

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

March 1, 2010

1:11 p.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

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."

- HEARD & HELD

SENATE JOINT RESOLUTION NO. 22

Opposing litigation that seeks to eliminate the Kenai, Kasilof, and Chitina sockeye salmon personal use dip net fisheries; and requesting the governor to re-examine the disproportional influence of the commercial fisheries industries on fisheries management in the state.

- SCHEDULED BUT NOT HEARD

PREVIOUS COMMITTEE ACTION

BILL: HB 369

SHORT TITLE: IN-STATE PIPELINE/ MANAGER/TEAM

SPONSOR(S): REPRESENTATIVE(S) CHENAULT

02/23/10 (H) READ THE FIRST TIME - REFERRALS

02/23/10 (H) RES, FIN
02/26/10 (H) RES AT 1:00 PM BARNES 124
02/26/10 (H) Heard & Held
02/26/10 (H) MINUTE(RES)
03/01/10 (H) RES AT 1:00 PM BARNES 124

WITNESS REGISTER

REPRESENTATIVE MIKE CHENAULT
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Answered questions as sponsor of HB 369.

TOM WRIGHT, Staff
Representative Mike Chenault
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Answered questions regarding HB 369 on behalf of Representative Chenault, sponsor.

HAROLD HEINZE, Chief Executive Officer
Alaska Natural Gas Development Authority (ANGDA)
Department of Revenue
Anchorage, Alaska

POSITION STATEMENT: Supported HB 308.

SCOTT HAMANN
Kenai, Alaska

POSITION STATEMENT: Supported HB 369.

ROBERT SWENSON, Project Manager
In-State Gas Project
Alaska Mental Health Trust Land Office
Department of Natural Resources
Anchorage, Alaska

POSITION STATEMENT: During the hearing on HB 369, answered questions.

ACTION NARRATIVE

1:11:30 PM

CO-CHAIR CRAIG JOHNSON called the House Resources Standing Committee meeting to order at 1:11 p.m. Present at the call to order were Representatives Edgmon, Guttenberg, Kawasaki, Tuck,

Seaton, Neuman, and Johnson. Representatives P. Wilson and Olson arrived as the meeting was in progress.

HB 369-IN-STATE PIPELINE/ MANAGER/TEAM

[1:11:41 PM](#)

CO-CHAIR JOHNSON announced that the only order of business is 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."

[1:12:36 PM](#)

CO-CHAIR NEUMAN moved to adopt Amendment 8, labeled 26-LS1527\R.4, Cook, 3/1/10, written as follows [original punctuation provided]:

Page 4, line 13, following the second occurrence of "and":

Insert ", except for requests from the Alaska Gasline Inducement Act coordinator (AS 43.90.250),"

CO-CHAIR JOHNSON objected for discussion purposes. In response to Representative Guttenberg, he clarified the committee is still working on the original version of HB 369.

REPRESENTATIVE MIKE CHENAULT, Alaska State Legislature, explained that Amendment 8 is in response to concerns previously expressed by Representative Seaton regarding priority and crossing the legal line with the Alaska Gasline Inducement Act (AGIA) process. He related that the drafter was unsure there was a problem, but she drafted an amendment that would take care of the problem either way.

REPRESENTATIVE SEATON said he appreciates the amendment.

[1:14:34 PM](#)

CO-CHAIR JOHNSON inquired whether the drafter believes this would place a request by the AGIA coordinator above that of the in-state gasline project manager, as opposed to equal footing.

REPRESENTATIVE CHENAULT deferred to Mr. Tom Wright.

TOM WRIGHT, Staff, Representative Mike Chenault, Alaska State Legislature, related that the problem the drafter, Ms. Tam Cook, had was that when she researched the AGIA statutes there was no request for language that gave [the AGIA coordinator] a priority over other requests. Therefore, from his conversation, this would be on an equal footing with the AGIA coordinator.

CO-CHAIR JOHNSON stated his concern that it be equal footing and not subservient to requests from the AGIA coordinator.

[1:15:38 PM](#)

CO-CHAIR NEUMAN asked Mr. Wright to talk about the relationship between the AGIA coordinator and the Joint In-state Gasline Development Team.

MR. WRIGHT responded that the coordinator for AGIA is a whole separate entity from the in-state gasline [project manager]; they are two different people and two different projects. In further response, he explained that any request from the Joint In-state Gasline Development Team would go through the in-state gasline [project manager] and not through the AGIA coordinator.

CO-CHAIR JOHNSON removed his objection. There being no further objection, Amendment 8 was adopted.

[1:17:32 PM](#)

CO-CHAIR NEUMAN pointed out the new fiscal notes for HB 369 and presumed they would be explained after public testimony.

REPRESENTATIVE CHENAULT, in response to Co-Chair Johnson, said the fiscal notes are \$350-\$380 million.

CO-CHAIR JOHNSON commented that this is a substantial amount of money; however, he believes this is money that would be spent on any in-state gas pipeline regardless of who does it. Therefore, the fiscal note is not unique to HB 369, but unique to building a pipeline.

REPRESENTATIVE CHENAULT responded correct.

CO-CHAIR NEUMAN requested that the people presenting this fiscal note be ready to describe how they came up with the numbers.

CO-CHAIR JOHNSON said one of the things this legislation has done is to spur people to provide these numbers because they

were not forthcoming prior to HB 369 being presented. He opened public testimony.

[1:19:41 PM](#)

HAROLD HEINZE, Chief Executive Officer, Alaska Natural Gas Development Authority (ANGDA), Department of Revenue, first qualified that while he is speaking in support of HB 369 as the chief executive officer of ANGDA, he has not yet polled his board on this legislation. However, a number of the things he will comment on have been discussed with the ANGDA board within the past year. He said ANGDA is pleased to be considered as part of the team and believes it can be a significant contributor to that team. His organization is happy to work in this cooperative and collaborative environment of state entities, and believes there will be a lot of synergy in combining the public corporations and state agencies towards achieving the expedited action desired. In the past year, ANGDA has been very frustrated over the decisions on gasline route selection and is therefore very anxious to participate in route selection and alignment design for an in-state gas system as directed under HB 369.

