

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

Anchorage, Alaska
September 1, 2010
1:40 p.m.

MEMBERS PRESENT

Representative Bryce Edgmon, Co-Chair
Representative Charisse Millett, Co-Chair
Representative Kyle Johansen
Representative Pete Petersen
Representative Chris Tuck

MEMBERS ABSENT

Representative Jay Ramras

OTHER LEGISLATORS PRESENT

Representative Mike Hawker
Representative Craig Johnson
Senator Lesil McGuire

COMMITTEE CALENDAR

REVIEW OF THE PROPOSED COOK INLET NATURAL GAS STORAGE (CINGS)
PROJECT

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

COLLEEN STARRING, President
ENSTAR Natural Gas Company
Anchorage, Alaska

POSITION STATEMENT: Offered a review of the proposed Cook Inlet
Natural Gas Storage (CINGS) project.

RICK GENTGES, Project Manager
Cook Inlet Natural Gas Storage Alaska (CINGSA)
Anchorage, Alaska

POSITION STATEMENT: Testified and answered questions during the update on the CINGS project.

KEVIN BANKS, Acting Director
Central Office
Division of Oil & Gas
Department of Natural Resources (DNR)
Anchorage, Alaska

POSITION STATEMENT: Testified and answered questions during the update on CINGSA.

ROBERT PICKETT, Commissioner, Chair
Regulatory Commission of Alaska (RCA)
Anchorage, Alaska

POSITION STATEMENT: Testified and answered questions during the review of the CINGS project.

DANIEL SEAMOUNT, Commissioner/Chair
Oil & Gas Conservation Commission (AOGCC)
Anchorage, Alaska

POSITION STATEMENT: Testified and answered questions during the update on CINGSA.

ACTION NARRATIVE

[1:40:33 PM](#)

CO-CHAIR CHARISSE MILLETT called the House Special Committee on Energy meeting to order at 1:40 p.m. Representatives Millett, Edgmon, Petersen, Johansen, and Tuck were present at the call to order. Representatives Johnson and Hawker, and Senator McGuire were also in attendance.

Review of the Proposed Cook Inlet Natural Gas Storage (CINGS) Project

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CO-CHAIR MILLETT announced that the only order of business would be a review of the proposed Cook Inlet Natural Gas Storage (CINGS) project. She pointed out that Representatives Hawker and Chenault had started this latest conversation for the need of regulation on gas storage by introducing HB 280.

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REPRESENTATIVE HAWKER reflected on HB 280, and said that he and his staff had canvassed the community stakeholders in the Cook Inlet to ascertain the needs to improve energy security. He shared that storage capacity was the most necessary. He noted that the impediments to this goal were the lack of a statutory, regulatory structure which had allowed for "de facto regulatory obstructionism" from the state regulatory agencies. He described HB 280 as "an exercise in defining the regulatory structure in a manner that allowed the stakeholders to operate with minimal government interference." There were no mandates placed on the industry, nor an overly strict regulatory authority.

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COLLEEN STARRING, President, ENSTAR Natural Gas Company, said that from the standpoint of utility customers of a storage service, it was important that the facility be economically regulated. She offered her belief that HB 280 provided a clear direction and framework to construct the facility. She defined CINGSA, Cook Inlet Natural Gas Storage Alaska, as a joint venture agreement between project partners SEMCO Energy (70 percent) and MidAmerican Energy Holdings Company (30 percent). She disclosed that the initial customers will be ENSTAR, Chugach Electric, and Anchorage Municipal Light & Power (ML&P). She explained some of the project background, and projected a desire to have the project in service for withdrawals by 2012-13. She said that CINGSA was formed in July, 2010, and an application with the Regulatory Commission of Alaska (RCA) was filed, which included precedent agreements with customers, storage service agreements, an application for a certificate of public convenience, and a tariff.

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MS. STARRING relayed that, on August 4, 2010, RCA had given a notice to the facility and asked for public comment, and, on August 25, the RCA deemed that the application was complete. She opined that everyone understood the need for a storage facility in Kenai. She pointed out that the gas would be stored in a nearly depleted reservoir, from which Marathon had been producing. She explained that gas would be injected into the reservoir during the summer and would be withdrawn during the peak demand in winter.

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MS. STARRING detailed the benefits of the project, which included reliability and deliverability.

