

HOUSE FINANCE COMMITTEE
March 15, 2010
9:06 a.m.

[9:06:17 AM](#)

CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 9:06 a.m.

MEMBERS PRESENT

Representative Mike Hawker, Co-Chair
Representative Bill Stoltze, Co-Chair
Representative Bill Thomas Jr., Vice-Chair
Representative Allan Austerman
Representative Mike Doogan
Representative Anna Fairclough
Representative Neal Foster
Representative Les Gara
Representative Reggie Joule
Representative Mike Kelly
Representative Woodie Salmon

MEMBERS ABSENT

None

ALSO PRESENT

Speaker Mike Chenault; Robert Swenson, Instate Gasline Project Manager, Office of the Governor; Keith Meyer, Engineering Manager, Michael Baker Associates, Cost Estimation Services

PRESENT VIA TELECONFERENCE

Mike Sotak, ASRC Energy Services, Inc.

SUMMARY

HB 369 IN-STATE PIPELINE MANAGER/TEAM/COMMITTEE

HB 369 was HEARD and HELD in Committee for further consideration.

[9:06:23 AM](#)

Co-Chair Stoltze brought the meeting to order.

[9:06:53 AM](#)

#hb369

HOUSE BILL NO. 369

"An Act relating to an in-state natural gas pipeline, the office of in-state gasline project manager, the Joint In-State Gasline Development Team, and the In-State Gasline Steering Committee; and providing for an effective date."

SPEAKER MIKE CHENAULT, presented his synopsis of the in-state gas pipeline legislation by reading the Sponsor Statement for the Committee Substitute for House Bill 369(RES).

Committee Substitute for House Bill 369(RES) was introduced as an effort to expedite the process for an in-state natural gas pipeline. The in-state gas line has been a topic of discussion in the Legislature and the Administration for a number of years. Currently, there are two separate state entities, the Alaska Natural Gas Development Authority and the in-state gas line coordinator, working on a project. House Bill 369 combines these two entities along with the Department of Transportation and Public Facilities and the Alaska Railroad Corporation to create a Joint In-state Gas line Development Team within the Office of the Governor. The Development Team is to ensure the in-state gas line is construction ready by July 1, 2011 with gas flowing by 2015. It is my hope the Development Team will be able to focus the state's efforts in putting a construction plan together and leverage the best ideas and data to get a gas line built.

The Department of Transportation and Public Facilities and the Alaska Railroad Corporation were included as members of the team due primarily to their having existing rights of way which could speed up any permitting process that may need to be undertaken.

The Alaska Railroad Corporation also has bonding ability which could be an answer in financing a gas line.

The Development Team will cover all aspects of the line's development and are to select the most economically sound route that will deliver gas to Alaskans, plan permitting and construction by using existing rights of way and take any action necessary to get the project underway as soon as possible. Additional duties of the Joint Development Gasline Development Team are also spelled out within the legislation.

The bill provides for an expedited review and action process and the sharing of information that may already have been accumulated or completed. The bill also requires that state agencies or entities cooperate with and give priority to requests for information from the Development Team.

Co-Chair Hawker emphasized that Alaskans think it is time for action on in-state gas providing energy security and jobs. He stated his intention is not to interfere with the AIGA process but to create and swiftly implement an option for gas development if none exists.

[9:10:58 AM](#)

Representative Gara expressed concern about the bill language on Page 3, lines 23-24, "take [all] actions necessary to enable natural gas to flow down the pipeline by 2015." He wondered if that language precluded a best option scenario, [development of a major export gas pipeline]. He asked if the sponsor would consider inserting language in the bill stipulating that this plan would only proceed if it was the best option available. Speaker Chenault stressed that the state must have a ready-to-go project with a set timeline. He asserted that a timeline gets the job done. The state has spent countless millions of dollars and many years looking at gas development without fruition. He felt that the process always gets sidetracked and delayed by other uncharted possibilities. He determined that there is a known quantity of natural gas (35 tcf trillion cubic feet) in Prudhoe Bay, gas is rapidly declining in Cook Inlet, and those consumers will be left

without gas in the near future. He concluded that legislation that contains timelines addresses those needs.

[9:14:41 AM](#)

Representative Gara asked if the legislation would force the state to proceed if evidence proves the in-state gas-line is more expensive for consumers than other options such as the development of a major export pipeline.