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MR. HEINZE offered his belief that HB 369 clearly allows the ANGDA board to pursue other lawful activities as provided for under AS 41.41 and that there is no contradiction of the ANGDA statute that was approved as Proposition 3 in 1992. He said ANGDA strongly endorses the much-needed public forum that would be provided by the steering committee concept. Accomplishing the tasks assigned to the team will require work efforts well beyond the existing state employee capability. Use of individual expert contractors and contractor companies will require funding and ANGDA is anxious to avoid having an unfunded mandate for action.

[1:22:39 PM](#)

REPRESENTATIVE SEATON inquired whether a fiscal note will be forthcoming from Mr. Heinze.

CO-CHAIR JOHNSON responded he is unsure whether ANGDA would be in a position to submit a fiscal note because it is a quasi-government agency.

MR. HEINZE replied that ANGDA is a public corporation of the state and is a body of state government that administratively reports to the Department of Revenue. He said he has not submitted a fiscal note at this point because he does not know how the development team is going to estimate the work effort involved. It will take money to do this, and the work that ANGDA could do as part of the total team effort would be in the range of \$1 million. He estimates that the total work would probably measure in the range of \$5-\$10 million.

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MR. WRIGHT related that the sponsor asked the administration to encompass agencies like the Alaska Railroad and ANGDA when it prepared the fiscal note, although the Department of Transportation & Public Facilities submitted its own fiscal note. The sponsor does not want duplication of effort and staff, so the administration was charged to provide what it envisions based upon the provisions of HB 369.

CO-CHAIR JOHNSON stated that Mr. Bob Swenson, In-state Gas Project Manager, probably put together the fiscal note.

[1:25:55 PM](#)

REPRESENTATIVE SEATON asked whether there is money available for ANGDA's participation on the team, or whether some other funding mechanism is needed.

MR. HEINZE answered that the legislature's past funding of ANGDA has allowed it to complete work for a route, a right-of-way, and an environmental impact statement for a 460-mile right-of-way extending from Beluga through Palmer through Glennallen through Delta Junction to the Golden Valley Electric Association (GVEA) plant in Fairbanks. He presumes this work would become part of the body of work that is looked at through HB 369, as this would put the gasline halfway to the North Slope and would be of some significance. Resources have been made available and commitments made to contractors that exhaust ANGDA's funding at this point. More funding would be needed if additional work is defined for ANGDA as part of this team effort.

REPRESENTATIVE SEATON said he is raising this issue because it would be difficult if one member of the development team does not have funding.

[1:28:21 PM](#)

CO-CHAIR NEUMAN inquired whether there would be consequences to an entity in the second open season if it does not participate in the first open season.

MR. HEINZE responded that the group ANGDA has focused on is the electric utilities, ranging from Golden Valley Electric Association in Fairbanks, Copper Valley Electric Association in Glennallen, and at least five of the major electric utilities in the Cook Inlet area. He said ANGDA believes it very important that some major portion of the in-state gas users put at least some marker down to assure that people understand gas is wanted from a big project delivered into Alaska. If that is not done, he thinks substantial commercial advantage is lost in terms of shipment as well as substantial loss of leverage in the Federal Energy Regulatory Commission (FERC) process. The in-state gas use will always be a very minor percentage of the big project and the state does not want to be that last few percent; rather, it will want to be a few percent that speaks towards the middle of the pack. While he will not tell members that they cannot delay and wait, ANGDA believes there are fairly substantive advantages that ultimately reflect in the consumer bill in participating in the initial open season.

[1:30:16 PM](#)

CO-CHAIR NEUMAN asked whether ANGDA has looked at other proposed projects that could happen in the state that would create jobs, such as the Donlin Creek Gold Mine.

MR. HEINZE replied he was specifically talking about that portion of the market that ANGDA has been trying to work with to put together a natural gas supply cooperative that would provide the ability to bid the substantial financial commitments required in the big project. ENSTAR is easily equivalent, if not bigger than, the electric utilities; however, he does not know what ENSTAR's intentions are for participating in the open season. He said ANGDA has attempted to work with any parties that have an interest in shipping gas within an in-state system either to the Cook Inlet area for industrial uses or to Valdez for liquefied natural gas (LNG) export. All of those activities are extremely important in making the in-state system viable. He believes it is important to put at least some marker on the table for in-state delivery even if some entities are not involved in this initial go-round.

[1:32:17 PM](#)

CO-CHAIR NEUMAN inquired whether ANGDA has looked at alternative routes, such as a Parks Highway route and a spur line over to Donlin Creek Gold Mine.

MR. HEINZE answered yes; ANGDA has looked at the route issue several times over. All kinds of parameters come into play, of which the most fundamental is consumer cost. What would be paid on monthly utility bills is reflected best by looking at the tariff, the cost of service for gas delivered on a unit basis into consuming areas. In all cases, the work ANGDA has done strongly favors going through Glennallen because it would allow the option of going to Valdez. He said ANGDA believes that eliminating the Valdez option at this point is a mistake and that it should be given every chance to see if there are interested shippers.

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CO-CHAIR NEUMAN agreed that drawing an X through Valdez is a bad idea, as is drawing an X down the Parks Highway. He reiterated his question about whether ANGDA has done any work to identify projects down the Parks Highway so energy can be taken over to Donlin Creek Gold Mine.

MR. HEINZE responded that last April the legislature authorized Mr. Harry Noah to exclusively undertake certain work. While ANGDA provided some input to that work, it was not a participant in any of the discussions or considerations that Mr. Noah used to formulate his decision to work in more detail on the Parks Highway. No attempt was made by ANGDA to duplicate Mr. Noah's work and ANGDA presumes that at a proper time that work will become publically available.

