

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

February 4, 2009

1:06 p.m.

MEMBERS PRESENT

Representative Craig Johnson, Co-Chair
Representative Mark Neuman, Co-Chair
Representative Kurt Olson
Representative Peggy Wilson
Representative David Guttenberg
Representative Scott Kawasaki
Representative Chris Tuck

MEMBERS ABSENT

Representative Bryce Edgmon
Representative Paul Seaton

COMMITTEE CALENDAR

HOUSE CONCURRENT RESOLUTION NO. 2

Requesting the governor to provide energy security for all Alaskans by pursuing development of a natural gas bullet pipeline from the North Slope to the Cook Inlet region; and requesting the governor to identify and negotiate with one or more persons capable of producing natural gas from the Gubik area, and other areas on the North Slope if necessary, in sufficient quantities to support a bullet pipeline project.

- MOVED CSHCR 2(RES) OUT OF COMMITTEE

HOUSE CONCURRENT RESOLUTION NO. 3

Requesting the governor to provide energy security for all Alaskans by taking and encouraging all action that would support a natural gas bullet pipeline from the North Slope to the Cook Inlet region, including initiating any necessary negotiations to reopen the Agrium plant in Kenai.

- MOVED HCR 3 OUT OF COMMITTEE

HOUSE CONCURRENT RESOLUTION NO. 4

Requesting the governor to provide energy security for Alaskans by taking and encouraging all action to support development of a natural gas bullet pipeline from the North Slope to the Cook Inlet region including advocating an

increase in the amount of natural gas that may be exported under authority granted by the United States Department of Energy.

- MOVED HCR 4 OUT OF COMMITTEE

HOUSE CONCURRENT RESOLUTION NO. 5

Requesting the governor to provide energy security for all Alaskans by working on significant elements and components to support the timely construction of a natural gas bullet pipeline from the North Slope to the Cook Inlet region and to take necessary action to assist and facilitate the process for a private entity to make a final investment decision to commit to the pipeline before November 1, 2010.

- MOVED HCR 5 OUT OF COMMITTEE

PREVIOUS COMMITTEE ACTION

BILL: HCR 2

SHORT TITLE: IN-STATE GAS PIPELINE

SPONSOR(s): REPRESENTATIVE(s) RAMRAS

01/21/09	(H)	READ THE FIRST TIME - REFERRALS
01/21/09	(H)	ENE, RES
02/03/09	(H)	ENE AT 3:00 PM BARNES 124
02/03/09	(H)	Moved Out of Committee
02/03/09	(H)	MINUTE(ENE)
02/04/09	(H)	RES AT 1:00 PM BARNES 124

BILL: HCR 3

SHORT TITLE: IN-STATE GAS PIPELINE

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01/21/09	(H)	READ THE FIRST TIME - REFERRALS
01/21/09	(H)	ENE, RES
02/03/09	(H)	ENE AT 3:00 PM BARNES 124
02/03/09	(H)	Moved Out of Committee
02/03/09	(H)	MINUTE(ENE)
02/04/09	(H)	RES AT 1:00 PM BARNES 124

BILL: HCR 4

SHORT TITLE: IN-STATE GAS PIPELINE

SPONSOR(s): REPRESENTATIVE(s) RAMRAS

01/21/09	(H)	READ THE FIRST TIME - REFERRALS
01/21/09	(H)	ENE, RES

02/03/09 (H) ENE AT 3:00 PM BARNES 124
02/03/09 (H) Moved Out of Committee
02/03/09 (H) MINUTE(ENE)
02/04/09 (H) RES AT 1:00 PM BARNES 124

BILL: HCR 5

SHORT TITLE: IN-STATE GAS PIPELINE
SPONSOR(S): REPRESENTATIVE(S) RAMRAS

01/21/09 (H) READ THE FIRST TIME - REFERRALS
01/21/09 (H) ENE, RES
02/03/09 (H) ENE AT 3:00 PM BARNES 124
02/03/09 (H) Moved Out of Committee
02/03/09 (H) MINUTE(ENE)
02/04/09 (H) RES AT 1:00 PM BARNES 124

WITNESS REGISTER

REPRESENTATIVE JAY RAMRAS
Alaska State Legislature
Fairbanks, Alaska

POSITION STATEMENT: As sponsor of HCR 2, presented information regarding the resolution.

ELIZABETH GRAY, Assistant Manager
Matanuska-Susitna Borough
Palmer, Alaska

POSITION STATEMENT: During hearing on HCR 2, and in regard to HCR 2, HCR 3, HCR 4, and HCR 5, supported construction of a natural gas line to help meet the immediate gas needs of Southcentral and Interior Alaska.

TOM LAKOSH
Anchorage, Alaska

POSITION STATEMENT: During hearing on HCR 2, opposed HCR 2, HCR 3, HCR 4, and HCR 5.

CURTIS THAYER, Director
Corporate & External Affairs,
ENSTAR Natural Gas Company
Anchorage, Alaska

POSITION STATEMENT: Answered questions during the hearing on HCR 2.

REPRESENTATIVE JAY RAMRAS
Alaska State Legislature
Fairbanks, Alaska

POSITION STATEMENT: As sponsor of HCR 3, presented information regarding the resolution.

LISA PARKER, Manager
U.S. Government Relations
Agrium Inc.
Kenai, Alaska

POSITION STATEMENT: During hearing on HCR 3, supported HCR 2, HCR 3, HCR 4, and HCR 5.

REPRESENTATIVE JAY RAMRAS
Alaska State Legislature
Fairbanks, Alaska

POSITION STATEMENT: As sponsor of HCR 4, presented information regarding the resolution.

TOM LAKOSH
Anchorage, Alaska

POSITION STATEMENT: During hearing on HCR 4, urged that HCR 4 be adjusted to get the gas in-state immediately and not wait for either the pipeline or its incurred costs.

REPRESENTATIVE JAY RAMRAS
Alaska State Legislature
Fairbanks, Alaska

POSITION STATEMENT: As sponsor of HCR 5, presented information regarding the resolution.