Speaker Chenault replied that there are many options under discussion but the state limited its own options for in-state gas development when the legislature entered into an agreement to prohibit participation in any projects producing over 500 million cubic feet (mcf) of gas. He felt that action was not correct; the state needs to give Alaskans every opportunity to have in-state gas. He does not think anyone has an accurate idea of the cost of gas with any line or importation of liquefied natural gas. Estimates exist but not factual information. It is the intent of the legislation to develop a project based on factual cost information.

[9:16:55 AM](#)

Representative Doogan asked if the goal was to establish a plan to build a pipeline from the North Slope to an undetermined southern terminus by the middle of next year. Speaker Chenault affirmed. He did not want to decide the gas-line route prematurely. One goal of the bill is to allow the In-state Gas-line Development Team to determine the best economical route.

Representative Doogan inquired about the cost of planning for the in-state gas line. Speaker Chenault noted that he does not know all of the set costs. He is waiting for fiscal notes. He guessed that the cost could be in the tens of millions or hundreds of millions of dollars. Representative Doogan asked what happens in July 2011 when the planning is complete. Speaker Chenault offered that either a private corporation could carry out the project or the legislature could decide to build the gas-line.

[9:20:00 AM](#)

Representative Kelly asked if any future discovered gas reserves could connect to the proposed line. Speaker Chenault stated that projects will bid in an open season.

Representative Kelly asked if the gas-line would be a common carrier. Speaker Chenault affirmed.

[9:21:45 AM](#)

Representative Gara expressed that his biggest concern was cost to the consumer. Evidence suggests that natural gas is cheaper through a larger line. An obligated 20-30 year contract is necessary in order to build a pipeline. A scenario could develop that consumers are obligated to the more expensive smaller in-state gas-line even if cheaper gas flows through a major line at some point in the future. Speaker Chenault believed that a larger concern was depleted Cook Inlet gas reserves in 2015 or 2018. The state needs to be ready with a viable project. He agreed that a bigger line means a cheaper price, but that gas-line might not start until 2025 or later, if ever. He warned that without the certainty of gas Alaska will not move forward.

Representative Gara shared that facts reveal Cook Inlet gas will still be available but more difficult to extract therefore, more expensive. He wondered if the sponsor considered subsidizing natural gas while waiting for completion of a larger line. Speaker Chenault agreed that was an option but that historically incentives have not increased gas production in Cook Inlet. Approximately 500 natural gas related jobs have been lost and more are being threatened due to a diminishing supply of gas in Cook Inlet. A gas storage facility may also be lost. He argued that although the legislation might not be a perfect solution the legislature must make a decision to move forward for energy security and opportunity.

[9:26:48 AM](#)

Co-Chair Stoltze wondered how expensive a natural gas subsidy to Anchorage and south central Alaska would be. He guessed that it would be controversial.

Speaker Chenault acknowledged that there is more gas in Cook Inlet, possibly up to 1.8 tcf according to the Department of Natural Resources. However, the cost of recovery and increased costs to the consumer remain undetermined. The legislation is an attempt to develop an option and provide all of the facts without guesses and estimates.

[9:28:29 AM](#)

Representative Kelly commented that the state will still need a gas-line to south central Alaska even if a major line is developed. He assumed that the in-state line would be designed to fall within the 500 mcf limit on natural gas imposed on the state by AGIA if the line is built. Speaker Chenault agreed.

[9:29:40 AM](#)

Representative Austerman believed in taking care of Alaskans first via an in-state line. He opined that gas might not be less expensive for Alaskans through takeoff lines from a big export line. He inquired if the Resources Committee addressed the concerns of the bill's legal issues by the Department of Law. He referenced their memo (March 3, 2010 copy on file). Representative Chenault reported that CS HB 369 (RES) attempted to address those issues.

[9:31:21 AM](#)

ROBERT SWENSON, INSTATE GASLINE PROJECT MANAGER, OFFICE OF THE GOVERNOR, agreed with Representative Chenault and believed the state needs to be committed to in-state gas. He relayed that the Governor is also very committed to development of in-state gas. He reported on his project goals. A report of cost estimates will be presented to the legislature on July 1, 2010 for multiple scenarios for a stand alone in-state gas-line. The administration is working diligently on state and federal right-of-way permits and expects to have them completed by the first quarter of 2011. He added that, a complete information package describing the risks and cost assessments will be available to private entities who are interested in partnering in the pipeline.