[1:34:45 PM](#)

CO-CHAIR NEUMAN understood Mr. Heinze's answer to be no, ANGDA has not done recent work on a Park's Highway route. He asked how much money is currently in ANGDA's budget.

MR. HEINZE, recalling from memory, said ANGDA had about \$4.2 million in appropriated money at the start of this fiscal year. At this point ANGDA has spent \$1.7 million of that money and committed about \$2.6 million. As of today, ANGDA has about \$300,000 that remains uncommitted for the rest of the year.

[1:36:02 PM](#)

REPRESENTATIVE KAWASAKI reviewed some of the purposes for which ANGDA was established in 2002: acquisition and conditioning of North Slope natural gas, design and construction of a pipeline system, operations and maintenance, and acquisition of a natural gas market share sufficient to ensure long term feasibility of the pipeline system project. He inquired why ANGDA does not just do that and why this bill is necessary for that process.

MR. HEINZE replied he believes ANGDA has done that over its six-year history. The first couple of years were spent fully understanding an LNG project to Valdez, which was specifically referenced in Proposition 3 in the 2002 election. The proposition also provided for a spur line from that pipeline to the Cook Inlet area. Over the next couple of years ANGDA progressed that pipeline and obtained a conditional right-of-way from the state for a Glennallen to Palmer pipeline. When the Alaska Gasline Port Authority began pursuing the LNG project ANGDA stepped back and concentrated on the spur line. When the AGIA process arose, ANGDA analyzed what was in the consumer interest and determined that the best use of ANGDA's time was to focus on utilizing as much of the big project as possible to deliver gas in-state with a connector, lateral, or spur line off the big line. It is hoped this will culminate in ANGDA's participation in the open season this summer.

[1:38:26 PM](#)

REPRESENTATIVE KAWASAKI noted that HB 369 proposes to have several dozen members on an In-state Gasline Steering Committee and to have ANGDA be a member of the Joint In-state Gasline Development Team. He questioned why this would be the best way to streamline a pipeline so that it can be done more quickly.

MR. HEINZE answered that ANGDA believes the steering committee concept provides for advice and consultation and also allows for public vetting and public involvement. One of ANGDA's biggest concerns over the last nine months is that very little public information has been put forward. In regard to composition of the development team, ANGDA has many of the capabilities and interests in doing some of the duties described there. However, to move expeditiously, the combination of working with the Department of Transportation & Public Facilities (DOT&PF) to use the highway rights-of-way, bridges, and facilities is extremely powerful. One of the biggest problems Alaska faces with any development activity is the state's interaction with the federal authorities. Use of the highway rights-of-way for a few hundred

miles of pipeline almost immediately goes a long way towards advancing the project, so ANGDA sees the strengthening of that relationship with DOT&PF as good.

1:41:06 PM

REPRESENTATIVE KAWASAKI observed that under existing statute the DOT&PF commissioner has the authority to work with other agencies to complete a gasline. Given this, he asked why ANGDA has not worked with DOT&PF before. He said he is trying to determine why HB 369 is needed because it seems like the bill would just add another layer to the bureaucracy.

MR. HEINZE responded that in the past ANGDA has identified a number of places where use of the highway right-of-way would be attractive, and in particular ANGDA has attempted interaction with DOT&PF in the area from Glennallen to Palmer and in some of the areas between Delta Junction and Glennallen. However, ANGDA has been unable to progress DOT&PF very far because the department is stretched thin and its priorities are different. Thus, HB 369 would strengthen that relationship and make it clear to all parties that the desired result is a more expedited preparation for an in-state pipeline and that all agencies can and should be fully committed to this as one of their highest priorities.

1:43:00 PM

REPRESENTATIVE KAWASAKI said he has questions in regard to interpretation of the duties of the development team and how they might conflict with ANGDA's authority under Title 41. For example, the Joint In-state Gasline Development Team would be directed to find the most economical route, and Co-Chair Neuman has asked about bringing gas to the Donlin Creek Gold Mine. He inquired what would happen if Mr. Heinze, as director of ANGDA and following ANGDA's established rules under Title 41, were to conflict with the duties of the development team as proposed by HB 369.

MR. HEINZE replied he reads the language in AS 38.34.040(b) as directing the team to focus on a specific project - an in-state natural gas pipeline that runs from the North Slope to tidewater. He said ANGDA is fully prepared to fully participate and has information regarding a Valdez LNG connection and a spur line to Cook Inlet that needs to be considered as part of whatever decisions are made. Because those decisions will be publically vetted, he does not believe there would be any

conflict with ANGDA's purpose. Additionally, nothing in that language goes against ANGDA's board looking at a spur line off a big project running from the North Slope. Propane is one of numerous other projects that ANGDA has been working on, and there is nothing in HB 369 that contradicts that either.

[1:45:31 PM](#)

REPRESENTATIVE KAWASAKI offered his appreciation for the work Mr. Heinze has done on in-state gas. He added that it is incumbent upon everyone to provide information to the public and he hopes HB 369 will increase that information. However, while an in-state gasline is everyone's priority, he is unsure HB 369 is the right way to get there.

MR. HEINZE agreed it is very important to talk to folks, to let them know what is being done, and to put up with hard questions for which there might not be an answer.

[1:46:44 PM](#)

REPRESENTATIVE KAWASAKI noted that there is worry about how political an in-state gasline becomes. He asked whether yet more politics would be added to Mr. Heinze's job if ANGDA is brought into the development team.

MR. HEINZE answered the statute is clear that he himself has no power. The statutory authority lies with the ANGDA board and he works for them at their direction. The board meets monthly or every six weeks and these meetings are very public and allow the public to speak. Funding through legislative appropriation certainly involves political elements, but both he and ANGDA's board members are always willing to listen to the direction and suggestions of the legislature and the governor, and have done so over all these years.

[1:48:33 PM](#)

REPRESENTATIVE GUTTENBERG surmised that from ANGDA's perspective an in-state gasline would need to include gas export or the moving of gas down to the Lower 48.