ACTION NARRATIVE

[1:06:03 PM](#)

CO-CHAIR CRAIG JOHNSON called the House Resources Standing Committee meeting to order at 1:06 p.m. Representatives Neuman, Johnson, Wilson, Olson, Guttenberg, Kawasaki, and Tuck were present at the call to order.

HCR 2-IN-STATE GAS PIPELINE
HCR 3-IN-STATE GAS PIPELINE
HCR 4-IN-STATE GAS PIPELINE
HCR 5-IN-STATE GAS PIPELINE

[1:07:32 PM](#)

[The committee heard an overview of and testimony on HCR 2, HCR 3, HCR 4, and HCR 5.]

CO-CHAIR JOHNSON announced that the first order of business would be HOUSE CONCURRENT RESOLUTION NO. 2, Requesting the governor to provide energy security for all Alaskans by pursuing development of a natural gas bullet pipeline from the North Slope to the Cook Inlet region; and requesting the governor to identify and negotiate with one or more persons capable of producing natural gas from the Gubik area, and other areas on the North Slope if necessary, in sufficient quantities to support a bullet pipeline project.

1:07:45 PM

REPRESENTATIVE JAY RAMRAS, Alaska State Legislature, sponsor of HCR 2, first noted that in Fairbanks the price of home heating oil reached nearly \$5 [per gallon] in recent times and the cost of natural gas is the nation's highest at \$22.91 per thousand cubic feet (Mcf). Fairbanks residents therefore have a vested interest in seeing an in-state "bullet line" completed as quickly as possible, he said, and HCR 2, HCR 3, HCR 4, and HCR 5 incrementally approach such a gas line.

REPRESENTATIVE RAMRAS explained that HCR 2 addresses the supply of natural gas, a critical component to any in-state gas line. An in-state gas line would need to supply nearly 500 million cubic feet per day (Mmcf/day) or 180 billion cubic feet per year (Bcf/year) or 3.6 trillion cubic feet (Tcf) over a 20-year pipeline lifespan. The Gubik gas field presently has proven reserves of about 600 Bcf and Anadarko Petroleum Corporation ("Anadarko") is currently drilling a third exploratory well. He said HCR 2 asks the governor to help secure a contingent supply of commercial gas from other areas on the North Slope should the Gubik field not have enough gas for the full 20 years.

1:11:12 PM

REPRESENTATIVE KAWASAKI asked whether the term "bullet line" is defined in the resolution.

REPRESENTATIVE RAMRAS responded he does not think there is a legal definition, but the synonym would be an in-state gas line. He said he is referring to ENSTAR Natural Gas Company ("ENSTAR"), the only company presently interested in building a private sector pipe from where the gas is in the Gubik area to where the people are that need it.

CO-CHAIR JOHNSON interjected that unlike a statutory document, definitions are probably not consistent with a resolution. Therefore, the definition is what the sponsor or the reader wants it to be.

[1:12:33 PM](#)

CO-CHAIR NEUMAN asked how the administration would go about meeting the resolution's request on page 2, line 20, to identify entities capable of producing natural gas from the Gubik and other areas on the North Slope.

REPRESENTATIVE RAMRAS replied that for the purposes of an in-state bullet line, not for a petrochemical industry, there is a supply of inferior wet gas only 60 miles farther north [of Gubik] owned by ConocoPhillips Alaska, Inc. ("Conoco"). The tariff would need to incorporate the cost of building 60 more miles of pipe through rough terrain and constructing a gas treatment plant, but nevertheless the gas is there. Having the state as a guarantor of a contingent supply of proven gas reserves would assist ENSTAR in marketing the financing of the pipeline. He related that ENSTAR previously stated before the Senate Resources Standing Committee that it has \$1 billion to put down and \$3 billion of financing to put together, and does not require anything from the state except to get out of the way. The unique quality of Gubik gas, he added, is that it is dry like Cook Inlet gas and does not require any sort of treatment before use.

[1:15:56 PM](#)

REPRESENTATIVE KAWASAKI expressed his concern that the language "all action necessary" on page 2, line 18, might cede the legislature's authority and taxing ability. In addition, he said he is not in favor of having the governor negotiate this, as directed on page 2, [lines 23-24], unless it comes back to the legislature for finalization.

REPRESENTATIVE RAMRAS answered, "Okay."

[1:17:04 PM](#)

REPRESENTATIVE OLSON understood there is already a certain amount of capacity for natural gas liquids (NGLs) in Cook Inlet. He offered his belief that the liquefied natural gas (LNG) plant in Nikiski sells its gas on a British Thermal Unit (BTU) basis

rather than on a volume basis and the non-gas liquids act to increase the BTUs.

REPRESENTATIVE RAMRAS said he thinks Representative Olson is correct. He related that Cook Inlet is currently showing signs of being a depleted field and will be much more so in five years when the bullet line is complete. The question is how much gas will be there and Representative Olson's issue is very relevant in that context.

[1:18:44 PM](#)

REPRESENTATIVE OLSON added that it is probably a moot point because he does not think there is an export license that runs out that far.

REPRESENTATIVE RAMRAS responded that the point is made and this is addressed in HCR 4.

[1:19:00 PM](#)

CO-CHAIR NEUMAN, in regard to Representative Kawasaki's concerns, said he thinks the governor and the administration are in the position to solicit requests because this is likely the first place that entities go when they come to the state with their needs.

CO-CHAIR JOHNSON offered his belief that the governor and the administration are the ones that negotiate those contracts and then bring them to the legislature for approval. He said he therefore does not think the legislature is ceding any power.

[1:20:05 PM](#)

REPRESENTATIVE WILSON understood that HCR 2 deals with a bullet line for use of the gas in-state only.

