmised a Federal Energy Regulatory Commission (FERC) certificate would be required for gas to an LNG plant. He asked how that affects the timeline.

MR. THAYER answered that ENSTAR builds transmission lines; they don't operate LNG facilities. So that would be left to the current LNG facility or another, if someone decides to build a different one.

SENATOR WIELECHOWSKI surmised the alignment goes through Denali National Park and Preserve.

MR. THAYER answered yes and no. There are three rights-of-way down the Parks Highway: 1) the intertie, which goes outside the park boundaries, 2) the railroad, and 3) the highway itself. The latter two go through the park boundaries. He said ENSTAR has determined there is about 1,500 feet of the new park boundaries; they've met with the congressional delegation to see if they can get something through the 1,500 feet, which is probably cheaper. In the alternative, they can go around and do the intertie, a longer route that will cost more.

MR. THAYER noted this is one of the issues ENSTAR is looking at. They've done a lot of the right-of-way work on the Parks Highway, thinking there'd be a spur line from Anchorage to

Fairbanks. The component that's been added now is from Fairbanks to the North Slope or the Foothills.

[4:39:42 PM](#)

SENATOR WIELECHOWSKI asked about off-take points and whether there is the ability to compress the gas and get 0.75 or even 1.0 Bcf a day.

MR. DUBAY replied off-take points could be added, and with compression they could add volume.

SENATOR WIELECHOWSKI asked how this ties in with the Alaska Gasline Inducement Act (AGIA) and whether ENSTAR is asking for anything from the state.

MR. DUBAY answered that the tie-in here is informational. There is no request at his point except an open mind and support. They're not asking for anything.

CHAIR HUGGINS emphasized that ENSTAR is proposing to bring gas to the preferred customer, from the Foothills to the Kenai Peninsula. He said this is about Alaska and taking care of Alaskans, which should be a priority to everyone.

MR. THAYER lauded this legislature for taking the lead in November during the special session by reducing the tax burden for in-state use. There was a Cook Inlet exemption in the last petroleum production tax bill, he indicated, and then the same 22.5 percent tax rate was for elsewhere in Alaska. He said it killed the Nenana Basin and a partner pulled out, but now Doyon is looking at it again and Anadarko has a renewed interest because of the tax structure.

[4:41:46 PM](#)

SENATOR WIELECHOWSKI told members he'd slowly come to strongly believe that Alaska needs an in-state gas line for the reasons stated by Chair Huggins. He asked how this will affect gas rates for Alaskans.

MR. DUBAY replied they're working on a commitment with Anadarko for selling and producing into the line. But hypothetically if a producer were willing to sell at an index minus the transportation, there'd be no impact on price. The price would be similar to what there is now, an index price. If the line were to be anchored with the LNG plant or the fertilizer plant and the resulting tariff were to be in the \$2 range, it's not

unreasonable to think there might be an index price minus the transportation. The community would pay what it pays today.

MR. THAYER pointed out that those who live in Fairbanks would pay less than half what they're paying now.

SENATOR WAGONER said it's commendable that private industry is looking at this; he and Mr. Thayer have had conversations. However, Agrium is looking at coal gasification. He expressed concern that if that plant sits another seven years without operating, it may not be feasible to start back up. He acknowledged he hadn't talked with Agrium about how long the plant can sit.

MS. STARRING replied she didn't know Agrium's long-term plans, but after ENSTAR's last trip to Juneau two weeks ago they received a call from Agrium, which is aware of the discussions surrounding an in-state bullet line and is interested in talking to ENSTAR about it; ENSTAR will follow up.

SENATOR GREEN suggested that when discussing a future price, the question has to be whether there will be gas.

CHAIR HUGGINS praised ENSTAR as pioneers, noting Fairbanks Natural Gas teamed with Exxon and was going to bring it in trucks to Fairbanks. In this case, he said, a pipeline will really deliver a product that will be meaningful to people.

[4:45:52 PM](#)

MR. DUBAY recalled 15 years ago, when there was more deliverability than demand, lots of customers got a lower price relative to the index. In the Lower 48 as recently as this year, when there was more deliverability out of the Rockies than demand, some gas came out of there for about \$1/Mcf. In Alaska today, however, there is much more demand than deliverability.

MR. DUBAY said while ENSTAR has no commitments now for pricing from producers, logically if this line existed it would produce the situation 15 years ago - way more deliverability than demand at the end of the line. Noting in such a case there's always price discounting at the end of the line, he said that is the situation they'd like to return to.