MR. HEINZE responded ANGDA's view has been that an LNG project or an LNG export component from Valdez would provide the volume and investor strength that is important for advancing the project in a way that leads to the lowest consumer cost. The open season process being undertaken by "TransCanada and

ExxonMobil" will provide some indication about interest in Valdez. If there is no interest, discussion will become a moot point and a lot of people's hopes will be dashed. However, if there is interest, it would be unfortunate to have had the state turn its back on that opportunity. Over the last year ANGDA's focus has been on preparations for the open season participation. It was ANGDA's impression that Mr. Noah's work, funded by the legislature, was to look at a North Slope to tidewater pipeline, so ANGDA avoided duplicating that effort. He said he has requested Mr. Swenson, the person taking over for Mr. Noah, to provide ANGDA with information about the elements of that work that would be useful to ANGDA's work. He does not see anything wrong with Alaska having the strength of a couple different efforts. This bill visualizes that ANGDA would work as part of the team and ANGDA is prepared to do that.

[1:51:24 PM](#)

REPRESENTATIVE GUTTENBERG inquired what Mr. Heinze sees as the levels of in-state demand and export.

MR. HEINZE replied that Railbelt electric utilities currently use a little over 100 million cubic feet per day for home heating. A big pipeline through the Fairbanks area combined with Golden Valley Electric Association and the refinery would use about 50 million cubic feet per day. The historic high for industrial use in Cook Inlet was about 250 million cubic feet per day; right now it is about half that at 125-150 million cubic feet per day for the Kenai LNG plant. A gas-to-liquid industrial customer would likely use about 0.5-0.75 billion cubic feet per day, and LNG export could easily be 1 billion cubic feet per day.

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REPRESENTATIVE GUTTENBERG asked what particular activities ANGDA would work on, assuming an in-state gasline is happening.

MR. HEINZE answered that ANGDA has put a lot of energy into, and would continue looking into, a propane wholesale point and a propane distribution system. Also, ANGDA would work with people to advance lateral lines at a number of spots, such as the mine mentioned earlier or the Nenana Basin. This work would not include actually doing the projects, but helping to finance them or apply other leverage. He offered his observation that if there is a spur line off Delta Junction, ANGDA has advanced that project pretty far along and would see that as a pre-build into

a big pipeline as ANGDA thinks there are advantages to that. Should the open season be unsuccessful, ANGDA would then look at what projects to do and would probably focus on Valdez LNG as a project. When looking at participation in the open season, the key is that there is basically unlimited volume for an in-state gas system. He recalled that during the AGIA process TransCanada clearly stipulated that if the state ships gas to Delta Junction the state would be a customer, not a competitor. In that case the state would not be limited to the 0.5 billion cubic feet per day that would apply if the state were to go all the way to the North Slope with a separate project.

[1:55:38 PM](#)

REPRESENTATIVE GUTTENBERG requested Mr. Heinze to elaborate further on taking gas to Delta Junction for ANGDA to then take to tidewater.

MR. HEINZE related that the AGIA language placing a limit of 0.5 billion cubic feet per day was designed to assure TransCanada that the state would not become a competitor to the very effort the state and TransCanada are jointly working on. At the time of the hearings to grant the license there was a great deal of concern that an LNG project could be lost if it was limited by that provision; therefore, TransCanada agreed to also solicit commitments to Valdez as well as to the border and is holding a separate and simultaneous open season for Valdez. At that time, there was a clear understanding with TransCanada that nominations in TransCanada's big pipeline to Delta Junction in excess of 0.5 billion cubic feet per day were not a violation of the AGIA non-compete provision because the state would be a customer and not a competitive project.

[1:57:45 PM](#)

CO-CHAIR JOHNSON disagreed with Mr. Heinze's interpretation.

MR. HEINZE clarified that ANGDA is not proposing to build a project in competition with TransCanada; ANGDA is proposing to participate in TransCanada's open season and take off gas at Delta Junction. In further response, he said the spur pipeline from the Delta Junction takeoff probably would be built by some other company.

CO-CHAIR JOHNSON said he will get a legal opinion on that.

[1:58:36 PM](#)

MR. HEINZE, in response to Representative P. Wilson, said ANGDA was established by Proposition 3 in the 2002 election, and was given its wings in the summer or fall of 2003 by then-Governor Frank Murkowski. In further response, and speaking from memory, he recalled that since its inception and until year-end 2010, ANGDA has been appropriated a total of about \$13 million. The vast majority of that was in capital project money for specific work that has resulted in the assets of conditional rights-of-way, permits, preliminary engineering designs, and so forth. A relatively minor amount of the money has been for the traditional operating budget for staff of about \$300,000 a year.

[2:00:23 PM](#)

REPRESENTATIVE P. WILSON surmised that the right-of-way and everything ANGDA has worked on is from Delta Junction south.

MR. HEINZE responded that in its Beluga-to-Fairbanks project, ANGDA has been working on right-of-way, wetlands determination, and environmental impact associated with a project running from Beluga on the west side of Cook Inlet to Palmer, Palmer to Glennallen, Glennallen to Delta Junction, and then Delta Junction to Fairbanks. That could provide, if appropriate, gas to Fairbanks if there was a long delay in a pipeline.

[2:01:34 PM](#)

MR. HEINZE, in response to another question from Representative P. Wilson, stated ANGDA has in hand a conditional right-of-way from the State of Alaska that runs from Glennallen to Palmer. Currently, ANGDA is in the process of working on state and federal rights-of-way from Beluga to Fairbanks, and an environmental impact statement (EIS) from Beluga to Fairbanks. Additionally, ANGDA has completed the wetlands determination and filed with the U.S. Army Corps of Engineers for the wetlands permit, which is the major permit for a pipeline from Beluga to Fairbanks. The draft EIS should be issued by mid-2010 and then it will take another six months for that to be perfected. All the right-of-way and permit conditions should be perfected by year end. In further response, he explained that ANGDA applied for these permits a long time ago and is in the process of working through all the steps and documents that need to be done and expects to have these permits by the end of 2010.