REPRESENTATIVE RAMRAS answered correct, HCR 2 simply addresses the supply component for an in-state bullet line only. The assumption for tariff purposes is that the line will have a capacity of 180 Bcf/year over a minimum of 20 years for a total of 3.6 Tcf of gas, he reiterated. Potential financiers of such a project will want to know how much gas the project owner has and whether there is enough gas, as well as the pipeline's cost, who the customers will be, and how robust the target marketplace is. The anticipation is that this in-state bullet line would start on the North Slope. The farther south it starts, the

shorter the pipeline. The farther north it starts, the more rugged the terrain and the more expensive the pipeline. The ideal gas source would be the Nenana Basin because of its proximity to Fairbanks and Southcentral Alaska, he continued. However, prevailing wisdom suggests that rather than large pools of gas, Nenana has puddles of gas that may total as much as there is in Cook Inlet. The thought, therefore, is that the area with proven reserves of 600 Bcf in a currently capped well is more likely to yield the commercial volumes necessary for such a pipeline.

[1:23:23 PM](#)

REPRESENTATIVE GUTTENBERG understood that the industry's definition of proven reserves is when the resource is actually being extracted. The number for proven reserves is always lower than the amount that is suspected. He referred to page 2, line 18, "all action necessary", and asked how far would this go. For example, could it be to such an extent that it goes over 500 Mmcf and supplants the contract with TransCanada?

REPRESENTATIVE RAMRAS replied that proven reserves is a legal term that allows a company to book reserves onto its balance sheet. There are other gradations such as known reserves. He agreed that estimated amounts are often a great deal more. In regard to page 2, lines 18 and 19, Representative Ramras said he hopes this legislature will have the courage to cancel the Alaska Gasline Inducement Act (AGIA) contract because he believes that it is fundamentally flawed. Under current law, the state has ceded to TransCanada any project that is larger than 500 Mmcf/day. Thus, "all action necessary" is meant to be within the state's current framework of statutes, he said, so the bullet line would be 500 Mmcf/day or less.

[1:27:49 PM](#)

REPRESENTATIVE RAMRAS, at Co-Chair Johnson's request, presented an overview of all four of his in-state gas line resolutions. He said HCR 2 addresses gas supply while HCR 3 and HCR 4 address demand. Annual demand for residential and light commercial throughout the Interior and Southcentral totals about 60 Bcf/year, or one-third the capacity of the in-state pipeline. Therefore, HCR 3 addresses industrial use - restart of the Agrium plant on the Kenai Peninsula - which would be 60 Bcf/year and would make the pipe two-thirds full. A supply of inexpensive gas for Agrium would re-capture the 250 jobs that were formerly provided by the urea plant. Under HCR 4 the

governor is urged to pursue a dialog with the U.S. Department of Energy regarding expansion of the gas export license by 60 Bcf/year. Lastly, HCR 5 addresses the release of wood bison by asking the governor to assist in getting government out of the way so that a private entity can make a final investment decision by year-end 2010.

CO-CHAIR JOHNSON requested that any questions related to demand be held until HCR 3 and 4 are taken up. He opened public testimony on HCR 2. For the convenience of witnesses, he allowed for testimony to include discussion of HCR 3, HCR 4, and HCR 5.

1:34:00 PM

ELIZABETH GRAY, Assistant Manager, Matanuska-Susitna Borough, testified that the Matanuska-Susitna Borough supports the construction of a natural gas line to help meet the immediate gas needs of Southcentral and Interior Alaska and to provide energy security for the state. Cook Inlet gas supplies are dwindling and existing supplies are increasingly difficult to reach, she said, but the demand for gas in Alaska is growing. By 2012 there will be an estimated shortfall in the local natural gas supply of 11 Bcf. If the state runs out of gas supplies in the next few years, 52 percent of the state's population will be affected. She said the proposed bullet line would: meet near-term gas needs, create new economic activities, and facilitate natural resource extraction and value-added processing.

MS. GRAY pointed out that the proposed rail extension from the Alaska Railroad mainline to Port MacKenzie would help lower the cost of building the bullet line by approximately \$100 million. She related that according to an October 2008 study by the Institute of Social and Economic Research (ISER), the additional resource extraction investment that would be facilitated by this rail extension would generate 500-1,000 direct full-time jobs. According to this same study, the rail extension project itself would provide a statewide benefit and an estimated 3,200-3,400 construction jobs. She said the Matanuska-Susitna Borough wholeheartedly supports the immediate construction of a rail extension as well as a natural gas line to further diversify Alaska's economy.

1:37:05 PM

MS. GRAY, in response to Representative Wilson, said the 52 percent figure is projected from the number of people currently using gas.

REPRESENTATIVE WILSON understood Ms. Gray to be saying that 52 percent of the state's population is using gas now.

MS. GRAY responded, "Yes."

[1:38:05 PM](#)

MS. GRAY, in response to Representative Tuck, clarified that it would be a future rail to Point MacKenzie.

CO-CHAIR JOHNSON, in response to another question from Representative Tuck, understood Ms. Gray to have said that building a rail line would reduce the cost of constructing the line by bringing in the pipe, not that the rail line would reduce the cost of delivery of the gas.

MS. GRAY agreed that Co-Chair Johnson's answer is correct.

[1:39:26 PM](#)

REPRESENTATIVE GUTTENBERG asked if the bullet line would come into the Matanuska-Susitna Borough in a convenient place if it were to come down the Richardson Highway into Glennallen and then across as proposed, rather than coming down the Parks Highway.

CO-CHAIR JOHNSON explained that there would be "a line on both ends that would join prior to it coming to even Anchorage - there is one up in Palmer and one north of Palmer."

REPRESENTATIVE GUTTENBERG surmised those proposals would come down the Glenn Highway.

CO-CHAIR JOHNSON responded that they will get to Southcentral in roughly the same area - one is up by Palmer and the other is up by Sutton.

REPRESENTATIVE OLSON said the other route is about 80 or 90 miles longer.

CO-CHAIR JOHNSON added, "You don't have to go all the way to the same point, there [are] ... other entry points into the ... supplies."

REPRESENTATIVE GUTTENBERG recognized that economic forces would figure this out, but said he wants to ensure that everything is taken care of.