CHAIR HUGGINS recalled that gas was at 50 cents for a time in Wyoming four or five years ago.

MR. DUBAY agreed.

CHAIR HUGGINS welcomed Kurtis Gibson from the administration's gas team, noting he'd arrived about 45 minutes earlier.

4:48:01 PM

MR. THAYER summarized slide 22, "Advantages of ENSTAR Bullet Line," which had the following points:

- Timing (sooner rather than later)
- Alaska's control over own destiny
- Long-term supply solution for South-Central Alaska
- Not mutually exclusive with pipeline to Lower 48
- Could revive Agrium plant
- Could extend life of Kenai LNG plant
- Could create opportunities for gas-based industrial growth
- In-state markets qualify for lower tax burdens under Alaska's ACES
- Achieves stable end-user pricing for South-Central Alaska
- Ensures sufficient wellhead prices for exploration & development

MR. THAYER specified that opportunities for gas-based growth relate to Southcentral Alaska and Fairbanks. He also said the wellhead prices are for not only the North Slope and the Foothills, but also continuing in Cook Inlet. Noting ENSTAR is continuing to meet with the administration about this, he opined that the administration also is pleased that the project appears to be moving forward.

4:48:48 PM

CHAIR HUGGINS returned to opportunities for gas-based industrial growth. Mentioning a petrochemical industry, he surmised the administration is working to mature that. He said he believes it would greatly assist the job market in Alaska.

SENATOR WIELECHOWSKI asked whether 0.5 Bcf, perhaps compressed up to 0.75 Bcf, is enough gas for all utilities in Fairbanks, to ship as propane to the Bush, and for a petrochemical industry. He asked if an evaluation had been done in this regard.

MR. DUBAY answered no with respect to the petrochemical industry; that isn't their core competency. What ENSTAR can do is deliver this line and get the gas to the community without adding a lot of complexity. He predicted other uses will happen if the project starts to take off, however, because of an available gas supply, perhaps at a discount. But that cannot be counted on. This project has to work without it.

SENATOR WIELECHOWSKI asked if ENSTAR has had discussions with the Alaska Natural Gas Development Authority (ANGDA).

MR. DUBAY replied that all he can say is what ENSTAR can do to get the community the gas it needs. Emphasizing a focused approach, he said ENSTAR believes that it can do this project and that it will go forward.

[4:51:27 PM](#)

SENATOR WAGONER remarked that if this gas is so dry, there won't be propane. He noted he'd provided the name of someone interested somewhat in a petrochemical plant that dealt with ethane. He suggested a line could be extended from Prudhoe Bay to intersect this, ethane could be put in the line, and then there could be a plant somewhere to take that back out; then there'd be propane too.

MR. THAYER mentioned 60 or 70 miles.

CHAIR HUGGINS surmised that's the distance from the Foothills.

SENATOR McGUIRE recalled a proposal from Netricity a few years back; that Silicon Valley company was looking for low-cost energy and seeking to relocate its headquarters and database warehouse in Alaska. She suggested there will be exciting opportunities.

CHAIR HUGGINS predicted that a lot of folks will be happy if ENSTAR is successful.

[4:53:11 PM](#)

MR. THAYER paraphrased portions of slide 23, "What is ENSTAR doing?" It read:

- Partnering with ASRC, Agrium, Anadarko, Armstrong, CIRI, Chevron, Chugach Electric, ConocoPhillips, Doyon, ML&P, Marathon, and Michael Baker Engineering
- Analyzing the optimum mix of energy supply options to ensure continued economic growth in Alaska
- Develop gas storage facilities in South Central Alaska
- Provide a detailed conceptual analysis to define the cost and benefits of a bullet pipeline to South Central Alaska

MR. THAYER added that Armstrong is still looking for gas in Lower Cook Inlet, which is more short term; Chevron is one of their producers; and Chugach Electric is a fellow utility. He mentioned the others briefly.

CHAIR HUGGINS asked about the Native corporations.

MR. THAYER specified that CIRI and ASRC are the two they're working and talking with right now, and they've talked with Doyon about the Nenana Basin.

CHAIR HUGGINS thanked the presenters and asked them to keep the committee informed.

There being no further business to come before the committee, Chair Huggins adjourned the Senate Resources Standing Committee meeting at [4:54:50 PM](#).