[2:03:20 PM](#)

REPRESENTATIVE OLSON understood Alaska's North Slope gas to be at roughly \$2 per thousand cubic feet (Mcf) at the wellhead.

MR. HEINZE replied it has moved around, and at this time he has no basis to argue that it is not \$2 per Mcf.

REPRESENTATIVE OLSON related that Qatar, which has at least as much gas as Alaska, is receiving 15 cents at the wellhead and the Gorgon Project [off Australia] is at 40-50 cents. He asked how much gas, including gas for LNG, would have to be sold at \$2 per Mcf to make it competitive with the rest of the gas that is on the world market.

MR. HEINZE explained that the pricing of gas in the Far East, Japan in particular, is based on an equivalency with oil price and has nothing to do with cost structures in Qatar or other places. However, it has everything to do with the delivered oil price in those locales. Generally, the Japanese market is about 90 percent of the British Thermal Unit (BTU) equivalent of oil price, which leaves a big margin between \$2, \$3, or even \$4 on the North Slope and the delivered price in Tokyo.

REPRESENTATIVE OLSON inquired whether new contracts coming out of Japan have been dropping significantly due to the high price of oil and the low price of gas and the glut of gas on the market.

MR. HEINZE answered that ANGDA's work suggests the cost to deliver Alaska's gas is competitive in terms of the pricing structures across the Pacific.

[2:05:15 PM](#)

CO-CHAIR JOHNSON posed a scenario in which China wants to export 0.5 billion cubic feet of Alaska gas. He asked whether Mr. Heinze would consider that a viable open season offer.

MR. HEINZE responded that, in the past, some explorers on the North Slope have taken some interest in the in-state process. In particular, one or two of them were involved in the AGIA process up to the last week and had done a lot of work on the Valdez connection. Based on conversations he has had, and the general interest he has seen for trade and the ability of the Chinese to invest in Alaska, he thinks there is a reasonable chance of the Chinese showing up with 0.5-1.0 billion cubic feet per day of interest in Valdez; if they do, he thinks that is a substantial anchor for any in-state gas system, whether it is

built off the big pipeline or as a separate pipeline. He reminded members that Sinopec submitted a bid during the AGIA process that would have provided for 4.0 billion cubic feet per delivered to Valdez. That may have been a bit much at the time, he allowed, but Sinopec is one of the largest corporate entities in the world.

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CO-CHAIR JOHNSON remarked that he received calls from Washington, DC, in opposition to the aforementioned gas export.

MR. HEINZE said he hopes the state is careful as to how Washington, DC, is allowed to make policy for Alaska. He reminded members that the open season process is open to folks from Chicago as well as to people across the Pacific Ocean. In further response, he explained that export licenses are granted by the U.S. Department of Energy. There is currently one license for LNG export in the U.S. and that is located at the Kenai LNG plant. The general requirement is that export volumes must be in excess of local needs, and right now Alaska would probably use no more than 5-10 percent of the North Slope reserve, which leaves a fair amount of room for an excess. Additionally, the open season process is a federally monitored and regulated open process for all parties to come forward and provide a financial basis for the building of the pipeline. It will be very interesting to see who shows up and what the level of commitment is for all these different aspects, he added.

[2:09:09 PM](#)

CO-CHAIR JOHNSON inquired what would happen to the open season for a spur line from Delta Junction should the electric utilities and ENSTAR not bid and the pipeline under HB 369 is built first and they bid their gas there. He presumed that open seasons could not be offered in both places and would therefore be mutually exclusive.

MR. HEINZE clarified that ANGDA is working only with the electric utilities in regard to [TransCanada's] open season and the commitments involved. As a gas company, ENSTAR must make its own decisions as to whether to participate. All the electric utilities, either in aggregate or individually, have some need for gas. The volumes needed in Alaska are very small compared to the total volumes involved in the pipeline - tens of millions of cubic feet per day versus billions of cubic feet per day. There must be participation in the process to enjoy the

benefits of the process and the benefit is fixing tariffs and other conditions of delivery. The actual commitments here will be conditioned and those conditions will put a time limit on which time that commitment is open; if a project is not developed, then those commitments are not binding and do not carry forward. For example, if Golden Valley Electric Association nominated 15 million cubic feet per day for delivery to Fairbanks and then no pipeline is built to Fairbanks after a period of review, GVEA would be released from that commitment of its credit towards that gas.

2:12:03 PM

CO-CHAIR JOHNSON posed a scenario of an Anchorage utility, a stand-alone pipeline from the North Slope down the Richardson Highway to Anchorage, and an offtake from a pipeline through Delta Junction. He surmised that if the utility bid the Richardson Highway route, it would not have the ability to bid the other pipeline because it would not need the capacity.

MR. HEINZE cautioned solace not be taken that AGIA provides an offtake because one of the two possible big pipelines is not under AGIA and therefore not bound by the AGIA rules. Alaska must deal with the realities of FERC, not AGIA as far as these commitments. TransCanada and "ExxonMobil" have clearly said there can be commitments tendered to both a pipeline going to Valdez, in ANGDA's case that would be an offtake in Glennallen, or to a pipeline to the border, in which case the offtake would be in Delta Junction. At the same time, ANGDA is also free to make a commitment into the "Denali pipeline" if those open seasons overlap; each commitment would be contingent upon the non-acceptance of the others.

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CO-CHAIR JOHNSON said he is not talking about either of the big lines; rather, he is talking about a small pipeline from Prudhoe Bay down the Richardson Highway to Anchorage. He surmised that bidding gas into that pipeline by Chugach Electric Association would preclude the association, financially, from bidding another pipeline because the association could theoretically be on the hook for double the capacity.