[1:41:05 PM](#)

TOM LAKOSH testified that he vehemently opposes all four resolutions [HCR 2, HCR 3, HCR 4, and HCR 5]. He urged the committee to instead pass a bill or resolution that would qualify Agrium for in-state need in accordance with the terms of the export lease. This would give Southcentral Alaska 40 percent more gas and the ability to carry itself over. Then in 10 years, if Southcentral still needed gas a line would only need to be built from Fairbanks to Anchorage because the TransCanada or Denali line would go to Fairbanks by that time. The northern 350 miles of the bullet line will become obsolete within three to six years of completion because it would be cheaper in tariffs to buy the gas from the mainline rather than the bullet line, he maintained.

MR. LAKOSH said the bullet line is premature prior to consideration of the Railbelt energy plan that is being developed by the Alaska Energy Authority (AEA). The state is weatherizing, conserving, and switching to renewables, so the need for natural gas and this bullet line will shrink, not grow. Cancellation of the export license would provide a quick way for getting gas to Agrium and would cause "Marathon and Chevron" to look for gas to keep their gas line going. The export license does not encourage exploration, he argued, but closing the export license and the export plant would do so by encouraging exploration and production in Cook Inlet.

[1:45:02 PM](#)

MR. LAKOSH said the state will also lose money from North Slope gas that would otherwise have gone to full production tax had it been shipped down the main line. He said he is cognizant of Fairbanks's problems, but that these can be addressed by: the wood pellet plant that is currently being built, the Healy coal project that is coming back on line, a return to service of the Eielson Air Force Base waste-to-power plant, and development of geothermal, biomass, and coal gasification. For the \$4 billion cost of the bullet line, ENSTAR could instead invest in a gigawatt of renewable energy sources at \$3,000 per kilowatt installed and use the remaining \$1 billion to build the transmission line. It is insane to pay for the pipeline, then

pay for the additional gas generators on top of the \$4 billion, and then pay for the gas on top of that, Mr. Lakosh opined. He urged the committee to take testimony from AEA on the Railbelt plan before going ahead with these resolutions.

[1:49:22 PM](#)

REPRESENTATIVE GUTTENBERG inquired whether anyone from the administration will be responding to what the resolutions are asking.

CO-CHAIR JOHNSON said no one from the administration is present at today's hearing, but the administration did receive notice.

CO-CHAIR JOHNSON closed public testimony on HCR 2.

[1:50:37 PM](#)

CO-CHAIR NEUMAN asked what the price of gas will be when the bullet line is complete as compared to now.

CURTIS THAYER, Director, Corporate & External Affairs, ENSTAR Natural Gas Company, answered that all of ENSTAR's current gas contracts are based on various indices. ENSTAR's largest contract is indexed on a trailing average of Henry Hub prices, a market indicator that is trading at the \$5 range today. He said ENSTAR feels the tariff must be around \$2.50 to make this line economically viable, understanding there would be distance-sensitive rates. For example, Fairbanks would pay less of the tariff because the pipeline distance to that city is less than to Southcentral. At today's rate of \$5.05 plus the \$2.50, a customer could be paying \$7.55/Mcf. Currently, customers in Cook Inlet pay \$10.46/Mcf and Fairbanks pays over \$23/Mcf. So, depending on the market, it would be basically market price with the tariff. "We can't predict out what 2015 is, but the common denominator in the Lower 48 in determining gas prices is the Henry Hub or New York Mercantile exchange rate," he said.

[1:52:24 PM](#)

CO-CHAIR NEUMAN understood the cost of delivery, or tariff, would be about \$2.50 and that this number is derived by taking the cost of building the pipeline divided by the number of customers.

MR. THAYER explained that \$2.50 is what ENSTAR feels is needed to be economically viable. In its assumptions, ENSTAR assumed:

Fairbanks would be using more natural gas than it is today, Flint Hills Resources, LP, and the military bases would be customers, and there would be Southcentral residential customers. He related that ENSTAR currently serves over half of the state's overall population in just home heating. Power generation produced from Cook Inlet by the utility companies serves about two-thirds of the state's needs from Fairbanks to Homer and Seward. An industrial anchor is necessary to make this line viable, he said, and that would be an Agrium or an LNG plant, both of which Southcentral currently has but which are not currently being utilized to their full potential.

[1:53:39 PM](#)

CO-CHAIR NEUMAN remarked that it is inspiring to hear the costs could actually be lowered.

MR. THAYER replied he is saying that that is the price today. He explained that ENSTAR's gas supply contracts must be approved by the Regulatory Commission of Alaska (RCA). An Agrium or an LNG plant or "a Flint Hills" would negotiate independently with the producer for the cost of the gas and that does not go through the RCA, only the utilities go through the RCA. However, the tariff would be about the same for everybody.

CO-CHAIR NEUMAN commented that the 480 Mmcf currently being used in the Cook Inlet area is all the more reason for the administration to find opportunities, whether it is increased LNG, Agrium, or added-value processing of Alaska's natural gas.

[1:54:42 PM](#)

REPRESENTATIVE WILSON, in relation to the aforementioned customer price of [\$7.55], inquired what the lowest and highest prices have been over the last five years and whether any of those prices have been either too low or too high.

MR. THAYER clarified that the tariff is the cost to build the line, which ENSTAR anticipates to be \$2.50, and the actual price will be market conditions. Using the Henry Hub index, he continued, prices have spiked as high as \$15 and declined below \$4 during the past seven years. When a large gas line was considered in 2001, the price of gas in the Lower 48 was below \$4/Mcf and was one of the reasons for scrapping the project. For the past three years the price has been hovering in the \$5-\$7 range. However, it would be what the market prices are in

2015. Right now, Cook Inlet has the lowest delivered-to-your-home gas price in the country.

[1:56:35 PM](#)

REPRESENTATIVE WILSON understood the future price could either be lower than today or higher than current prices in Fairbanks, depending upon the market price at that time.

