

ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE

March 8, 2010

6:26 p.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

Representative Kurt Olson
Representative Peggy Wilson

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

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
03/01/10	(H)	Heard & Held
03/01/10	(H)	MINUTE(RES)
03/08/10	(H)	RES AT 6:00 PM BARNES 124

WITNESS REGISTER

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

POSITION STATEMENT: During the hearing on HB 369, outlined the differences between the proposed committee substitute, Version E, and the original version of the bill on behalf of the sponsor, Representative Chenault.

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.

FRANK RICHARDS, Deputy Commissioner
Office of the Commissioner
Department of Transportation & Public Facilities (DOT&PF)
Juneau, Alaska

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

REPRESENTATIVE MIKE CHENAULT
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: As the sponsor, answered questions during the hearing on HB 369.

ACTION NARRATIVE

[6:26:24 PM](#)

CO-CHAIR MARK NEUMAN called the House Resources Standing Committee meeting to order at 6:26 p.m. Present at the call to order were Representatives Edgmon, Guttenberg, Kawasaki, Tuck, Johnson, and Neuman. Representative Seaton arrived as the meeting was in progress.

HB 369-IN-STATE PIPELINE/ MANAGER/TEAM

CO-CHAIR NEUMAN 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."

[6:27:33 PM](#)

CO-CHAIR JOHNSON moved to adopt the proposed committee substitute (CS) for HB 369, labeled 26-LS1527\E, Cook, 3/2/10, ("Version E"), as the working document.

CO-CHAIR NEUMAN objected for explanation purposes of the differences between the original bill and Version E.

TOM WRIGHT, Staff, Representative Mike Chenault, Alaska State Legislature, explained that Version E incorporates the committee's amendments that have been adopted to date. The partially exempt service for the in-state gasline project manager was changed to exempt service, a change which was requested by the administration. The words "the greatest number of" were deleted from page 3, [line 19 of the original version], so as not to pre-determine the route of the gasline. A representative of the Denali Borough was added to the list of steering committee members. Lastly, the language ", except for requests from the Alaska Gasline Inducement Act coordinator ..." was inserted on page 4, line 13 of the original version, after the second "and".

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CO-CHAIR NEUMAN removed his objection to adopting Version E as the working document. There being no further objection, Version E was before the committee.

[6:30:17 PM](#)

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

Page 3, line 13:

Delete "by July 1, 2011, and take actions necessary"

Page 3, line 14:

Delete "2015."

Insert "2016. The development team shall make a commercial offering by July 1, 2011. The commercial

offering must consist of the issuance of a request for proposals to potential in-state natural gas pipeline project developers who will own the project or a portion of it. The request for proposals must require that commercial evaluations in the proposals be based on engineering and permitting completed by the state and its contractors and that proposals include reimbursement for the cost incurred by the state of data and interpretation of data. The request for proposals must include notice that proposals will be analyzed by the state, together with terms and conditions for selection. The development team shall report to the legislature on the date the commercial offering is ready."

Page 3, line 30:

Delete "for construction of"

Insert "to meet construction deadlines for"

Page 4, line 6:

Delete "by July 1, 2011, and report to the legislature by that date"

Insert "to enable natural gas to flow down the pipeline by 2016"

REPRESENTATIVE KAWASAKI objected.

[6:30:38 PM](#)

CO-CHAIR NEUMAN requested Mr. Wright to explain Amendment 1.

MR. WRIGHT responded that Amendment 1 was forwarded at the request of the administration. He deferred to Mr. Bob Swenson for further explanation.

[6:31:51 PM](#)

ROBERT SWENSON, Project Manager, In-State Gas Project, Alaska Mental Health Trust Land Office, Department of Natural Resources, in response to Co-Chair Neuman, stated his title has not changed since he took this position and he thinks his position is similar to the one discussed in HB 369. In further response, he said that in reference to HB 369 he assumes his duties and authorities are the same as those for the proposed project manager.