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RICK GENTGES, Project Manager, Cook Inlet Natural Gas Storage Alaska (CINGSA), offered a history of gas storage, noting that the first facility opened in 1915. He stated that gas storage had a safe operating history, and there were more than 400 facilities storing more than 4 trillion cubic feet of gas currently operating in the lower 48. He estimated that 75 percent of the stored gas was used in an average winter, during peak demand times. He explained the criteria for a suitable storage reservoir, which included a porous, permeable, well-defined subsurface structure that would allow gas to be injected during the summer core period and depleted during the winter. He noted that an ideal facility is a depleted oil or gas reservoir, which constitutes about 90 percent of the current reservoirs. He mentioned salt cavern facilities, which allow for high injection and withdrawal rates, but he noted that there are none in Alaska. He explained that the water bearing sandstone aquifer facilities also allow gas injection, and constitute 7-8 percent of the reservoirs. He specified that the CINGSA project was in a depleted gas field reservoir, the Cannery Loop Sterling, which originally contained about 26.5 billion cubic feet of gas. He pointed out that the reservoir underlies the Kenai River, so all the wells are directional drilling from on-shore. He reported that five new directional wells from a single on-shore well location will be drilled for injections and withdrawals. He noted that a compressor station would also be built to pump the gas. He presented a photo of a 15 acre storage field, as an example, and pointed out the 7 acre gravel pad for the compressor station and other buildings, with roads and gravel areas for the wells covering an additional 7 acres. He said the CINGSA facility would be a similar size. He noted that the facility would have a "high degree of automation" and that everything would be monitored on a "real time basis." He displayed an aerial photograph with hash marks showing the actual boundary of the underground storage reservoir, including a 1/4 mile buffer area.

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MR. GENTGES, pointing to the photo, indicated the 7 acre compressor station, and the well pads for 5 wells. He detailed the project considerations, which included selection of the reservoir and placement of the surface facilities. He explained

the considerations for local neighborhoods, traffic patterns, and proximity to existing infrastructures to ensure a minimal impact on the community. He said environmental, cultural, and local community impacts were reviewed, so the compressor station and the well pad will be built on upland areas to minimize the wetland impact to be less than 1/2 acre and to be near existing pipelines to minimize the need for more pipeline construction.

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CO-CHAIR EDGMON asked if it was necessary to build more pipelines.

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MR. GENTGES said that an existing Marathon Oil pipeline will be tied into, so approximately 1400 feet of pipe will be built on the highway right of way.

REPRESENTATIVE TUCK asked how the reservoir size was determined.

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MR. GENTGES, in response, said that production data is analyzed, three dimensional well drillings are reviewed to approximate the shape of the field, and seismic data is studied.

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REPRESENTATIVE TUCK asked about the possibility for gas loss.

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MR. GENTGES said that the design intends to eliminate the prospect. The operating data will give real time feedback for indications of loss. He noted that its responsibility is to store gas for third parties, not own the gas, so they measure the amount of gas entering the field, and measure pressure to verify the amount of gas stored.

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MR. GENTGES detailed the necessary authorizations to include: Division of Oil & Gas for a storage lease and lease plan of operations; Division of Mining, Land and Water; Division of Coastal and Ocean Management; Alaska Oil and Gas Conservation Commission (AOGCC) to review and approve the drilling and

injection permits; Regulatory Commission of Alaska (RCA); Division of Air Quality for air permits; US Army Corps of Engineers for wetlands delineation and evaluation; and the Kenai Peninsula and Borough for local permits.

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CO-CHAIR MILLETT asked how many permits would be applied for.

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MR. GENTGES replied that there were between 24 and 30, and that it was hoped the permitting would be accomplished by November, 2010, with the surface construction completed by September, 2012. He said the drilling construction should begin in September, 2011 through March, 2012. It was projected to inject gas in May, 2012, and the withdrawal facilities would be constructed during the summer of 2012.

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REPRESENTATIVE HAWKER shared that a goal of HB 280 was for a regulatory framework with minimal regulatory conflicts. He shared a concern for too many overlapping layers of regulatory interference. He announced that he would continue to work toward "one stop shopping for this sort of permitting activity to facilitate all the development."

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REPRESENTATIVE JOHANSEN asked if the public has been receptive to the project.

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MS. STARRING replied that Trans Canada had started the project and that the permitting was 90 percent complete when CINGSA took over. She stated that the Kenai public hearing was very well accepted. She pointed out that the facility was good for jobs, as well as the recognized need for gas storage.

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REPRESENTATIVE JOHANSEN asked if Trans Canada had faced any issues.

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MS. STARRING said that the transfer of the permit package was "a pleasant surprise." She agreed that there was still a great deal of work to be done, but opined that it would be completed during the projected time frame.

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MS. STARRING, in response to Representative Johansen, said that there were no groups of opposition.