MR. THAYER answered, "Correct, the market price is what you would buy it for or negotiate for at the time." An ENSTAR study conducted last year showed that if Southcentral Alaska's consumers switched to fuel oil, the next lowest price, the cost of just the commodity itself would be "a \$500 million hit to the local economy." So, in eight years a bullet line would pay for itself just for Southcentral cost. Although switching is not really an alternative in the Cook Inlet area, ENSTAR figures that natural gas piped from the North Slope can lower the cost in Fairbanks by more than half.

[1:57:44 PM](#)

REPRESENTATIVE WILSON asked what the figures would be for electricity.

MR. THAYER said he does not know, but utilities are paying a market price for natural gas to generate 90 percent of the Railbelt's electrical power. Given the conversion of gas to electricity that would then be used to heat a home, he said he believes the cost would be about \$350 as compared to \$154 for natural gas.

[1:58:28 PM](#)

MR. THAYER, in response to Representative Guttenberg, said the Department of Revenue tracks Henry Hub prices and last summer the department made a 10-year prediction.

REPRESENTATIVE GUTTENBERG inquired whether HCR 2, HCR 3, HCR 4, or HCR 5 would help ENSTAR in regard to providing certainty that the state supports the bullet line project.

MR. THAYER replied they clearly do as far as a sense of the legislature. He said the governor plans to introduce a bill that would provide clarity on regulation and how the pipeline would be treated. There needs to be some clarity because last

year ENSTAR spent \$5 million on this project and expects to spend up to \$60 million by next year.

2:00:47 PM

REPRESENTATIVE KAWASAKI, in reference to the issue of small diameter pipelines having high tariff rates due to low volume, asked how ENSTAR will be able to use the Henry Hub index and get a low enough rate for consumers in Anchorage or Fairbanks.

MR. THAYER responded that the Henry Hub is just a common index that is used. He said ENSTAR does not know whether that will be the negotiating point for gas contracts because it has not yet come to any type of commercial terms with a producer. ENSTAR's base case is a 20-inch pipeline, but it could be a 24-inch pipeline. ENSTAR anticipates that the pipeline would serve all of Southcentral, Fairbanks, and the Railbelt for many years. It is correct that the more gas that can be put through a pipeline, the lower the tariff. If the gas supply is there, and there are users at the other end, compression can be used to increase the volume. The reason the pipeline is 500 Mmcf/day is to make it AGIA compliant.

2:02:23 PM

REPRESENTATIVE KAWASAKI expressed his concern that the language in HCR 2 on page 2, lines 17-25, could result in ENSTAR coming back to the legislature for concessions should the bullet line be uncommercial

MR. THAYER answered that ENSTAR is not asking for any financial concessions from the state; it is a private enterprise project.

REPRESENTATIVE KAWASAKI submitted that at some point in time, ENSTAR and the producers will have to come back to the state for tax terms.

MR. THAYER replied that under Alaska's Clear and Equitable Share (ACES) the statewide tax rate is 5 percent. This tax rate has spurred new exploration, he maintained, and is one of the reasons for the exploration that is now occurring in Gubik, Doyon, and possibly the Yukon Flats. He said ENSTAR's concern is with government regulation and permitting, and ENSTAR is hoping the state will establish a framework that makes this a priority so the regulatory and permitting issues can be resolved in a very timely fashion.

2:04:15 PM

REPRESENTATIVE TUCK asked for Mr. Thayer's opinion in regard to Mr. Lakosh's testimony about stopping the export of Cook Inlet gas.

MR. THAYER responded that if the LNG plant had not been in operation and diverting gas to Anchorage and Southcentral Alaska during this winter's most recent cold snap, there would probably have been a loss of part of the system as well as electrical generation. The LNG plant is vital not only to anchor a bullet line, but to stay in production, he explained. The LNG plant flows and uses gas 24 hours a day, 7 days a week, 365 days a year. But a utility like ENSTAR swings as much as 10 times from one day to another, such as when the weather goes from 20 below one week to 50 degrees above the next. An electrical company has a similar ratio, but not as great. Because the Cook Inlet fields are so old they could fill up with sand and water and be lost if they are not drawn on constantly. So, the LNG plant plays a very important part in helping with ENSTAR's swing ratio and ENSTAR believes that shutting down the plant will hurt the supplies and reserves in Cook Inlet.

2:06:14 PM

REPRESENTATIVE TUCK inquired whether ENSTAR would have sufficient gas to meet the retail, commercial, and Agrium needs from the Cook Inlet region if there was no export contract.

MR. THAYER reiterated that with utilities there needs to be a base load 24 hours a day 7 days a week in order to swing when extra gas is needed. Twenty years ago in Cook Inlet the gas just free-flowed into the system, he said, but that is not the case today so shutting down the plant would hurt that. There are three companies looking for gas today - "Marathon" and "Conoco" for the plant and the utilities. If the market were to shrink from say, 200 Bcf to 50 or 60 Bcf just for the utilities, there would not be as much investment and exploration for new gas in Cook Inlet, which is a concern of ENSTAR.

2:07:25 PM

REPRESENTATIVE TUCK asked whether ENSTAR has any concern that exports could take priority and cause a shortage of gas for Alaskans.

MR. THAYER answered, "No, because the priority would be for the utilities; the industrial customers could be interrupted through commercial arrangements so the gas is diverted to local needs along the Railbelt." The industrial load is needed on the bullet line to keep that tariff as low as possible. "The residential and commercial needs alone cannot support the building of a \$4 billion pipeline, but with an industrial load it does," he said.

2:08:39 PM

REPRESENTATIVE TUCK expressed his concern that export could take control of the volume necessary for the line. He urged that the gas be prioritized first for Alaska's needs and that export be done as needed to maximize the line. He inquired whether Mr. Thayer believes HCR 2 would protect ENSTAR in this regard.

MR. THAYER replied, "We do, and Conoco and Marathon have been great partners." Whenever Southcentral Alaska needed diversion from the LNG plant they did it, even without a contract in this regard. He said he believes this type of commercial term could be written into the contract for gas delivery into Southcentral.