MR. HEINZE replied if the open seasons associated with each of those pipelines overlapped, then the bid in each case would be contingent on non-acceptance of the bid in the other case. So, yes, the utility can play in all the games at the same time.

2:14:40 PM

CO-CHAIR JOHNSON inquired what happens if both bids are accepted.

MR. HEINZE answered that the utility would have a choice of which one to proceed on.

CO-CHAIR JOHNSON disagreed the utility would have a choice. In his opinion, the utility would be on the hook for twice the volume that it wants because it would be brought from two pipelines.

MR. HEINZE reiterated the commitments made are contingent and argued that there would be lots of legal help from the attorney general's office to prevent becoming trapped.

CO-CHAIR JOHNSON said he will be anxious to hear whether other users share Mr. Heinze's view.

2:15:39 PM

REPRESENTATIVE TUCK stated that oftentimes the legislature is perceived as moving too slowly and it is important to move forward without any steps backward. A team effort would provide more public vetting, strengthening of relationships, and better commitments from the different agencies. He asked whether Mr. Heinze believes this will speed up the timeline for getting a gasline and whether this is the needed component for making a gasline happen. For example, when ANGDA was established the expectation was full production by 2007, and now it is 2011.

MR. HEINZE related that he has been asked in the past by legislators as to what it would take to assure the timeliest construction of an in-state gas system. His response has been that at the top of his list is unfettered and full cooperative access to the state highway right-of-way and full commitment of the Department of Transportation & Public Facilities (DOT&PF) to working on an in-state gas pipeline; HB 369 makes it clear to both ANGDA and DOT&PF that that is the desired result.

2:18:03 PM

REPRESENTATIVE TUCK understood Mr. Heinze to be saying that ANGDA is currently receiving neither unfettered cooperation nor full commitment and therefore HB 369 is necessary.

MR. HEINZE responded that, from ANGDA's knowledge, it is not making much progress in that regard. He is aware of the separate process under Mr. Noah, and now Mr. Swenson, that involves the Department of Transportation & Public Facilities, but he does not know what that progress has been. He said he is trying to convey that he considers the involvement of DOT&PF a good and key element in timely advancing of an in-state gasline because DOT&PF already holds significant right-of-way that does not require the state to deal with all the federal issues.

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REPRESENTATIVE TUCK acknowledged that ANGDA had an aggressive schedule put before it with trying to meet production by 2007. He inquired how many meetings would need to take place to have a project ready by 2011.

MR. HEINZE provided the following anecdote in this regard: after passage of Proposition 3 it took nine months before ANGDA was set up and another six to nine months to get funded; one year was allocated for ANGDA to complete its chore, but it actually took eighteen months; at that point, ANGDA's ideas ran against what then-Governor Murkowski wanted and ANGDA found itself in a backwater where it stayed for quite awhile working on the spur line. Anyone working on a project that takes two to four years to advance will occasionally have to regroup and look at where progress can be made, he related, and ANGDA has done that. Right now, ANGDA has an effort underway that would significantly cut the frontend of any project, and that is what HB 369 is emphasizing. The emphasis is not on building the pipeline but on getting the frontend of the project reduced to the point where a competent pipeline company could move fairly rapidly towards construction.

[2:21:53 PM](#)

REPRESENTATIVE TUCK said he thinks Mr. Heinze's expertise would be heavily relied upon in this process. He asked Mr. Heinze to state how much funding ANGDA would need to participate in the team process that would be provided by HB 369.

MR. HEINZE replied that he has not made a detailed estimate of the level of work that ANGDA would be involved in and how much it would cost. Presuming there is already a fair amount of work already done or already underway, some of which he may not know about at this point, but making some allowance that all of it

has to be pulled together, he estimates ANGDA would need about \$500,000 for individual contractors who bring very specialized expertise to the issue and probably \$500,000 for contractors to do analysis and design. While this would be minimal, he expects that the others would have a lot more effort in this process.

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REPRESENTATIVE TUCK understood that the U.S. Department of Energy is the only one that can sign off on any type of export licenses in the U.S. and that Alaska's need would only be for five to ten percent of the gas produced. As far as exporting the excess, he inquired whether the granting of an export license would be dependent upon the needs of the other 48 states in addition to Alaska's.

MR. HEINZE answered he is unable to project how this would be handled by the U.S. Department of Energy. However, if during the open season process the commitments indicate that there is a desire and a need for that gas in the Lower 48, then he thinks the U.S. Department of Energy would give that very heavy weight. On the other hand, if not much interest is expressed, then he thinks it would become a much more open question as to how to deal with the other national needs.

CO-CHAIR JOHNSON offered to ask that question directly to the U.S. Department of Energy when he attends this year's national energy conference.

[2:26:08 PM](#)

REPRESENTATIVE KAWASAKI understood that when the proposition vote on ANGDA first occurred, quite a bit of the language discussed the state's conflicts with North Slope producers, such as the state maybe having to take back the gas because the leaseholders were not doing their due diligence. The language pushed for an all-Alaska gasline and state ownership of a pipeline and the related facilities. He requested Mr. Heinze to speak to that, given his testimony that the pipeline might be privately held, which would conflict with ANGDA's mission.

MR. HEINZE responded that ANGDA's business strategy has been to focus on the frontend of the process; ANGDA has never seen itself as the pipeline builder. Rather, ANGDA sees itself as somebody who can do the route selection issue, work on the rights-of-way, do the environmental impact statements, get the permits, and get the pipeline build-ready. The business

strategy has included contacting medium-size pipeline companies in the Lower 48 and Canada. It has been ANGDA's intent to use some sort of public-private partnership mechanism to work with such a company where that company ultimately becomes the builder-owner of the pipeline, but under terms that are favorable to the consumer interest and the recovery of the public investment that has been made in obtaining the rights-of-way, environmental impact statements, and the permits. Thus, ANGDA's exit strategy is to find a good pipeline company to partner with and that company would be the execution phase of building this pipeline.