Mr. Swenson noted that the Governor agreed with the majority of the provisions in HB 369 with some exceptions. Mr. Swenson is working with the sponsor to resolve the differences. Specifically, the bill sanctions construction before the costs are known.

[9:34:41 AM](#)

Representative Gara reiterated his concerns regarding completed construction of a big gas-line for export versus a smaller in-state line.

Co-Chair Stoltze asked Representative Gara to clarify what he is referring to by "big" gas-line. He answered that he is referring to the 4tcf export line via Trans-Canada or Valdez.

Mr. Swenson stated that the work going on now associated with an in-state gas pipeline is insurance for Alaskans. He felt that the cost to the state is a reasonable investment for that insurance. The results from the work will provide the costs for gas transportation infrastructure and service to the consumer. The Governor is focused on getting the work done in a timely manner in order to analyze, understand, and compare all of the in-state and major gas-line options. Representative Gara repeated his concern with the language of the legislation, forcing the state to commit to construction of an in-state line if a major line was going to be built providing cheaper gas. Mr. Swenson stated that the bill language enacting start up construction in July 2011 is problematic in that context. He added that the Governor will review all of the necessary data before moving forward on the in-state pipeline.

Representative Gara restated his question, "If the big gas line were going to go ahead would you want the small gas line to go ahead also?" Mr. Swenson acknowledged that current analysis suggests that spur lines from a major line would cost much less than a single stand alone in-state gas line. However, their development would be specifically related to development of a large diameter gas line from Prudhoe Bay. In order for the Governor to make an informed decision he felt it was important to move forward in the present direction, considering all of the unresolved issues around development a major Prudhoe Bay gas line. He repeated his concern with HB 369 mandating construction of the in-state line in 2010 prior to completion of the cost analysis.

[9:40:31 AM](#)

Representative Austerman noted that during the AGIA process gas-line startup dates were estimated at 2018 and now they are being discussed at 2024. The dates keep moving up giving him more reason to support the in-state line. He

reported that he read that the administration is planning the in-state gas line as a back-up to the main gas line through Canada. He asked Mr. Swenson to estimate when the administration will determine, during the planning process, if the in-state line is a viable option, will be constructed, and at what point is the in-state planning process itself worth continuing? Mr. Swenson explained that he did not want to cause confusion by the term back-up line in reference to the smaller in-state gas line versus progress on the large diameter main gas line. Their current work on planning and cost estimates for the in-state line is proceeding on schedule. He identified two issues for the large gas-line that must still be resolved: timing and completion. He indicated that along with costs those will be determined by the end of open season. In addition, the administration's work will be completed on the in-state line by that time. The information will then be available to make decisions on viable options. He revealed that North Slope natural gas resources are much larger than the 35tcf of proven reserves at Pt. Thompson and Prudhoe Bay. It is possible both lines could co-exist.

Representative Austerman explained that the producer's bids come with conditions and asked at what point open season will be finalized.

[9:45:27 AM](#)

Mr. Swenson declared that he is not an expert on AIGA and is narrowly focused on the in-state gas line. The in-state line he is working on will not have an open season and will not be regulated by FERC (Federal Energy Regulatory Commission). He understands that the initial open season process will allow the state to find out what entities and companies are interested in purchasing Alaska gas. Representative Austerman assumed that the open season could go on for years, and suggested that the administration's plan contingent on a finalized open season could hold up development of an in-state gas-line for years. He suggested that an expert on AGIA could answer the timeframe question.

[9:47:14 AM](#)

Co-Chair Hawker announced that he monitored the process of the bill through the Resources committee hearings. He alleged that during the meetings the administration was referring to an in-state gas line as "plan B" or the fall

back plan. He asked where the legislative authority for his work comes from. Mr. Swenson answered that the authority was enacted in Section 19, of the FY 2010 appropriations bill [HB 81]. Co-Chair Hawker confirmed and added that the authority came from intent language, not statutory language and the administration is not legally obligated to comply. He asked if the intent language suggested that the project could be considered a fall back plan. Mr. Swenson replied that he considered the in-state gas line project a co-commitment along with the large diameter line. The administration is moving forward with all aspects of the project and progress is not being held hostage to any developments with the larger line.

Co-Chair Hawker queried if it would be better if the administration's current project was operating under statutory language. Mr. Swenson responded that if the legislature believes the project is not on the correct pathway, then clarification would be appreciated. He stated that he was providing updates by his team and thought the project was diligently moving forward on the correct track. Co-Chair Hawker wondered if statutory authority would protect the project from being sidetracked. Mr. Swenson did not feel that statutory authority was necessary.

