

**ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON ENERGY**

March 28, 2009

10:00 a.m.

MEMBERS PRESENT

Representative Bryce Edgmon, Co-Chair
Representative Charisse Millett, Co-Chair
Representative Nancy Dahlstrom (via teleconference)
Representative Kyle Johansen
Representative Jay Ramras (via teleconference)
Representative Pete Petersen
Representative Chris Tuck

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

HOUSE BILL NO. 164

"An Act relating to noncompetitive leases of state land and for rights-of-way for oil or natural gas pipelines that originate and terminate within the state and to the regulation and certification of those pipelines; relating to conditional certification for certain new natural gas pipelines; relating to definitions of "common carrier" and "firm transportation service" in the Pipeline Act."

- HEARD AND HELD

HOUSE BILL NO. 163

"An Act clarifying the purpose of the Alaska Natural Gas Development Authority; and relating to definitions of certain terms in AS 41.41."

- HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 164

SHORT TITLE: IN-STATE PIPELINES: LEASES; CERTIFICATION

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

03/02/09	(H)	READ THE FIRST TIME - REFERRALS
03/02/09	(H)	ENE, RES, FIN

03/28/09 (H) ENE AT 10:00 AM BARNES 124

BILL: HB 163

SHORT TITLE: ALASKA NATURAL GAS DEVELOPMENT AUTHORITY

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

03/02/09 (H) READ THE FIRST TIME - REFERRALS
03/02/09 (H) ENE, RES, FIN
03/28/09 (H) ENE AT 10:00 AM BARNES 124

WITNESS REGISTER

JOE BALASH, Special Staff Assistant for Energy and Natural Resource Issues
Office of the Governor
Juneau, Alaska

POSITION STATEMENT: Presented HB 164 and HB 163 on behalf of the governor.

HAROLD HEINZE, CEO
Alaska Natural Gas Development Authority (ANGDA)
Office of the Commissioner
Department of Revenue (DOR)
Anchorage, Alaska

POSITION STATEMENT: Testified during the hearing on HB 163.

ACTION NARRATIVE

CO-CHAIR CHARISSE MILLETT called the House Special Committee on Energy meeting to order at 10:00 a.m. Representatives Petersen, Tuck, Edgmon, Ramras (via teleconference), and Millett were present at the call to order. Representatives Johansen and Dahlstrom (via teleconference) arrived as the meeting was in progress.

HB 164-IN-STATE PIPELINES: LEASES; CERTIFICATION

CO-CHAIR MILLETT announced that the first order of business would be HOUSE BILL NO. 164, "An Act relating to noncompetitive leases of state land and for rights-of-way for oil or natural gas pipelines that originate and terminate within the state and to the regulation and certification of those pipelines; relating to conditional certification for certain new natural gas pipelines; relating to definitions of "common carrier" and "firm transportation service" in the Pipeline Act."

[10:00:53 AM](#)

JOE BALASH, Special Staff Assistant for Energy and Natural Resource Issues, Office of the Governor, informed the committee the bills presented are components of a three-part plan to initiate an in-state natural gas pipeline project. The first component is a funding request to initiate work needed to define the need for, and the delivery of, natural gas to Alaskans. This work includes; an alternatives analysis, selection of a route, applications for permits and rights-of-way, identification of the source of gas and potential customers, and the eventual sanctioning of a project. The work effort is led by Harry Noah, Project Director. Mr. Balash continued to explain the other components of the plan are HB 163 and HB 164. House Bill 164 makes the changes in the Pipeline Act that are necessary to facilitate the commercial relationships for a privately constructed and operated pipeline. He recalled that discussions with ENSTAR Natural Gas Company and Anadarko Petroleum Corporation about a bullet line from Gubik field to Southcentral began in December 2008. Those discussions centered on a specific project; however, prior to the introduction of the bill, the governor directed that the changes made by HB 164 must be applicable to all in-state pipelines. He acknowledged that the proposed legislation was developed without "having done a lot of the homework to understand ... older infrastructure and preexisting relationships."