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REPRESENTATIVE KAWASAKI read from the proposition establishing the all-Alaska natural gas development authority for the purposes of developing, constructing, managing, and operating a gas pipeline from the North Slope and a spur line to Southcentral Alaska. He said he is unclear where it changed into something where ANGDA maybe does the bonding and a private company ends up holding the pipeline itself. In regard to page 2 of HB 369 [lines 17-22], he asked what happens if ANGDA decides on a project and the Joint In-state Gasline Development Team project manager determines that project is not in the best interest.

MR. HEINZE replied that as he remembers it, the language on page 2 of HB 369 relates to an agency adding a condition. Also, the state process would have a high level of public review. In obtaining the conditional right-of-way from Glennallen to Palmer, ANGDA went through an 18-month review period of holding hearings up and down the entire proposed route, so public review is a very comfortable part of the process for ANGDA and it does not see a potential for conflict there. Regarding the words of the proposition calling for ANGDA to construct, Mr. Heinze said the words of the statute are very clear that the board was granted very broad authorities, including the ability to construct the pipeline, if that was desired. In its business plan, ANGDA has always formulated that there was a risk in the state becoming the executor of a \$1-\$2 billion construction project, and that that phase of the project was most properly handled by a private sector partner.

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CO-CHAIR NEUMAN offered his belief that ANGDA received a legal opinion that stated ANGDA's authority. He requested Mr. Heinze to provide a copy of this legal opinion to the committee.

MR. HEINZE answered that in early 2009 some questions were raised as to whether some projects being undertaken by ANGDA were within its authority. The attorney general's review of the five specific contracts that were questioned, indicated that as long as the projects had some relationship to North Slope gas at some point in time, the ANGDA statute was broad enough that it allowed those specific contracts to go forward. Basically, ANGDA's mission is to work with North Slope gas in-state to the benefit of consumers, and that is what ANGDA has tried to do. In further response to Co-Chairs Neuman and Johnson, he agreed to provide a copy of the legal opinion.

[2:34:52 PM](#)

REPRESENTATIVE SEATON inquired whether the scope of work that ANGDA has going for the \$13 million from Beluga to Fairbanks includes the cost associated with contractual services to perform the detailed pipeline engineering, facilities design, field work, and permitting to get the project ready to begin construction. In response to Co-Chair Johnson, Representative Seaton clarified that he is reading from page 1 of 4 [of the fiscal analysis accompanying the 1-page fiscal note prepared by Linda Perez, Director, Division of Administrative Services, and approved by Bob Swenson, Project Manager, Office of the Governor, dated 3/1/10].

MR. HEINZE responded he does not have the fiscal note in front of him, but he understands the thrust of the question. From his perspective, generally all of the aforementioned are elements ANGDA has worked on, with the exception of detailed design. Generally, to lead to project sanction, one needs to have obtained the major environmental clearances, permits, rights-of-way, some level of design, project schedule, and cost estimate, and solid arrangements with customers wanting to ship gas in the pipeline. While ANGDA did not get all of that done for \$13 million, he expects that it would not be too much more money to get to the point where a decision could be made on whether to proceed with the project. Once at the point of moving into the very detailed aspects of design, construction, and material ordering, the cost is measured in hundreds of millions of dollars rather than tens of millions.

CO-CHAIR JOHNSON said it sounds like \$13 million can be taken off this fiscal note because the work has already been done.

2:37:52 PM

REPRESENTATIVE OLSON inquired whether HB 369 would provide more chance of getting gas to Fairbanks several years ahead of any other projects the state is currently looking at for strictly in-state use.

MR. HEINZE replied he thinks being able to concentrate on the use of state right-of-way would significantly expedite the North Slope to Fairbanks pipelining because this relates to the use of bridges, yard facilities, gravel pits, and so forth. Additionally, he thinks the introduction of the Alaska Railroad represents an interesting element and there may be some aspects of a more Fairbanks-centric view of how to do this project with the Alaska Railroad involved.

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REPRESENTATIVE OLSON surmised it could be as much as three to four years sooner as opposed to a big pipeline or anything else that is currently on the table.

MR. HEINZE answered that he does not think there can be an improvement of three to four years for the plans that he has seen presented as the result of a stand-alone pipeline.

2:39:59 PM

REPRESENTATIVE TUCK inquired whether ANGDA currently has the authority that is outlined on page 4, lines 8-11, of HB 369, which read as follows [original punctuation provided]:

... the Joint In-state Gasline Development Team may have access to information of a state entity, including confidential information, that may relate to the in-state natural gas pipeline or prove useful in planning, design, construction, or operation of the pipeline.

MR. HEINZE, in regard to subsections (a) and (b) [page 4, lines 7-16], explained that when ANGDA has requests for information that it knows exists elsewhere, ANGDA does not undertake it. For example, ANGDA knows that public money was used by TransCanada to gather field information in some areas that are

of interest to ANGDA and ANGDA has therefore chosen not to spend any public money to duplicate that effort and will wait until it can see or use that information. As far as confidentiality, any private sector information given to ANGDA is by definition confidential under the ANGDA statute and will not be released unless specifically authorized by the private sector company.

[2:41:48 PM](#)

REPRESENTATIVE TUCK asked whether ANGDA already has the aforementioned authority and, if not, is this the authority that ANGDA is seeking.

MR. HEINZE answered that he is a bystander to this paragraph, but it strikes him as reasonable. He said ANGDA has generally been able to obtain public information by simply asking, and ANGDA has no ability to demand information from the private sector and is not privy to private sector information given to other state agencies under a confidential heading.

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REPRESENTATIVE GUTTENBERG posed a scenario in which ANGDA enters into a contractual relationship with a private sector entity and that entity gives ANGDA confidential information. He inquired how that entity would feel if it understood that ANGDA had to share its confidential information with someone else that has already agreed to keep it confidential. Would that be spreading it too far out, he inquired further, or is that a common thing in the industry.