2:09:40 PM

REPRESENTATIVE OLSON pointed out that the LNG export facility has been around for approximately 40 years and terms in the plant's export license require that demands by local utilities take precedence over shipments to Japan. Up until about three years ago, "Conoco" and "Marathon" never missed or shorted a delivery to Japan. But in the past six to eight months, he said he believes several loads to Japan were shorted to provide gas to ENSTAR.

MR. THAYER answered, "Correct."

REPRESENTATIVE OLSON added that this is the only facility in the U.S. with an exemption to the Jones Act which prevents the export of gas overseas.

2:11:21 PM

REPRESENTATIVE WILSON moved to adopt Conceptual Amendment 1 as follows:

Page 2, line 18, after "for":
Delete "all"

Page 2, line 18, after "taking":
Delete "all"

Page 2, line 18, before "necessary":
Delete "action"
Insert "actions"

Thus, Page 2, line 18, would read:

provide energy security for Alaskans by taking actions
necessary to promote the

CO-CHAIR JOHNSON objected for discussion purposes.

[2:12:30 PM](#)

REPRESENTATIVE WILSON said she feels the amendment is important because this action will not affect "all" Alaskans. For example, the bullet line will not affect residents of Southeast Alaska. In addition, taking "all" action is too encompassing and could result in someone coming back in this regard.

CO-CHAIR NEUMAN disagreed. He said he thinks it does add security for all Alaskans because eventually the state's various power grids will be working together so this will benefit everyone.

REPRESENTATIVE WILSON agreed that everything will eventually be connected. However, this particular resolution does not do that, therefore it does not take care of all Alaskans.

[2:15:44 PM](#)

REPRESENTATIVE RAMRAS said the governor has demonstrated a growing contempt for the legislative branch and whether the word "all" is included will not matter significantly insofar as the power of the resolution. He said he would be open to deleting "all" before the word Alaskans in an effort to respond to Representative Wilson, and to keeping "all action necessary" in response to Co-Chair Neuman.

CO-CHAIR NEUMAN said he thinks "taking all action necessary" is a critical part of HCR 2. He offered an amendment to Conceptual Amendment 1 that would retain deletion of the first "all", keep the second "all", and retain adding an "s" to the word "action". Therefore, Conceptual Amendment 1, as amended, would read:

provide energy security for Alaskans by taking all actions necessary to promote the

CO-CHAIR JOHNSON objected for discussion purposes.

[2:18:01 PM](#)

REPRESENTATIVE GUTTENBERG supported the original Conceptual Amendment 1. If the governor was to listen to the legislature at some point, she could take this to the extreme, he cautioned.

REPRESENTATIVE TUCK supported the original Conceptual Amendment 1. Some of the actions need to be discretionary, he said.

CO-CHAIR JOHNSON removed his objection to the amendment of Conceptual Amendment 1.

REPRESENTATIVE TUCK objected to the amendment to Conceptual Amendment 1.

A roll call vote was taken. Representatives Olson, Neuman, and Johnson voted in favor of the amendment to Conceptual Amendment 1. Representatives Guttenberg, Kawasaki, Tuck, and Wilson voted against it. Therefore, the amendment to Conceptual Amendment 1 failed by a vote of 3-4.

The committee took an at-ease from 2:22 p.m. to 2:23 p.m.

[2:23:43 PM](#)

A roll call vote was taken on Conceptual Amendment 1. Representatives Guttenberg, Kawasaki, Tuck, and Wilson voted in favor of Conceptual Amendment 1. Representatives Olson, Neuman, and Johnson voted against it. Therefore, Conceptual Amendment 1 passed by a vote of 4-3.

[2:24:49 PM](#)

REPRESENTATIVE TUCK moved Conceptual Amendment 2 as follows:

Page 2, line 18, after "Alaskans":
Insert "first"

Page 2, line 24, after "support":
Insert "the energy needs of Alaskans and"

Therefore, page 2, line 18, and page 2, line 24, would read respectively:

provide energy security for Alaskans first by taking actions necessary to promote the

for a commitment of natural gas production on commercially reasonable terms to support the energy needs of Alaskans and the

CO-CHAIR JOHNSON objected for purposes of discussion and asked whether Representative Ramras, as the sponsor, had any concerns with Conceptual Amendment 2.

[2:26:20 PM](#)

REPRESENTATIVE RAMRAS replied that this is just a resolution and he would be more fearful of wordsmithing if it were a statute.

CO-CHAIR JOHNSON agreed with Representative Ramras.

CO-CHAIR NEUMAN said he is concerned with wordsmithing because the language was carefully thought out the way it is written.

CO-CHAIR JOHNSON withdrew his objection to Conceptual Amendment 2.

There being no further objection, Conceptual Amendment 2 passed.

[2:28:25 PM](#)

CO-CHAIR NEUMAN moved to report HCR 2, as amended, out of committee with any individual recommendations and accompanying fiscal notes. There being no objection, CSHCR 2(RES) was reported out of the House Resources Standing Committee. [HCR 2 was re-heard later in the meeting.]

HCR 3-IN-STATE GAS PIPELINE

[Testimony was heard regarding HCR 2, HCR 3, HCR 4, and HCR 5.]

[2:28:49 PM](#)

CO-CHAIR JOHNSON announced that the next order of business would be HOUSE CONCURRENT RESOLUTION NO. 3, Requesting the governor to provide energy security for all Alaskans by taking and encouraging all action that would support a natural gas bullet

pipeline from the North Slope to the Cook Inlet region, including initiating any necessary negotiations to reopen the Agrium plant in Kenai.

REPRESENTATIVE JAY RAMRAS, Alaska State Legislature, sponsor of HCR 3, drew attention to page 1, lines 12-15, and noted that the AGIA gas line from the North Slope, or a similar alternative project, would not deliver gas until after 2016, "if ever". He stated his concern over whether there will ever be a large diameter pipe given the market changes since passage of AGIA. Restarting Agrium is essential to the economic viability of an in-state gas pipeline, he opined.