[10:05:41 AM](#)

MR. BALASH pointed out HB 164 is primarily about access and contractual rights to capacity in a pipeline. Historically, Alaska's right-of-way leasing act requires the use of common carrier service to obtain a lease to build a pipeline. A common carrier means that any entity with a product will be able to ship, regardless of the impact on the existing shippers. However, ENSTAR and Anadarko expressed concerns that after spending billions of dollars to develop a field, they wanted a contractual right to capacity in the pipeline. Therefore, the requirement in state law that a pipeline operate as a common carrier needs to be changed. Mr. Balash explained that Title 42 of the Pipeline Act provides for firm [transportation] service under a contract, but does not protect against proration.

[10:08:46 AM](#)

MR. BALASH noted that the first two sections of the bill make technical references to other changes in the bill. Section 3 creates a new set of covenants required for in-state pipelines

only. These covenants are important as the state "[is] stepping down from that gold standard of common carrier to a form of contract carriage, we wanted to make sure that access for new exploration, new development, and new deliveries, was going to be possible." The covenants require that the party agrees to the following: open seasons on a regular basis; nondiscriminatory treatment of shipping commitments; expansions; transparency in engineering increments; expansions on commercially reasonable terms; commit to rolled-in rates; offer a distance sensitive tariff; commit to Alaska hire; commit to a project labor agreement; and commit to be regulated by the Regulatory Commission of Alaska (RCA). Mr. Balash noted the covenants are based on the "must haves" in the Alaska Gasline Inducement Act (AGIA) of 2007.

[10:11:45 AM](#)

CO-CHAIR MILLETT asked whether there were circumstances under which this project would be regulated by the Federal Energy Regulatory Commission (FERC) and not the RCA.

[10:12:17 AM](#)

MR. BALASH directed attention to Sec. 3, lines 20-22, of the bill and pointed out the proposed legislation identifies a pipeline that is subject to intrastate jurisdiction, not interstate jurisdiction. Under certain circumstances, FERC may have jurisdiction over a pipeline; for instance, one that crosses the state border. In addition, FERC does have "citing authority" for liquefied natural gas (LNG) facilities; however, FERC's authority in these instances is not entirely clear.

[10:14:57 AM](#)

REPRESENTATIVE JOHANSEN questioned the economic viability of an intrastate pipeline that promised to begin and end in Alaska. He suggested that FERC would get involved if at some time the gas was flowing out of state in order to find a market and secure financing.

[10:16:43 AM](#)

MR. BALASH assumed the question is, "What if the pipeline is going to move more gas than is used here in Alaska?" He observed when the pipeline service ends, the gas has to go somewhere, such as manufactured into a product, or converted into LNG. The critical question is whether the export will go

to East Asia or to the Lower 48. The FERC would assert jurisdiction as soon as the product or the gas crosses state lines; however, until more is known about the commercial aspects of the project, it will be difficult to determine whether FERC does or does not have jurisdiction. Mr. Balash advised the aforementioned determination, and the commercial aspects of the project, will be identified during the next two years.

[10:18:16 AM](#)

REPRESENTATIVE JOHANSEN opined until the "whole picture comes together, we don't know where FERC comes in, we don't know how far back up the pipeline they go...." In fact, FERC's involvement will be unknown until much, much, later, he said.

[10:19:14 AM](#)

MR. BALASH concurred.

[10:19:20 AM](#)

REPRESENTATIVE PETERSEN asked whether building a pipeline across federal land would automatically involve FERC.

[10:19:44 AM](#)

MR. BALASH said that crossing federal land does not automatically bring in FERC jurisdiction; FERC jurisdiction is determined by Sec. 7 of the Natural Gas Act (NGA) that regulates the interstate transportation of natural gas.

[10:20:19 AM](#)

CO-CHAIR EDGMON asked whether the state has sufficient information to construct enabling legislation for future work with a private partner.

[10:21:01 AM](#)

MR. BALASH said the administration knows there are parties exploring for gas and who want to develop fields and "count on capacity." This legislation allows changes in the leasing statute and pipeline regulation statute for the kind of commercial contracts required to protect the shipper, and those who are seeking financing and contracts. In the event of the construction of an in-state line, this body of changes would

create a framework familiar to those who would operate a federal interstate project.

[10:22:11 AM](#)

REPRESENTATIVE JOHANSEN gave the example of a pipeline project built without FERC regulation, but that is expanded at a later date to an export market. "Does FERC jump in then?" he asked.