[6:32:53 PM](#)

MR. SWENSON, in additional response to Co-Chair Neuman, explained that Amendment 1 talks specifically to ensuring construction readiness by July 1, 2011. The fiscal note presented to the committee last week relates in particular to the engineering necessary to bring a project of this magnitude to construction-readiness by that time frame beyond what is currently going on in the project. This would include bringing to fruition, as of July 1, 2011, the Class 4 cost estimates, the permitting process from the right-of-way, and the Environmental Impact Statement (EIS) process. He said the first two changes proposed by Amendment 1 in regard to page 3, lines 13 and 14, of Version E, would put the project on the current fast-track timeline that the engineers in his project are already working on and would bring the entire project into readiness for a commercial offering as initiated last year by Mr. Harry Noah.

[6:35:04 PM](#)

CO-CHAIR NEUMAN inquired why not keep the ball rolling as fast as possible and why take out the deadline of July 1, 2011.

MR. SWENSON replied the ball is already rolling on the project, and the timeline is an accelerated, fast-track timeline to ensure gas is flowing by 2016. In regard to removing the 2011 language, he said the ongoing engineering work will provide the cost of transport analysis for a number of different options, and will enable looking at the various options and configurations of the pipeline so that the pipe can be ordered once the engineering process is finalized. If a process is started to meet that deadline of July 1, 2011, the initial costing, options, and engineering will not have been done to make that analysis.

[6:36:19 PM](#)

CO-CHAIR NEUMAN asked what was the original timeline proposed by Mr. Noah.

MR. SWENSON answered he believes that on December 14, 2009, Mr. Noah proposed a timeline of 2015, which at that time Mr. Noah stated was a very aggressive timeline. At that time, [Mr. Noah's team] felt the primary gas source would be the Gubik field in the foothills of the Brooks Range, which has a very dry methane gas similar to Cook Inlet gas that requires little processing compared to Prudhoe Bay gas. However, the project team has since moved to looking at gas from the Prudhoe Bay or

Point Thomson area. That gas requires a significant amount of processing to remove the 12 percent carbon dioxide, as well as the hydrogen sulfide and other impurities; this increases the timeline for putting gas into a pipeline by one year to 2016.

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CO-CHAIR NEUMAN said several options are being looked at and all of those options were considered when the date was put forth, so he is therefore resistant to taking out the time-specific dates. He inquired what would happen if the dates stayed in the bill.

MR. SWENSON responded that the 2015 and 2016 dates are goals. He said it is important to understand the process necessary for getting to the point of ordering pipe and determining the pipe configuration. A number of aspects within the timeline are beyond the team's control, such as the permitting process and the availability of pipe and facilities. He requested the engineers to provide him with three different timelines, he related: a very aggressive fast-track timeline, a more realistic timeline that considered the possibility of delays, and a timeline of certainty. The timelines he was provided were 2016, 2017, and 2018 respectively. He added that Mr. Bill Sparger (ph), an engineer with 40 years experience in pipeline construction, is available online to answer questions in this regard.

CO-CHAIR NEUMAN understood that missing a sea-lift for a gas treatment facility at Prudhoe Bay could throw things off by a year; another option is a gas treatment facility on the southern end of the gas pipeline. The aggressive timelines are what he likes best about this bill, he said.

[6:41:23 PM](#)

REPRESENTATIVE TUCK inquired why the Gubik gas field is no longer considered an option.

MR. SWENSON replied that what he meant was during the initial phase of this project the primary gas source was the Gubik field. "Anadarko" has drilled wells in the Gubik field and is in the process of analyzing them, so the Gubik reserves are currently unknown. The project team has since changed the primary target to the North Slope/Prudhoe Bay region, and while the Gubik field is still an option, it is no longer the primary option.

6:42:35 PM

REPRESENTATIVE TUCK surmised the reason why the North Slope has become the priority is because an understanding of the Gubik gas field is not as far as had been expected.