2:30:04 PM

LISA PARKER, Manager, U.S. Government Relations, Agrium Inc., offered Agrium Inc.'s support of HCR 2, HCR 3, HCR 4, and HCR 5. She said the resolutions are important to provide economic stability to Alaska as well as to provide jobs for Alaskans. In September 2007, after nearly 40 years of operation in Alaska, Agrium had to shut down its Kenai facility due to a lack of natural gas in Cook Inlet. At its peak this facility put over \$350 million annually into the Alaskan economy, the majority of which was spent in Southcentral Alaska. Agrium supports a bullet line and is engaged in discussions with the various organizations and companies interested in pursuing the line, she said. A bullet line, along with the various negotiated terms and conditions, would put a billion dollar industrial facility back into operation in Alaska. Bringing back the fertilizer plant would restore 250 jobs, provide economic stability to the state, and provide jobs and income to the various businesses and support industries that have been impacted by Agrium's shutdown. The re-started facility would support and supply fertilizer product to Alaska's agricultural industry, the state of Alaska, and the international airports in Anchorage and Fairbanks.

MS. PARKER, in response to Representative Olson, stated that at its peak Agrium employed approximately 330 people, plus contractors. In further response to Representative Olson, she explained that Agrium cut back to 250 employees in mid-2004 and then scaled back again to 150 employees in early 2006 because only 50 percent of the plant was in operation.

2:33:10 PM

CO-CHAIR JOHNSON closed public testimony on HCR 3. In an effort to be fair, he pointed out that HCR 3 contains the same language as HCR 2.

CO-CHAIR NEUMAN moved to report HCR 3 out of committee with individual recommendations and any accompanying fiscal notes.

[2:34:08 PM](#)

REPRESENTATIVE GUTTENBERG objected. He moved Conceptual Amendment 1 as follows:

Page 2, line 31, after "for":
Delete "all"

Page 2, line 31, after "encouraging":
Delete "all"

Page 2, line 31, before "necessary":
Delete "action"
Insert "actions"

Therefore, page 2, line 31, of HCR 3 would read as follows:

provide energy security for Alaskans by taking and encouraging actions necessary to

CO-CHAIR NEUMAN objected to Conceptual Amendment 1.

REPRESENTATIVE GUTTENBERG argued that this is the same amendment with the same intent as was offered by Representative Wilson for HCR 2 and passed. If it was valid for HCR 2, it should also be valid for HCR 3, HCR 4, and HCR 5.

CO-CHAIR JOHNSON agreed it would be valid to those members who had supported that amendment.

[2:35:35 PM](#)

REPRESENTATIVE RAMRAS, speaking in regard to Representative Wilson's original concern, pointed out that the cost of fertilizer in Alaska will be going up 400 percent which will affect all Alaskans unless they do not eat produce grown in the state, do not have a lawn, or do not like flowers. He said he likes HCR 3 as it is and that it is just a resolution.

CO-CHAIR NEUMAN maintained his objection.

REPRESENTATIVE GUTTENBERG said the rest of line 31 [which continues onto page 3] refers to a bullet line and goes on to expand upon Agrium, but it has the same relationship between all Alaskans and a bullet line. If the resolution was only about Agrium, then the wording would be different.

CO-CHAIR JOHNSON commented that the point is taken.

CO-CHAIR NEUMAN maintained his objection.

[2:38:01 PM](#)

REPRESENTATIVE KAWASAKI pointed out that the title on page 1 includes the same language being amended on page 2. He offered a friendly amendment that would add the following to Conceptual Amendment 1:

Page 1, line 1, after "for":
Delete "all"

Page 1, line 2, after "encouraging":
Delete "all"

CO-CHAIR JOHNSON pointed out that in terms of consistency the title of HCR 2 was not amended.

CO-CHAIR NEUMAN objected to the amendment to Conceptual Amendment 1.

A roll call vote was taken. Representatives Kawasaki, Tuck, and Guttenberg voted in favor of the amendment to Conceptual Amendment 1. Representatives Wilson, Olson, Neuman, and Johnson voted against it. Therefore, the amendment to Conceptual Amendment 1 failed by a vote of 3-4.

[2:40:01 PM](#)

REPRESENTATIVE NEUMAN maintained his objection to Conceptual Amendment 1.

REPRESENTATIVE TUCK supported HCR 3 as a whole as well as Conceptual Amendment 1. The amendment is about supplying energy security to Alaskans, not providing food supply, he said.

A roll call vote was taken. Representatives Tuck, Guttenberg, and Kawasaki voted in favor of Conceptual Amendment 1.

Representatives Wilson, Olson, Neuman, and Johnson voted against it. Therefore, Conceptual Amendment 1 failed by a vote of 3-4.

CO-CHAIR NEUMAN again moved to report HCR 3 out of committee with individual recommendations and any accompanying fiscal notes. There being no objection, HCR 3 was reported out of the House Resources Standing Committee.

HCR 2-IN-STATE GAS PIPELINE

[2:42:12 PM](#)

CO-CHAIR JOHNSON returned the committee's attention to HOUSE CONCURRENT RESOLUTION NO. 2, Requesting the governor to provide energy security for all Alaskans by pursuing development of a natural gas bullet pipeline from the North Slope to the Cook Inlet region; and requesting the governor to identify and negotiate with one or more persons capable of producing natural gas from the Gubik area, and other areas on the North Slope if necessary, in sufficient quantities to support a bullet pipeline project.

REPRESENTATIVE WILSON moved that the committee return its attention to CSHCR 2(RES) in order for the committee to consider rescinding its action in the adoption of Conceptual Amendment 1.

REPRESENTATIVES GUTTENBERG and KAWASAKI objected.

[2:42:56 PM](#)

REPRESENTATIVE WILSON said Representative Ramras has convinced her that HCR 2 does include everybody in Alaska and therefore the word "all" should be included.

[Although not formally stated, the objections of Representatives Guttenberg and Kawasaki were treated as withdrawn.]

REPRESENTATIVE WILSON moved to rescind the committee's action in reporting CSHCR 2(RES) out of the House Resources Standing Committee. There being no objection, CSHCR 2(RES) was before the committee.