[10:23:26 AM](#)

MR. BALASH acknowledged that the proposed legislation is not specific to a bullet line, but is applicable to a pipeline regardless. In fact, this is an effort to craft an overall state regulatory structure with few differences from FERC regulations, and in the event FERC does step in, there will be few disruptions.

[10:24:36 AM](#)

REPRESENTATIVE JOHANSEN observed movement away from the bullet line concept allows for flexibility in pipeline routes; however, "it all comes down to" the cost of construction. He surmised the pipeline corridor is the easiest and most logical route.

[10:25:34 AM](#)

MR. BALASH said the administration has been working on that question. Typically, the shortest pipeline is the least expensive; however, the differences in cost are not known at this time. Mr. Noah will be undertaking the determination of the cost of each alternative route.

[10:26:53 AM](#)

REPRESENTATIVE JOHANSEN asked whether the bullet line follows the existing pipeline.

MR. BALASH said the all-Alaska pipeline would follow the Trans-Alaska Pipeline System (TAPS) corridor to a liquefaction plant in Valdez. The bullet line would travel down the Dalton Highway to Fairbanks, and then follow the Parks Highway to Southcentral.

[10:28:03 AM](#)

CO-CHAIR MILLETT asked for the administration's plan on what to do with the excess capacity.

MR. BALASH pointed out the first question is to determine what is still available from Cook Inlet. If North Slope gas is going to replace Cook Inlet gas, there will need to be a transition period. He gave the example of a pipeline that cost \$3 billion and has a tariff computed on how much gas is traveling through the pipeline. The less gas traveling through equals a higher tariff, and if the price is too high, companies will be reluctant to commit gas. The tipping point is estimated to be about 400 million to 500 million cubic feet (MMcf) per day; however, the demand for natural gas in Southcentral at this time is about 200 MMcf per day. Thus there needs to be an increase in industrial use to get enough throughput in the pipe for an economical tariff.

[10:31:42 AM](#)

CO-CHAIR MILLETT surmised the administration is looking for an anchor industry such as the export of gas by ConocoPhillips Alaska, Inc. She opined the project will have FERC involvement if there is excess capacity or if the state exports LNG.

[10:32:36 AM](#)

MR. BALASH observed that the present system of pipelines in Cook Inlet supports the LNG plant and is not regulated by FERC.

CO-CHAIR MILLETT cautioned that FERC has considered involvement with the LNG plant and with an in-state pipeline.

MR. BALASH acknowledged that possibility, and assured the committee the administration is working to prevent that from happening; however, a change to FERC jurisdiction will not require a "sea change in approach, or planning, or reordering commercial terms between the parties."

[10:34:03 AM](#)

REPRESENTATIVE PETERSEN recalled the LNG export license was only extended until 2011. He assumed the export license would need to be extended further.

MR. BALASH agreed. Depending on the availability of gas, the facility's status may change from full operation to "warm status." In fact, all of the options present commercial challenges and a transition period.

[10:35:33 AM](#)

REPRESENTATIVE JOHANSEN noted supporters of the in-state gas line have suggested bringing natural gas to Southeast as a way to increase demand. He asked whether the administration has plans to gasify parts of the state such as Nome, the Aleutian Chain, or Southeast to increase demand.

[10:37:51 AM](#)

MR. BALASH spoke of the opportunity to deliver natural gas or propane to communities as an alternative to diesel. The administration sees an imperative to move rural communities away from the use of diesel wherever possible. Whether that is suitable for Southeast, Mr. Balash would not say; however, there is a propane distributor that believes in the possibility.

[10:39:41 AM](#)

REPRESENTATIVE JOHANSEN expressed his belief that "You've got to find a place to put the gas and if you can't do it in-state, you've got to do it out-of-state and ... we're right back where we started from."

[10:40:27 AM](#)

MR. BALASH clarified that exporting gas from Alaska does not automatically "trigger" FERC jurisdiction. If the gas has an international destination only, FERC will not have jurisdiction, as in the case of a long-term contract with an Asian buyer.

[10:41:47 AM](#)

REPRESENTATIVE JOHANSEN recalled a lot of discussion about the potential natural gas markets in the Midwest.

MR. BALASH responded that the pursuit of a large diameter pipeline is, and remains, the priority of the administration. However, because that project is not a certainty, the administration wants to be prepared on a parallel path with an in-state line.