MR. SWENSON answered yes. He explained that in any large project it is very important to have reserves and there is a difference between reserves and resources. Resource just indicates how much gas is thought to be there, while reserves are actually booked with the number of well penetrations and there is a very good technical understanding of the resource that is available. A sequence of looking at reserves must be undertaken to finance any large project like this. If the reserves were actually booked in the Gubik field and were enough to provide resource to this gas pipeline, then it would become a very viable option in that process.

6:43:41 PM

REPRESENTATIVE TUCK asked how long it will take for the Gubik field to become a reserve of known quantity.

MR. SWENSON responded that that is up to the level of drilling, the developer of that field, and how many wells can be drilled in a season. The Gubik field is in a very remote area by the Colville River in the central North Slope area. Access, permitting, and the number of wells that can be drilled in such a remote area is therefore limited. The number of wells it would take to actually delineate that resource is unknown, but it would take a number of wells to do that. It is not years and years away, but it is certainly a number of seasons away.

6:44:43 PM

REPRESENTATIVE KAWASAKI inquired as to the reason for deleting "and take actions necessary" [from page 3, line 13].

MR. SWENSON replied that his project is currently in the first phase of the engineering process, which is the engineering to define the cost of transport. Getting to the point of sanctioning a project and construction-readiness takes a significant amount of additional engineering. It will take another two to three years to use that initial cost of transport in evaluations of the 16 different options, determine which option makes the most sense, and then do the very detailed engineering on that option. To be construction ready by July 1,

2011, would require stopping the current costing process and immediately picking a specific option and moving forward on that engineering. It is the detailed cost engineering that takes a project to the point of sanction, he explained, and Mr. Sparger could provide further details.

[6:47:05 PM](#)

REPRESENTATIVE KAWASAKI noted there are other sections within Version E that say take any actions necessary for construction to begin; for example, page 4, lines 5-6. He surmised that these lines and others would also need to be amended in order to follow the same line of logic.

MR. SWENSON answered correct.

CO-CHAIR NEUMAN reiterated that he is resistant to changing the July 1, 2011, deadline.

[6:48:10 PM](#)

CO-CHAIR JOHNSON requested Mr. Swenson to address what a one-year delay would cost in terms of time value of money.

MR. SWENSON responded he cannot address that from the standpoint of time value of money, but he can address the efficiencies afforded by that additional engineering work. Under his project's current schedule, the costing for transport will be done on the 16 different scenarios by July 2010. There are four different pipeline configurations and a number of different throughput scenarios from 250 million cubic feet per day on up to 1 billion cubic feet per day. Those ongoing analyses will provide an understanding of the options available, including the types of gas found on the North Slope and Cook Inlet. Once a specific configuration is chosen, the next phase of work will take it through the optimization. A number of different processes in that engineering effort help optimize what will ultimately be built and sanctioned. At the end of that process it will be known what type and schedule of pipe is needed and what the metallurgy of that pipe needs to be, given the permafrost and faulting along the route. From the standpoint of cost savings in the overall project, the timeline that he is laying out will optimize the long-term savings of the pipeline as well as the construction cost savings.

[6:50:49 PM](#)

CO-CHAIR NEUMAN, in response to Representative Guttenberg, requested that members stay focused on the first [of the four changes] proposed by Amendment 1. He stated that the proposed deletion on page 3, line 13, of Version E may not sound like much, but it is much because it takes out a lot of teeth. He reiterated his hesitation to do this.

CO-CHAIR JOHNSON said he shares Co-Chair Neuman's concern in regard to a delay. He said he is unsure that the year delay holds water because efficiencies will be gained when additional expertise is brought into the planning. He asked whether Amendment 1 is divisible.

CO-CHAIR NEUMAN responded that is why he wants to look at [each of the four changes] individually. He remained unconvinced of the necessity for deleting the July 1, 2011, deadline.

[6:54:10 PM](#)

REPRESENTATIVE GUTTENBERG noted that the development team would be working with the steering committee, yet there is no mention of when steering committee members would have to be appointed or what constitutes a quorum for starting action. He said this might need consideration later on.