MR. HEINZE responded that that is not uncommon in the industry, provided the people involved are bound by confidentiality and are getting the information out of need and not curiosity.

[2:43:27 PM](#)

CO-CHAIR JOHNSON moved public testimony to the next witness.

SCOTT HAMANN supported HB 369 and cautioned against talking this issue to death. He said the point of the bill is to empower the development team so it can get the job done. He has shown the bill to people he knows and they have expressed hope that a gasline can be built in-state for Alaskans on the state's terms and not the oil companies' terms. This pipeline is just like infrastructure and he thinks the State of Alaska should build it and quit talking about it.

[2:45:27 PM](#)

REPRESENTATIVE TUCK asked whether Mr. Hamann thinks forming this development team would make things go quicker rather than further talking it to death.

MR. HAMANN replied yes because a timeline for getting the job done would be in statute. The people who would be involved in the development team are motivated to get this done and want to get it done; therefore, he thinks it is the right way to go. In further response, he confirmed that he sees a team approach as being better than an individual agency approach, especially with the power that would be given to the [project manager] to get things done. He thinks Alaskans are acutely aware that the longer this drags on, the more money it will cost, and that it is time to get it done.

REPRESENTATIVE OLSON thanked Mr. Hamann for listening to today's hearing as well as the hearing on 2/26/10.

[2:47:22 PM](#)

REPRESENTATIVE KAWASAKI commented that just because something is written on paper does not mean it will happen that way. In regard to the provision to take any action necessary for the construction to begin during the provided dates, he inquired whether Mr. Hamann would support putting out a bond or instituting sales or income tax to build the gasline should the state not have the money.

MR. HAMANN responded, "Absolutely." While he believes in small government, he thinks this is such an important issue for the state that people need to trust that the development team will do what is best for Alaska. He thinks there is a lot of opportunity for oversight and the proposed development team will be a good one.

CO-CHAIR JOHNSON left public testimony open.

[2:49:49 PM](#)

CO-CHAIR JOHNSON requested Mr. Swenson to walk through the fiscal note for HB 369. He asked whether the \$13 million already spent by ANGDA is included in the fiscal note and could therefore be dropped off.

ROBERT SWENSON, Project Manager, In-State Gas Project, Alaska Mental Health Trust Land Office, Department of Natural Resources, began his discussion with the fiscal note labeled page 1 of 1 [prepared by Linda Perez, signed by Mr. Swenson, dated 3/1/10]. He explained that personal services expenditures are related to additional personnel necessary to implement the timeline associated with HB 369, and includes the project manager, engineering manager, commercial manager, and permitting and right-of-way manager, as well as a legislative and public outreach officer, financial budget analyst, and schedule coordinator.

MR. SWENSON, in response to Co-Chair Johnson, stated that the paper entitled, "Stand Alone Gas Pipeline Project Alternative Schedule" is a timeline associated with a mid-range estimate of the process - the engineering process and permitting process to the point of construction ready - for reference to what he will talk about for the contractual portion of this fiscal note.

[2:53:30 PM](#)

MR. SWENSON returned to page 1 of 1 of the fiscal note. He said the travel would be \$116,000 for the first two years, \$58,000 in fiscal year 2012, and \$36,000 in fiscal year 2013. This travel is associated with both the development team and the scoping group identified in the bill.

CO-CHAIR NEUMAN asked for clarification about which pipeline route is being talked about.

MR. SWENSON replied that this fiscal note is specifically for a stand-alone pipeline from the North Slope to tidewater in the Cook Inlet. In response to further questions, he explained it is a 24-inch pipeline that is in the process of cost estimation associated with cost of transport. A number of different scenarios are being looked at for a route essentially from Prudhoe Bay, with an alternate route to the Gubik area, and from there to the tidewater. The series of different scenarios include facilities on the North Slope as well as compressor stations along the route depending upon the throughput of the pipeline. The throughputs being looked at are: 250 million, 500 million, 750 million, and 1 billion cubic feet per day. Also ongoing are three major permits for the environmental impact statement: the U.S. Army Corps 404 permit, state right-of-way, and federal right-of-way.

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MR. SWENSON moved to page 1 of 4 of the backup information attached to the aforementioned fiscal note. He said the first two paragraphs help in understanding the basis for the indeterminate portion of the fiscal note regarding contractual expenditures. To have a pipeline construction ready by July 1, 2011, as directed by HB 369, would require increased amounts of engineering, facilities design, field work, and permitting, and this would be more than \$350 million. However, the exact amount of funding needed cannot be determined without significant amount of additional engineering and estimation work. Work is currently progressing on a Class 4 Cost of Transportation estimate that will be finalized by July 1, 2010. These estimates do not include the detail cost estimates to enable the ordering of pipe or to work on facilities associated with construction of such a pipeline. In addition, included costs, such as pipe and commitment to facilities construction and the initial camp development, are also not included, and these costs would likely be greater than \$500 million.

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MR. SWENSON, in response to Co-Chair Johnson, explained that a Class 4 cost estimate means the estimate is plus or minus 30 percent of what the final cost estimation would be. It is used as a general design and scoping mechanism. A key aspect of the original appropriations for this project is to create this Class 4 Cost of Transportation estimate for inclusion with the three major permits; this is to be used to attract a pipeline company, as well as a producer and a consumer on each end of the pipe, to move the next step in building of the pipeline. It is very similar to the AGIA and "Denali" processes that are ongoing right now.

[2:59:38 PM](#)

REPRESENTATIVE SEATON inquired whether Class 4 is what is done to have an open season.

MR. SWENSON answered no; Class 4 is the initial scoping, or essentially the same work that was done to attract TransCanada into the AGIA process.

REPRESENTATIVE SEATON asked at what point this process would get to an open season.

CO-CHAIR JOHNSON pointed out that the committee is out of time and requested Representative Seaton to bring up this question at the next hearing.

[HB 369 was held over.]

[3:00:52 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 3:01 p.m.