[10:43:28 AM](#)

REPRESENTATIVE JOHANSEN asked whether Congress and constituencies throughout the U. S. can be convinced of the

urgency for both the big pipeline project and [the extension of] the export license.

MR. BALASH said absolutely. The potential for Alaska to deliver gas from a variety of sources is unparalleled, particularly as natural gas hydrates become more commercial. The large diameter gas pipeline will require 55 trillion cubic feet of gas over 30 years from the North Slope. At this time there are 34 trillion cubic feet of known reserves; furthermore, 200 trillion cubic feet is expected to be found in the future. Mr. Balash assured the committee of the opportunity for Alaska gas to flow to Midwestern markets and potentially to premium Pacific Rim markets.

[10:46:18 AM](#)

REPRESENTATIVE TUCK asked whether existing pipelines in the state operate with common carriers.

MR. BALASH confirmed that pipelines have common carrier covenants on their state leases; however, in some cases there are legal arrangements around the covenants.

[10:47:12 AM](#)

REPRESENTATIVE TUCK asked for an example.

MR. BALASH said he could research disputes between parties on the common carrier covenants.

[10:48:11 AM](#)

REPRESENTATIVE TUCK asked whether disputes were usually over access to the pipeline.

MR. BALASH expressed his understanding that a third party shipper wanted to use an original party's pipeline to move their gas into a market. "As, I think Aurora has gone sort of right over the top of ENSTAR in using the ENSTAR common carrier pipelines, but to move gas to customers, and sort of eliminate ENSTAR as the middleman," he commented.

[10:49:14 AM](#)

REPRESENTATIVE TUCK asked whether the proposed legislation will affect the existing common carrier lines.

MR. BALASH advised that the new requirements in [AS 38.35.] 121 would not apply retroactively to state leases already issued. However, the changes made in AS 42.06. Pipeline Act would apply, particularly the changes in definitions in Sec. 8 and Sec. 9.

[10:50:26 AM](#)

REPRESENTATIVE TUCK asked whether the changes in rights of way will eliminate lawsuits. He further asked how the legislation will affect the open season and allow for competition.

[10:50:57 AM](#)

MR. BALASH said the main purpose is to create the regulatory environment that allows commercial parties to enter the kind of arrangements necessary for a privately based project. This must be done in a manner that preserves a high degree of access for third parties. The state has an interest in undeveloped land and resources, and wants to ensure that resources are developed. If access is available through the transportation systems, the state can encourage more activity.

[10:52:14 AM](#)

REPRESENTATIVE TUCK asked whether this would eliminate a monopoly or create more of a monopoly. He expressed his understanding that under a common carrier provision anyone with a supply of gas can potentially ship; however, disputes arise when the pipeline transportation company refuses to allow the shipper access. The proposed changes to the right-of-way that eliminates common carrier provisions would make it so whatever was negotiated in advance takes precedence. Representative Tuck surmised this would create more of a monopoly.

[10:53:04 AM](#)

MR. BALASH said there are certain types of business activities in the state that are monopolies, and that is why they are regulated by the RCA. Natural gas pipelines are one of those businesses; in fact, the right-of-way leasing act directs that there will be common carrier service for pipelines that cross state rights-of-way. There is debate as to whether this is a successful model for the encouragement of third parties to develop oil and gas resources. However, the proposed changes will move away from the common carrier, and require that a pipeline owner hold open seasons and offer capacity on a nondiscriminatory basis. It is expected that this will

encourage third parties to go find and develop additional supplies of gas for transportation in the existing pipelines.

[10:55:18 AM](#)

REPRESENTATIVE TUCK asked how the RCA's authority is going to be affected with the changes in the common carrier provision.

[10:56:10 AM](#)

MR. BALASH said there is nothing in the proposed legislation that fundamentally alters the RCA's authority. The pipeline act provides for firm transportation service and the state right-of-way leasing act does not. The RCA would still have authority to regulate the tariffs and contracts between the shippers and pipeline companies, and the legislation does not diminish its ability to regulate natural gas pipelines.

[10:57:20 AM](#)

CO-CHAIR MILLETT asked for the reasoning behind the use of rolled-in rates as opposed to incremental rates. She also requested a definition of commercially reasonable terms, and asked who would determine the market demand of commercially reasonable terms.