CO-CHAIR NEUMAN agreed. He moved discussion to the second change proposed by Amendment 1.

MR. SWENSON read aloud to the committee members the second change proposed by Amendment 1.

[6:56:54 PM](#)

CO-CHAIR JOHNSON, in regard to the proposed second change, inquired whether the language related to requests for proposals fits within the procurement code. He further asked why this language needs to be included.

MR. SWENSON replied the language is being provided to describe what a commercial offering is for the pipeline. The procurement code and the language associated with the procurement code would have to be followed. In response to further questions from Co-Chair Johnson, he said the language has not been vetted by "legal" and it was not written by him or the administration; it was suggestion to the sponsor. He said he helped Representative

Chenault's staff member to understand what a commercial offering is in a pipeline bidding.

[Co-Chair Neuman passed the gavel to Co-Chair Johnson.]

[6:59:49 PM](#)

CO-CHAIR JOHNSON said he thinks the term commercial offering should be defined and suggested that a definition be included at the end of the bill.

MR. SWENSON allowed that that very well may be the case.

[Co-Chair Johnson returned the gavel to Co-Chair Neuman.]

[7:00:54 PM](#)

REPRESENTATIVE GUTTENBERG inquired why it is the development team and not the project manager that is making the commercial offering. He further asked if the language on lines 13-14 of Amendment 1 directing the development team to report to the legislature on the date the commercial offering is ready is included in the amendment in case the offering is ready before July 1, 2011. He surmised that it would be a public report with a press release.

MR. SWENSON, in regard to a report, responded that the current work being done on the project is the pipeline costing of the different options. The secondary part of the project is to look at right-of-way and permit issues, and once those issues are finalized the project would be ready for a commercial offering. July 1, 2011, would be a minimum date that that would be ready. If it was ready beforehand, the legislature would be notified of that date.

REPRESENTATIVE GUTTENBERG commented that July 1, 2011, seems like a definitive date.

MR. SWENSON nodded yes.

[7:03:02 PM](#)

CO-CHAIR NEUMAN asked whether it is Mr. Swenson's intent as the project manager to have all the permits ready to sell to an independent person or company to build an in-state pipeline.

MR. SWENSON replied correct; it has always been the focus of this project to get the permitting and engineering to a point where it can be put out for a commercial offering to a commercial entity or group of entities that would build the pipeline.

[7:04:11 PM](#)

CO-CHAIR NEUMAN inquired whether it means that the state's ties to that information and ownership of this project are severed if the permits are sold to recoup the state's expenditures.

MR. SWENSON answered that that was the original intent, as was stated by Mr. Noah in his presentation on December 15, 2009. The project has continued with that process to get ready for that commercial offering; the project has also been working with various producer groups and pipeline groups, as well as downstream consumers of the gas. That does not require, however, that the state not invest in the pipeline. It is just to put it out for that commercial offering once the project has the permits and detailed costing in hand.

[7:05:38 PM](#)

CO-CHAIR NEUMAN surmised that if the state severs ownership it would have no involvement and would not be beholden to the 0.5 billion cubic feet per day limitation on an in-state gas pipeline.

MR. SWENSON responded he does not think it precludes the state from being involved in the building of the pipeline. The only thing the commercial offering does is offer a data set and three permits - the state and federal rights-of-way permits and the environmental impact statement permit - to a commercial entity. It does not mean the state is precluded from investing in that process.

[7:07:26 PM](#)

MR. SWENSON, in response to Representative Guttenberg, reiterated that he does not believe a commercial offering precludes the state from becoming involved in either the financing portion of this, or in incentives on either the upstream or downstream side, or actually being involved in the construction process.

CO-CHAIR NEUMAN commented that maybe the permanent fund [earnings] will finance the pipeline, should the people of Alaska say so.