[2:44:05 PM](#)

REPRESENTATIVE WILSON moved to rescind the committee's action in adopting Conceptual Amendment 1. There being no objection, it was so ordered.

REPRESENTATIVE TUCK, in response to Co-Chair Johnson, said he does not wish to rescind Conceptual Amendment 2.

CO-CHAIR NEUMAN moved to report HCR 2, as amended [by Conceptual Amendment 2 only], out of committee with any individual recommendations and accompanying fiscal notes. There being no objection, CSHCR 2(RES) was reported from the House Resources Standing Committee.

HCR 4-IN-STATE GAS PIPELINE

[2:46:00 PM](#)

CO-CHAIR JOHNSON announced that the next order of business would be HOUSE CONCURRENT RESOLUTION NO. 4, Requesting the governor to provide energy security for Alaskans by taking and encouraging all action to support development of a natural gas bullet pipeline from the North Slope to the Cook Inlet region including advocating an increase in the amount of natural gas that may be exported under authority granted by the United States Department of Energy.

REPRESENTATIVE JAY RAMRAS, Alaska State Legislature, sponsor of HCR 4, said the resolution asks the governor of Alaska to open up a dialogue with the U.S. Department of Energy to expand the state's export license in order to increase the volume of natural gas travelling down an in-state bullet line. In 1996 the maximum amount of gas moved by the "Conoco LNG plant" was 75 Bcf [per year] and the volume of export was 230 Mmcf/day, he related. The current authorized amount is 50 Bcf/year at 137 Mmcf/day. Due to deliverability and depletion of the Cook Inlet gas field, the LNG plant is running at less than full capacity because some gas is being diverted to heat Southcentral homes and businesses, and this is the reason for trying to open up another field for an in-state bullet line. He reminded members that 500 Mmcf/day of gas is 180 Bcf/year, so the bullet line would provide 60 Bcf/year for light commercial and residential use along the Railbelt, 60 Bcf for the Agrium facility, and up to 60 Bcf/year for export, notwithstanding concrete plants in the Matanuska-Susitna Valley or gas-to-liquid opportunities for synthetic fuel for the U.S. Air Force or the International Tower Hill gold mining prospects near Livengood. It is important to open up this dialogue years in advance to create an adequate amount of demand, he maintained, because there is not that much present use of gas inside the state.

2:48:41 PM

REPRESENTATIVE GUTTENBERG asked whether there have been any exploratory discussions with the U.S. Department of Energy regarding expansion of the export license.

REPRESENTATIVE RAMRAS replied that he has met three times with commissioners of the Federal Energy Regulatory Commission (FERC) and that the FERC chairman was present at all three of those meetings. He said it is important to recognize that nonconventional sources of natural gas, mainly shale, are displacing conventional gas supplies. Moreover, by the year 2010, new LNG import terminals in the U.S. will have opened and expanded capacity from 6 Bcf/day to 20 Bcf/day. Presently, he continued, there is such a glut of natural gas in the U.S. that one newly opened terminal has only received one shipment of LNG since it opened about a year ago. It is important to initiate a dialog with the U.S. Department of Energy five years before there is a bullet line and eighteen months before there is a final investment decision from the private sector entity interested in opening this bullet line in order to get a sense of whether expanding the demand is viable. If the tariff is \$6 when the pipeline is one-third full, \$4 at two-thirds full, and \$2 when it is completely full, then it is in the best interest of all Railbelt users to have the bullet line filled with as much volume as possible. Representative Ramras understood the working number for the tariff for a full pipeline to be \$2.50/Mcf. Fairbanks Natural Gas estimates it would cost \$4/Mcf for them to haul gas from the North Slope, he related, so a \$2.50 tariff is an attractive number.

2:52:05 PM

CO-CHAIR JOHNSON opened public testimony on HCR 4.

TOM LAKOSH testified that being able to fill the pipeline is critical to maintaining the in-state line's projected low tariff cost. Switching to renewables will reduce the load on the pipeline, so it may become wholly uneconomic, he maintained. The Agrium plant could fulfill the role of an industrial customer, he argued, and the committee should choose between 350 employees running the Agrium plant or the smaller number of employees that would be needed to run an LNG export terminal. This can be addressed immediately without spending \$4 billion and waiting four years for a pipeline to be built. He urged members to adjust the resolution to get the gas in-state

immediately and not wait for either the pipeline or its incurred costs.

CO-CHAIR JOHNSON closed public testimony on HCR 4.

CO-CHAIR NEUMAN moved to report HCR 4 out of committee with any individual recommendations or attached fiscal notes. There being no objection, HCR 4 was reported from the House Resources Standing Committee.

HCR 5-IN-STATE GAS PIPELINE

[2:55:03 PM](#)

CO-CHAIR JOHNSON announced that the final order of business would be HOUSE CONCURRENT RESOLUTION NO. 5, Requesting the governor to provide energy security for all Alaskans by working on significant elements and components to support the timely construction of a natural gas bullet pipeline from the North Slope to the Cook Inlet region and to take necessary action to assist and facilitate the process for a private entity to make a final investment decision to commit to the pipeline before November 1, 2010.

REPRESENTATIVE JAY RAMRAS, Alaska State Legislature, sponsor of HCR 5, explained that the resolution encourages state government to cooperate on regulatory issues to thereby assist a private sector entity in being able to reach its final investment decisions. He related that in testimony before the Senate Resources Standing Committee, an ENSTAR representative testified that the company has \$1 billion in cash and \$3 billion in financing, and is not asking anything from the State of Alaska other than to get out of the way. He said HCR 5 addresses the issue of one hand of state government fighting another hand of state government.

[2:56:05 PM](#)

CO-CHAIR JOHNSON opened public testimony on HCR 5. There being no one wishing to testify, he closed public testimony.

CO-CHAIR NEUMAN moved to report HCR 5 out of committee with any individual recommendations or attached fiscal notes. There being no objection, HCR 5 was reported out of the House Resources Standing Committee.

[2:57:10 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 2:57 p.m.