[10:57:45 AM](#)

MR. BALASH explained that when a oil or gas pipeline is put in service it is used to transport valuable commodity to market; access to the pipeline is essential to those who are exploring for oil or gas. Common carrier service allows a shipper to come into the pipeline; however, if there is no more room, the existing shippers are prorated "down." If the state regulation moves away from the common carrier regime to a contractual regime, then all the shippers have firm transportation service that cannot be prorated down. Therefore, a new party cannot get into the pipeline, unless the pipeline expands by compression or looping. After expansion, if rates are rolled-in, all of the shippers pay the same; however, rolling-in may result in higher rates for the original shippers, thus there is a cap of 115 percent on how high the rates can increase.

[11:02:58 AM](#)

MR. BALASH then turned to the subject of distance sensitive rates. During FERC's hearings on the Alaska natural gas

pipeline, both the executive branch and the legislative branch agreed that gas coming from Prudhoe Bay, and taken out in Fairbanks, should not pay same rate as gas delivered to Chicago. The same general principal applies to an in-state pipeline; for instance, gas put in the line at Nenana should only pay for the mileage from that point to market. This method will encourage exploration at all points along the pipeline route. Looking at the situation from the consumer side, gas removed along the route should not have to pay transportation costs for the distance of delivery to Anchorage.

[11:05:52 AM](#)

CO-CHAIR MILLETT remarked:

If someone discovers gas, and they need expansion on the pipe ... it's going to be looping, and they commit their gas to Fairbanks, but the looping causes rolled-in rates to increase all the way to the end of the pipe for the other shippers. How are you going to regulate that instance where a new shipper is coming on board, but only using 400 miles of the pipe, and everybody else is being charged for that expansion all the way to the 800 mile end? The distance sensitive rate for that shipper is just the rolled-in rates to 400 miles.

[11:06:47 AM](#)

MR. BALASH directed attention to Sec. 4, pages 6-7, of the bill and read:

"Commercially reasonable terms" means that revenue from transportation contracts covers the cost of the expansion.

MR. BALASH continued to explain that regulation will depend on "what has to be added where, along the pipe." A distance sensitive tariff defines zones for delivery that add up to a single charge. The RCA would identify which costs apply to which delivery zone.

[11:07:54 AM](#)

CO-CHAIR MILLETT asked who would determine the commercially reasonable term.

MR. BALASH said the commercially reasonable term is defined in the statute and used by the RCA if it is called upon to enforce the terms of the lease covenants. In further response to Co-Chair Millett, Mr. Balash said the RCA looks at the "cost causer" and they become the "cost payer." In a pipeline setting, if everyone is putting in gas at the top of the pipe and bringing it out at the bottom, then everyone pays the same cost. However, if there are segmented delivery points in and out of the pipe, the RCA will have to look at costs and how to allocate costs throughout.

[11:09:39 AM](#)

CO-CHAIR MILLETT remarked:

In your description, the costs, the group that is costing the increase is paying the increase, but in rolled-in rates, everybody pays the cost for someone new entering the pipe....

MR. BALASH agreed that everybody is paying, but everybody is benefitting from the increased compression as the increased compression makes the pipeline more efficient, therefore, the overall toll goes down.

CO-CHAIR MILLETT said, "But that's only in compression. That's not in looping."

MR. BALASH said, "That is usually the case, it depends." Under the common carrier regulation of today, the original shippers would be at risk of being prorated when new shippers come in. [With the proposed legislation] the original shippers are gaining certainty that their capacity will not be prorated, and they are also gaining the certainty that if new shippers come in and costs increase, their costs will not go higher than 115 percent.

[11:11:45 AM](#)

REPRESENTATIVE TUCK observed that the benefit of the proposed legislation is that the suppliers are no longer forced to take a prorated percentage; they are guaranteed that when new shippers come on line, they will not be reduced in capacity. However, they potentially will have to cover additional costs when new shippers come in, but not over 115 percent.