7:08:19 PM

CO-CHAIR JOHNSON asked whether Mr. Swenson would consider it a responsive or non-responsive bid if someone made a bid to build the pipeline that did not include reimbursement to the state.

MR. SWENSON replied that the current language on line 11 of Amendment 1 suggests that the proposal must include reimbursement for the cost incurred by the state. That does not preclude the state from being involved in future activity, future engineering, future bonding, or financing of the project.

CO-CHAIR JOHNSON said he reads this part of the amendment as meaning there would be a no-call if proposals do not include reimbursement for the cost incurred by the state, as opposed to bringing something forth to the legislature to decide whether to throw the state's cost into the pot to sweeten it so it would reduce tariffs. He inquired whether this is also Mr. Swenson's understanding.

MR. SWENSON answered that that is not his understanding of the current language. He said this language came from the original appropriations which provided that the work done by Mr. Noah and the pipeline team was to be reimbursed by a second party or commercial entity that would be building the pipeline.

CO-CHAIR JOHNSON asked whether that is in statute or is an understanding of what Mr. Noah and the pipeline team wanted to do.

MR. SWENSON responded he believes it is in the appropriations.

7:11:05 PM

REPRESENTATIVE GUTTENBERG inquired whether the reimbursement could be in reduced tariffs similar to what is in the Alaska Gasline Inducement Act (AGIA).

MR. SWENSON replied he believes it could be in any way that the state becomes reimbursed for that money. However, it is important to note that some of the data that has been used to develop the project to date is actually data the state is using

with its partner, ENSTAR. Therefore, the state or the purchaser would need to reimburse that group for that data set.

[7:11:52 PM](#)

CO-CHAIR NEUMAN asked what last year's appropriation was for the in-state gas project.

MR. SWENSON answered \$8.3 million.

CO-CHAIR NEUMAN noted that the governor's budget included another \$6.5 million for a total of about \$15 million. Thus, this portion of Amendment 1 would put a screeching halt to a lot of things if the state is unable to sell the data and permits for at least \$15 million.

MR. SWENSON responded correct.

[7:13:17 PM](#)

CO-CHAIR NEUMAN further calculated that the total cost would be more like \$20-\$25 million given that other state entities have been funded to gather information, such as the Alaska Natural Gas Development Authority (ANGDA).

MR. SWENSON replied that this \$25 million invested by the state for the permitting and initial costing estimates is a very small portion of the overall engineering that must be completed. The original fiscal note for the overall project is over \$380 million just for the detailed engineering to get to a point of sanction. That does not include the \$500 million or greater for the ordering of pipe, facilities, and cost associated with building the pipeline. He believes the amount of work that has been done and currently underway covers nearly all of the possible options that could be used. He thinks this part of the amendment specifically speaks to a pipeline company not coming in without looking at the current data set done by the state and ENSTAR and using that data for its proposal and reimbursing the state for that work. It does not speak to the hundreds of millions of dollars of work that will be necessary to bring the project to sanction.

[7:15:16 PM](#)

CO-CHAIR NEUMAN maintained that this project would stop if the July 1, 2011, deadline is taken out and the state does not get a

proposal from a company who wants to own the project and reimburse the state.

MR. SWENSON answered he does not believe that is correct and an alternate interpretation would be that if a proposal is not received using the data and right-of-way permits provided by the state, then the state can choose to move forward with either an alternate commercial offering or continuation of the engineering that is ongoing. There will not be a break in time specifically for that. Amendment 1 attempts to provide an opportunity for the state and its partners to be reimbursed for the work that has been done to date, and that is all it does.

[7:16:45 PM](#)

CO-CHAIR NEUMAN said that if a company wanting to build an in-state pipeline uses none of the state's information, then none of this matters. If a company uses the state's information, which is the hope, then the state gets some reimbursement on those costs; however, he doubts reimbursement will be at 100 percent. He interpreted Mr. Noah to have been saying that the project will attempt to recover the maximum amount possible and hand the project off to private industry. Under the current language in Amendment 1, he believes the state would be required to receive 100 percent of its costs and if this did not happen the project would be stopped.