[9:51:43 AM](#)

Representative Doogan asked who was involved in the in-state gas line process and to what extent. Mr. Swenson answered that the administration's current gas line team, was composed of himself, an assistant, and contractors. His team works with the Department of Transportation on right-of-way issues and acquisitions. Permitting, pipe line engineering and costs are being handled through contractors. The cost of service analysis will be done through the Department of Natural Resources and AIGA models that were done last year.

Representative Doogan wondered if the Alaska Railroad Corporation (ARRC) was involved in the process. Mr. Swenson stated that the ARRC is not currently involved. Representative Doogan asked if the Alaska Natural Gas Development Authority (ANGDA) was involved. Mr. Swenson replied that the project has had numerous consultations with ANGDA to ensure that work was not being duplicated and to provide cost estimations of the right-of-way and Environmental Impact Statement [EIS] work.

Representative Doogan guessed that Mr. Swenson's position as current instate gas line project manager is similar to the position created in the legislation. Mr. Swenson affirmed.

Representative Doogan asked if the Joint In-state Gasline Development Team defined by HB 369 would be a policy making group. Mr. Swenson explained that the development team was not a policy making group, rather a managing and decision making entity. Representative Doogan queried how Mr. Swenson envisions the team working as defined by the bill. Mr. Swenson answered that the legislation provides statutory language defining that the team will be lead by a group of four people and clarifies their joint communication effort.

Representative Doogan asked what the differences were between his current project and the project defined by the legislation. Mr. Swenson explained that his current project was to specifically focus on the development of an in-state stand alone 24 inch diameter gas line originally called the "bullet line." The language in the bill broadens the in-state gas line effort from tidewater to the North Slope. He noted that ANGDA's efforts were focused on a spur line feeding off of the large diameter 48 inch gas line [AGIA] project.

[9:57:50 AM](#)

Representative Doogan concluded that there will be three pipeline efforts in progress including the proposed legislation. He wondered what would happen to the administration's current project if HB 369 passes. He asked how it would work to have three separate pipeline efforts simultaneously. Mr. Swenson related that his project would continue. He believed that the legislation would provide improved communication and information sharing between the entities and avoid duplicated effort. The statutory mandate would ensure continued action.

Representative Kelly shared his frustration with the uncertainty of the route the in-state gas line would take. He identified two possible routes: Glenn/Richardson Highway or the Parks Highway. He wondered which route was the best option. Mr. Swenson responded that the best route would be the shortest. This equates to cost. The Glenallen route

would be the shortest but is contingent upon the large diameter line being built. The Parks Highway route starting in the North Slope to Livengood with a feeder line into Fairbanks is the preferred route for a standalone gas-line.

Representative Kelly asked when the route will be decided. Mr. Swenson replied that he cannot make that determination yet. He expected to have an answer by July 1, 2010 when the first phase of his project is completed. He added that as the project continues more information will become available.

[10:04:59 AM](#)

Representative Gara asked if Mr. Swenson could estimate the cost of gas to consumers from an in-state gas line. He felt he could not wait for an answer until July 1, 2010 with HB 369 pending. Mr. Swenson replied that without the cost estimates for the pipeline available he was not able to speculate the cost of service. There are so many variables that still must be known before this could be determined.

KEITH MEYER, ENGINEERING MANAGER, MICHAEL BAKER ASSOCIATES, COST ESTIMATION SERVICES, added that the cost estimation services are currently ongoing under his direction. He offered that the engineering specifications were now available to help determine cost estimates. Once the [construction] cost estimates are finished the information will be provided to the Department of Natural Resources to determine the cost of service. The cost estimates will be ready by July 1, 2010. He furthered that part of their contractual duties was to develop a schedule to feed into the department's cost model. He explained the schedule as follows: procurement by the middle of 2012, pre-construction services in 2013, construction would continue into 2015. He elaborated on the implications of a July 1, 2011 construction start. He defined "construction ready" [language contained in HB 369] as building the pipeline. He expounded on the difficulties of meeting this deadline. He argued there would be no time to complete the bid or for the orderly transition of information from the Gasline Development Team to the outside entity. In addition, engineering needs to be complete, major permits are required, right-of-way acquisitions finalized, construction camps, line pipe, and facilities material orders in place. A 24 month lead in period is required to order the line pipe. He speculated that unfinished engineering would be

disregarded if an outside entity took over the project. Finally, an implied warranty would have to be addressed if construction began under the auspices of the state and an outside entity stepped in.