[11:12:37 AM](#)

MR. BALASH concurred. He then turned to Sec. 4, page 6, of the bill and noted that this section includes definitions of the terms "commercially reasonable terms" and "reasonable engineering increment." Section 5 begins the changes to the pipeline act; for example, AS 42.06.240(f) is amended to read:

(f) Except if right-of-way lease covenants required by AS 38.35.120-38.35.121 provide otherwise, in

MR. BALASH explained that this change specifies that if something in the covenants creates a conflict, the covenants in 38.35.121 govern. Section 6, page 9, allows the RCA to issue a conditional certificate similar to the conditional right-of-way lease issued by the Department of Natural Resources.

[11:15:57 AM](#)

CO-CHAIR MILLETT asked whether the RCA currently issues these certificates.

MR. BALASH said a certificate is required from the RCA to construct a pipeline. In further response to Co-Chair Millett, he acknowledged that two conditional certificates could be issued on one project.

[11:16:24 AM](#)

MR. BALASH explained Sec. 7 of the bill allows the RCA to enforce the terms of [AS 38.35.121] in the course of its regulatory activities on an annual basis.

[11:17:16 AM](#)

MR. BALASH noted that Sec. 8 includes a definition of "firm transportation service," and Sec. 9 adds a new paragraph stating common carrier offers both firm transportation service and interruptible transportation service.

[11:17:55 AM](#)

REPRESENTATIVE JOHANSEN asked for a further description of the "give and take" on distance sensitive rates.

[11:19:27 AM](#)

MR. BALASH explained that the users of pipeline capacity pay for what they need to use. He gave an example of the additional cost of a segment of pipe going to a community some distance from the pipeline route, and who should pay the extra transportation cost.

[11:21:05 AM](#)

REPRESENTATIVE JOHANSEN surmised there is no difference whether one is removing gas or putting it in.

MR. BALASH agreed, in terms of the rationale for distance sensitive rates on a pipeline of this type.

[11:21:32 AM](#)

REPRESENTATIVE PETERSEN referred to Sec. 8. He asked under what circumstances the pipeline's overall capacity could be diminished.

[11:22:18 AM](#)

MR. BALASH gave the example of a 800 mile pipeline with two of four compressor stations inoperable. In this case, the pipeline cannot move as much gas, thus capacity is diminished.

[11:22:50 AM](#)

CO-CHAIR MILLETT asked whether the in-state pipeline jeopardized the AGIA project or if there was enough gas on the North Slope for both projects.

[11:23:33 AM](#)

MR. BALASH expressed the administration's long-term view that there is a potential for large volumes of natural gas from the North Slope. At this time, and in the near-term, it would be a challenge to deliver 7.5 billion cubic feet per day of gas. Whether an in-state line would cause a problem for the large diameter pipeline is based on the size of the large pipe and the volume that will be shipped. On the volume of the bullet line, he opined 400 million to 500 million cubic feet per day is required to make the bullet line economic.

[11:25:35 AM](#)

CO-CHAIR MILLETT recalled the AGIA license limits the volume of the bullet line.

MR. BALASH reminded the committee that the 500 million cubic feet per day limit in AGIA is an assurance that the state will not support a competing project. This means the state will not grant a favorable tax, favorable royalty terms, or provide a cash grant to a competing project. If an in-state project moves ahead without any state support or concessions, the project could be larger in volume, and not affect the state's project assurance clause in the AGIA license.

CO-CHAIR MILLETT remarked:

So, as long we don't "incentify", we don't make any special exceptions, we don't change the step tax structure specifically for the bullet line, we can have a bullet line larger than half a bcf.

MR. BALASH concurred.

[11:27:42 AM](#)

REPRESENTATIVE TUCK asked whether 2.5 billion [cf/d] was the "point of demarcation."

[11:28:00 AM](#)

MR. BALASH clarified 2.5 billion was an arbitrary number.

[11:28:31 AM](#)

REPRESENTATIVE PETERSEN asked whether an incentive for the competing project may include bonding capacity.

MR. BALASH assured the committee the AGIA statute is very specific in identifying tax, royalty treatment or modifications, and/or a grant of cash. A legal case will be raised if the legislature and the administration are faced with the question of bonding capacity.

[11:30:07 AM](#)

CO-CHAIR MILLETT asked whether Point Thomson was included in his estimate of known gas reserves on the North Slope.

MR. BALASH indicated yes.

[11:30:27 AM](#)

CO-CHAIR MILLETT announced HB 164 was held over.