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MS. STARRING concluded her presentation and said that the initial capacity was 11 billion cubic feet (bcf) of gas, and had been fully subscribed by the three aforementioned customers. She pointed out that there was expansion capability to 16-17 bcf, should there be a need for additional storage.

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CO-CHAIR MILLETT asked about the timeline for the current gas contracts.

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MS. STARRING said that the UNOCAL and Marathon contracts were through 2018. She explained that a contract with Anchor Point had been approved to begin in 2011. She said a "non-firm contract" with Conoco Phillips had been submitted to the RCA, which would meet the peaking needs. She noted that there were also excess gas options in each of the above contracts. She said that storage facilities should enable a better cost to the customers.

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REPRESENTATIVE TUCK asked about the new housing subdivisions' need for gas.

MS. STARRING said that a decline in growth, coupled with the weatherization programs, had allowed ENSTAR to meet the demand, with a projection for the ability to meet a normal growth rate. She expressed concern that this was the first winter in which ENSTAR did not have all the projected gas needs under contract, as peak demand could necessitate gas that was not guaranteed available.

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REPRESENTATIVE PETERSEN asked about any additional cost to consumers.

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MS. STARRING said that the project cost was \$180 million. She projected a \$3 cost to the customers, but the exact amount would be determined by the RCA. She pointed out that the purchase of gas for storage, during the summer, could help to keep cost increases under control.

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KEVIN BANKS, Acting Director, Central Office, Division of Oil & Gas, Department of Natural Resources (DNR), stated that there was no place in Alaska for gas storage without an oil and gas lease. He explained that the first step in the project was to separate the requested reservoir area from the other Marathon leases, and then create a separate oil and gas lease assigned to CINGSA. He stated that one of the rights not included in an oil and gas lease was for the storage of outside substances, so a storage lease agreement was necessary. This storage lease and oil and gas lease will be managed and operated under separate contract/lease to CINGSA. In response to Representative Tuck, he explained that there will be well integrity if the pressure is kept less than the native pressure.

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REPRESENTATIVE JOHNSON asked how many wells had Marathon drilled into this reservoir.

MR. BANKS replied that he would get that information.

REPRESENTATIVE JOHNSON asked if the integrity would be maintained with the drilling of new wells, and was it necessary to do any work on the existing wells, in order to maintain the integrity.

MR. BANKS agreed that it was necessary to monitor the integrity of the existing wells. He pointed out that these wells did not share the same reservoir area. He expressed support for the AOGCC permitting process. He mentioned the need for a certificate of public convenience and necessity from the RCA.

He stated that the regulatory "backstop" would lend assurance to the public that a fair and reasonable price would be charged for storage.

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CO-CHAIR MILLETT asked how many gas storage facilities were currently in use.

MR. BANKS replied that there were three others in the Cook Inlet: Pretty Creek and Swanson River operated by Chevron, and Kenai Gas Field operated by Marathon. He offered to send the capacities for each. He foresaw no major problems with the remainder of the storage lease terms.

REPRESENTATIVE HAWKER asked about the ten year waiver of fees for the storage leases, followed by a five year storage fee, and stated that the intent of the sponsor was for a fair and reasonable price. He asked if DNR was going to back load the fees to make up for the loss of revenue during the first ten years.

MR. BANKS said that he would dissuade those fears as there was no deviation from other land contracts.

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MR. BANKS reported that the DNR land use planning permit was moving along smoothly.

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REPRESENTATIVE JOHNSON asked if there was any compensation to Marathon, or was the state charging twice for the permit.

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MR. BANKS replied that the leased area is now assigned to ENSTAR, so that Marathon no longer has a leasehold interest therefore, there is no rent or royalty charged to them. He explained that any excess gas removed from storage would be billed to CINGSA.

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REPRESENTATIVE JOHNSON asked if Marathon had any opportunity for recovery.

MR. BANKS said they were probably compensated by ENSTAR.

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ROBERT PICKETT, Commissioner, Chair, Regulatory Commission of Alaska (RCA), said that CINGSA has made application for the certificate of public convenience and necessity. As this is a docketed matter on a compressed time frame, there could not be any procedural missteps, so he requested indulgence as he may not be as forthcoming as possible. RCA is reviewing the complete application and will begin adjudication next week. He reported that ENSTAR has requested a determination by December 1, 2010. He noted that he would not speak to any of the merits.

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CO-CHAIR MILLETT asked if there was any information about the petitions to intervene.

MR. PICKETT said he that could not comment.

CO-CHAIR MILLETT asked about the dates for ruling on the petitions.