[10:10:40 AM](#)

Representative Austerman asked Mr. Meyer to elaborate on the schedule. Mr. Meyer recapped the schedule. In 2012 the line pipe will be ordered. In 2013 preconstruction will begin. This involves preparing the material sites, surveying, and preparing the right of way. In 2014 start construction which would last 2 years over the summer and winter seasons. He estimated opening the construction bid in 2013. Representative Austerman deduced that the flow of gas would begin in 2016. Mr. Meyer affirmed.

[10:12:47 AM](#)

Representative Gara understood that an anchor consumer is needed to move forward with an in-state gas pipeline. He wondered how long a purchase commitment with the anchor consumer would obligate consumers to purchase gas under the contract. Mr. Swenson guessed it would be a significant number of years. He stated he would provide the information at a later date.

Representative Gara gathered that under the timeline of the bill the state would have to make costly and inefficient decisions regarding engineering the pipeline that would have to be redone by the private third party entity. Mr. Meyer answered that in order to be construction ready by 2011 they need engineering to supply information. Engineering is necessary to collect information for design, regulatory, and environmental stipulations. However, a prudent third party who takes over would supplant the previous design engineering effort with their own. There may be some previous data used, but the engineering would have to be specific to their own needs.

Mr. Swenson added that an early construction date would challenge promoting the project to an interested private entity because of the detailed engineering required.

[10:18:17 AM](#)

Representative Gara inquired if the early timeline in the bill would affect the choice of routes the in-state line

would take. Mr. Swenson replied that length equates to cost. The Parks Highway route was longer but the shorter Glenallen route would depend on development of a large diameter line.

Co-Chair Stoltze relayed that in previous administration testimony the Glenallen route was reported to be more expensive. He requested clarification. Mr. Meyer responded that in the first briefing led by Harry Noah, Alaska Mental Health Land Trust Resource Manager, Department of Natural Resources, an alternative analysis was offered. The findings concluded that for a standalone in-state gas line the Parks Highway Route was a less expensive route by \$480 million. He concurred that the difference in cost was the difference in length. Each mile costs approximately five million dollars.

[10:20:38 AM](#)

Representative Gara reiterated his concern that the time line in the legislation would force the state to pick a less than optimal route. Mr. Swenson felt that from a cost stand point the correct route would be chosen. Representative Gara deduced that the Parks Highway Route would be chosen. Mr. Swenson offered that the legislation requires choosing the most economical route. That would mean the shortest route. Glenallen was the shortest if the terminus was in Valdez. The Parks Highway Route is the shortest to south central Alaska.

[10:22:12 AM](#)

Representative Doogan mentioned that right-of-way's can be difficult to obtain. He wondered how acquisition of right-of-way's will proceed on either route.

MIKE SOTAK, ASRC ENERGY SERVICES, INC. (via teleconference), responded that both routes will have to find right-of-way access. The gas line cannot use the same right-of-ways as the TransAlaska Pipeline. Much of the Parks Highway route right-of-ways were joint use on state roads and power lines routes. Approximately ten percent of rights-of-ways are located on state land on the Parks Highway route. He felts that if problems arise in acquisition they can be resolved within the project's timeframe. Representative Doogan inquired if right of way acquisition difficulties were expected on the Glenallen

route. Mr. Sotak expected the process to be the same as the Parks Highway route.

[10:26:51 AM](#)

Mr. Swenson concluded that the administration's in-state gas pipeline project was committed to working in parallel with all other gas line projects in the state. He agreed with Speaker Chenault that all in-state gas pipeline options must keep moving forward in order to develop the state's natural gas resources in the near future.

Representative Austerman commented that he strongly supports HB 369 so Alaskan's can have access to natural gas as soon as possible. He alleged that the AGIA process will take many years and might never result in a gas line. He felt that the administration's current project was tied to the outcome of AGIA.

[10:30:36 AM](#)

Representative Kelly wondered if construction of the pipeline could begin south to north and who would decide that. Mr. Swenson could not address construction issues. He guessed that the legislature would make the decision.

Co-Chair Stoltze noted that a committee substitute for this legislation would be offered in the near future.

HB 369 was HEARD and HELD in Committee for further consideration.

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ADJOURNMENT

The meeting was adjourned at 10:34 AM