HB 163-ALASKA NATURAL GAS DEVELOPMENT AUTHORITY

CO-CHAIR MILLETT announced that the final order of business would be HB 163.

[11:30:54 AM](#)

MR. BALASH reiterated HB 163 is one of the three components of the administration's plan to initiate an in-state natural gas pipeline project. He recalled a 2002 ballot initiative created the Alaska Natural Gas Development Authority (ANGDA) and the original language of the initiative directed ANGDA to pursue a project from Prudhoe Bay to Valdez with a spur line to Southcentral. In 2004, the legislature expanded ANGDA's mission to include a pipeline to Cook Inlet. Mr. Balash noted that today the energy needs of Alaskans requires further expansion of ANGDA's purpose as a useful tool to facilitate pre-development activities.

[11:33:23 AM](#)

MR. BALASH, in response to Representative Johansen, restated the initiative was enacted in 2002, and amended by the legislature in 2004.

[11:34:23 AM](#)

REPRESENTATIVE JOHANSEN observed this was a citizen initiative and the bill is a proposal by the governor to amend the citizen initiative. He asked whether the amendment is necessary because there is new information, or a changing environment affecting the statute.

MR. BALASH opined that was part of the consideration. Additionally, however, ANGDA has been operating beyond its statutory mission, albeit with the legislature's knowledge and funding, and the bill allows the agency to become a vehicle for getting gas and moving it anywhere in the state.

[11:37:15 AM](#)

REPRESENTATIVE JOHANSEN said it was a valid point for the legislature and the governor to readdress the statute and make adjustments.

[11:37:55 AM](#)

REPRESENTATIVE PETERSEN asked whether HB 163 would allow a company to build a short pipeline that connected to the existing pipeline system.

MR. BALASH said Sec. 1 would allow ANGDA to look beyond the North Slope for a supply of gas. In further response to Representative Petersen, he indicated that a pipeline of any length would be allowed.

[11:39:12 AM](#)

CO-CHAIR MILLETT recalled ANGDA was directed to complete a gas pipeline by 2007. She asked for an overview of ANGDA's accomplishments; how much money the state has appropriated to ANGDA; and what its work product has been.

[11:40:03 AM](#)

MR. BALASH related that after the initiative was passed in 2002, the Murkowski Administration appointed a board of directors for ANGDA. A modest appropriation funded the agency to do the work required under the original initiative, which was to investigate the feasibility and economic viability of a pipeline project from Prudhoe Bay to Prince William Sound with a spur line to Southcentral. The authority prepared a report to Alaskans in 2004; also during that year the legislature reviewed statutory changes and expanded the authority's scope. Also in 2004, applications began to be submitted under the Stranded Gas Development Act (SGDA), and it became clear that the administration's priority was a large diameter pipeline. In fact, ANGDA began to focus on developing the spur line service from the big line to Southcentral. The authority also looked at opportunities for petrochemical development; other uses of natural gas; and propane distribution along the rivers of rural Alaska. During 2005-2006 ANGDA secured a conditional right-of-way lease from the Department of Natural Resources (DNR) for the spur line project along the Glenn Highway. Early in the days of the Palin Administration, ANGDA was directed back to the original project; thus in 2007 major funding was used to develop an AGIA application. In 2008, that application was rejected for noncompliance.

[11:45:26 AM](#)

CO-CHAIR MILLETT asked whether ANGDA submitted an application to build a pipeline.

MR. BALASH explained ANGDA's application was to build a spur line along the Glenn Highway connecting to an LNG applicant, or to continue up the Richardson Highway to Delta Junction to connect with one of the large pipeline projects.

CO-CHAIR MILLETT asked, "So, ANGDA would own and build a pipeline, was that the idea?"

MR. BALASH expressed his belief that ANGDA's plan was to do the pre-development work necessary to turn the project over to a private developer/owner/operator. After the issuance of the AGIA license to TransCanada, the administration received an estimate of the funding needed for ANGDA to continue work until the open season in 2010. He then pointed out that at the end of the legislative session of 2008, the legislature passed a resolution in support of in-state gas; however, the governor's request for \$10 million to study routes for an in-state gas pipeline was denied and \$4 million was appropriated to ANGDA.