MR. PICKETT replied that adjudication was due the next week.

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MR. PICKETT said that the reply date for the comments is September 10, so determination would be the following week.

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DANIEL SEAMOUNT, Commissioner/Chair, Oil & Gas Conservation Commission (AOGCC), offered to discuss the process, and said that AOGCC deals mainly with subsurface issues. He noted that AOGCC wants to protect the resource, ensure the gas does not escape, and protect the reservoir, as well as underground drinking water sources. He pointed to four things in a storage injection application request: write a storage injection order, so applicant must be compliant with the regulations; write an act for exemption order for aquifer, so applicant must show water is not good for anything else; said that HB 280 gives authority to certify storage volume potential; make decisions for drilling and well workover applications. He shared that hearings are scheduled for the aquifer exemption order and the

storage injection order applications on October 9, and it is required for a decision within 30 days. He said that AOGCC determines that the wells have integrity with no leakage, that there are geological confining layers which contain the gas within the reservoir, that the reservoir will not be damaged by injection of the wrong materials or fluids, and that there will be special rules setting limits for pressure. He stated that there were 18 pieces of required information for the permit.

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REPRESENTATIVE PETERSEN asked if the old production wells had been capped.

MR. SEAMOUNT said that the integrity of each well is verified.

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REPRESENTATIVE JOHNSON asked if any existing wells could be used for the injection.

MR. SEAMOUNT replied that CINGSA could best answer this.

REPRESENTATIVE JOHNSON asked if any of the existing wells were still functioning.

MR. SEAMOUNT replied that there are.

REPRESENTATIVE JOHNSON asked if using existing wells would prevent leakage and save money.

MR. SEAMOUNT replied that this was an economic question for CINGSA.

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CO-CHAIR MILLETT asked Mr. Banks if there was the possibility of permit consolidation for one project.

MR. BANKS replied that his department was trying to determine what is an appropriate security for activities incurring with an oil and gas lease. He said that they were trying to work through the issues to create a more streamlined bonding process, when a single bond may be better than a lot of little ones. He said the division was working on a fair, consistent, streamlined process. In response to Representative Hawker, he said that the number of permits was a requirement response to the Legislature.

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CO-CHAIR MILLETT agreed that a dialogue to review the process would be useful.

MR. BANKS explained that this project was with responsible applicants, but it was necessary to be wary of other not so capable applicants.

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REPRESENTATIVE JOHNSON asked if the remediation bond requirements had changed.

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MR. BANKS replied that there was no change in the last 5 years. He detailed that the required bonding for this lease will be the standard oil and gas lease bonding requirements. He opined that remediation bonds were being contemplated for the surface.

REPRESENTATIVE JOHNSON asked if there was any surface difference on this project and had surface remediation changed on any other projects over the last eighteen months.

MR. BANKS replied that he did not think so.

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REPRESENTATIVE JOHANSEN asked if any these issues have been forwarded to the Governor for introduction to legislation.

MR. BANKS said that he could not answer this as his department was "in deliberative process with the governor's office on topics just like that." He shared that DNR has identified important issues to be solved, and they are internally reviewing certain regulations regarding unitization and royalty relief modifications. He expressed an unwillingness to reveal what was being discussed with the governor's office.

REPRESENTATIVE JOHANSEN asked to ensure that specific issues are brought to the attention of the governor's office, so that changes can be implemented.

MR. BANKS said that concerns for natural gas supplies, and bankruptcies, have highlighted the weaknesses and strengths of

regulations for the division. He remarked that many of these are just "house cleaning activities."

REPRESENTATIVE JOHANSEN agreed that there are internal departmental processes.

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REPRESENTATIVE HAWKER expressed frustration that Mr. Banks has offered a dialogue, but has stated there are many things that he could not speak about. He asked Mr. Banks "what kind of dialogue can we have?"

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MR. BANKS, in response, said that he that cannot share everything, but that his department has made many suggestions to the process. He offered to speak with any legislators to hear their perception of the problems.

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REPRESENTATIVE HAWKER expressed his desire for the governor's office to offer solutions rather than obstruction to legislation, which would often arise due to a lack of communication with various agencies. He cited an inability of the legislature to engage a dialogue with many agencies because they "clam up under a cloud of executive privilege, and that's really what's wrong with the situation, and I really hope you guys see that."

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CO-CHAIR MILLETT expressed hope for honest conversations to share problems, with a result being good legislation.

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ADJOURNMENT

There being no further business before the committee, the House Special Committee on Energy meeting was adjourned at 3:05 p.m.