[11:48:53 AM](#)

MR. BALASH, referring back to Co-Chair Millett's question, said the authority has been appropriated about \$10 million in total. He assured the committee ANGDA is ready to begin its next stage of work in pursuit of the spur line project; in fact, the administration has done its best to keep in sight the statutory mission, as well as the purpose behind specific appropriations made by the legislature.

[11:50:03 AM](#)

REPRESENTATIVE TUCK asked about the Alaska Gasline Port Authority (AGPA).

[11:50:31 AM](#)

MR. BALASH said, "ANGDA and AGPA are two very different organizations with very different track records."

REPRESENTATIVE JOHANSEN asked who sponsored the ANGDA initiative.

MR. BALASH said one sponsor was Scott Hayworth who is now a member of the board of directors.

11:51:30 AM

HAROLD HEINZE, CEO, Alaska Natural Gas Development Authority (ANGDA), Office of the Commissioner, Department of Revenue (DOR), informed the committee the ballot statement of support for ANGDA was signed by Mike Macy (ph), Tyrone Neill (ph), and Scott Hayworth. Mr. Heinze continued to explain that the ANGDA initiative passed in the 2002 election by a 2:1 margin. He added that the initiative was born of frustration during the Knowles Administration. In the summer of 2003, the ANGDA board of directors was appointed and official work began in September 2003. The first task undertaken by ANGDA was to look at an LNG project; after eighteen months of study ANGDA concluded the project was economic, competitive, and feasible, but beyond the means of ANGDA. Also, at that time, SGDA deflected interest away from an LNG project. The authority focused on development of the spur line; obtained a conditional right-of-way for Glennallen to Palmer that is worth several million dollars; and submitted an application under the AGIA process. The AGIA application was focused on ANGDA's part of a partnership that was dependent on a private sector partner. Mr. Heinze clarified that ANGDA is not interested in owning and building a pipeline, but is interested in "making one happen." Other events that have influenced ANGDA's interest include the recent rise in energy prices and the propane project on the North Slope. He emphasized that ANGDA continues to advance the spur line through the regulatory approval process and has almost established a "ready to build status" for any private sector party coming in. Mr. Heinze opined House Bill 163 is necessary for clarity so that ANGDA can qualify for major financing.

11:57:39 AM

CO-CHAIR MILLETT recalled the initiative tasked ANGDA with 12 goals, and the final goal was to have a gas line in full production by 2007. She asked how much closer [the state is] to getting an in-state gas line.

MR. HEINZE acknowledged that Sec. 5, Item 11, of the initiative petition set out a series of plans, and the goal of having the Alaska gas line in production by 2007 was missed. The intent of Sec. 5 was to provide a first year task; however, the focus of the governor and the legislature was on the pipeline through

Canada and ANGPA was working on an LNG project. He discussed his experience in the industry back to 1969. Mr. Heinze opined that "things are in good shape" because of the two groups working on the big pipeline through Canada and their FERC applications. The primary focus for ANGDA now is to assure that the in-state side is well represented in the FERC process. The in-state project must be prepared to interface with the big project between January and July 2010, and be further prepared to participate as provided for under the federal legislation that will guide FERC in its proceedings on the Alaska gas pipeline.

CO-CHAIR MILLETT asked if ANGDA asked for an appropriation in the operating budget.

MR. HEINZE said ANGDA requested \$315,000, and he described his office staff. Regarding further appropriations, he said ANGDA has received approximately \$10 million in appropriations and with operating expenses has received about \$12 million. In return for that, the state has several projects where the private sector can move forward. He opined the private sector lacks the ability to see with certainty whether the big pipeline will succeed or not; once that question is answered, there are a number of pipeline companies that will be interested in the Alaska line.

[12:04:11 PM](#)

CO-CHAIR MILLETT asked about the level of interest from producers on the rights-of-way ANGDA has obtained.

MR. HEINZE said several large Lower 48 pipeline companies are interested in the spur line project; in fact, their interest is due to the work ANGDA has done. Furthermore, he assured the committee that it is clear to interest parties that public monies expended by ANGDA must be reimbursed.

[12:05:20 PM](#)

CO-CHAIR MILLETT announced HB 163 was held over.

[12:05:40 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Energy meeting was adjourned at [12:05] p.m.