MR. SWENSON responded he does not believe it would stop the project; rather, it would stop the process of that request for proposals.

CO-CHAIR NEUMAN said it would stop the process of the request for proposals for building an in-state gas pipeline.

MR. SWENSON offered his belief that the reasoning behind the language in Amendment 1 is to attempt to reimburse the state for the costs to date, as was always stated from the beginning of this project. If this language is not included, it is his belief that a commercial entity coming into the request for proposals would not offer that reimbursement of costs.

[7:18:54 PM](#)

CO-CHAIR NEUMAN suggested it could be said that the state will do the best it can to make back as much of the invested money as possible. There is a direct long-term benefit to the state in

providing jobs, he said, and he will be looking at the amendment further in this regard.

MR. SWENSON said he understood.

[7:19:42 PM](#)

CO-CHAIR JOHNSON inquired whether treble damages would be queued if the state took delayed payments for its costs or did not take all the payments at once.

MR. SWENSON replied he does not know the answer at this time.

CO-CHAIR JOHNSON added that delayed payments would be a benefit of getting to use the state's money over a period of time. However, he said he is pretty sure that the intent of AGIA would be violated if the state also offered the benefit to a company of a pipeline that carries over 0.5 billion cubic feet per day. While that is a policy call that would be made at that time, the way this part of Amendment 1 is structured the state would have a problem if a check is not written for 100 percent reimbursement and the pipeline is designed for over 0.5 billion cubic feet per day. He said he wants to ensure that the legislature has that policy call and not some procurement officer writing a request for proposals with this language. When the request for proposals is issued, he wants it to be as broad and open as it can possibly be to get as many people at the playing table as possible and this portion of the amendment does not do that.

[7:21:34 PM](#)

REPRESENTATIVE TUCK recognized that the reason for deleting "by July 1, 2011, and take actions necessary" is because there is still a lot of study to do on the 16 different options with 4 different configurations; therefore, additional time is needed because the state does not want to commit in one direction or another. However, the second change proposed by Amendment 1 would require a commercial offering by July 1, 2011. He asked what the state would have for the commercial offering that is different than what the state would have in the original committee substitute which states that an in-state natural gas pipeline would be begun by July 1, 2011.

MR. SWENSON answered it is important to understand the process of building a pipeline of this magnitude. The work started by Mr. Noah and Mr. Noah's team, which is the work that he is now

continuing, is the initial costing - the initial look at what different configurations of the pipeline are feasible and looking at what that cost of transport is. Those cost estimates and that engineering are significantly less than being able to construct. This initial scoping of the project is what any reasonable pipeline company would do. To get to a position of construction-ready the project must be taken to a much higher level of engineering. A significant amount of detailed design work is needed to get the project from the Class 4 estimates to Class 3 and 2 estimates, and to get to the point where pipe can be ordered or the project sanctioned. Once the project is sanctioned, a significant amount of engineering design work has been done, as well as hazards work, and work along the pipeline route to ensure optimal location of the pipeline. All of the initial scoping work will be done by July of this summer, at which point all of the options will have been worked through and the cost of transport completed. Work will then begin on the cost of service from the North Slope to consumers. The next phase of engineering is very, very detailed engineering. He said Mr. Sparger is available to explain these details if the committee wishes.

[7:25:41 PM](#)

REPRESENTATIVE TUCK understood that what the state will have by July 1, 2011, is the basic scoping and cost for a commercial offering. A much higher level of detailed engineering is necessary to actually get the project underway. He surmised that by having July 1, 2011, remain in the original committee substitute, the expectation would be that the project is ready to build; however, the state will not be there at that time because all that will be done by then is a general cost estimate of transportation.

MR. SWENSON responded correct.

REPRESENTATIVE TUCK noted that "Baker and Associates" is performing much of the current work. He inquired whether the duration of this consultant's services will be beyond or up to July 1, 2011.

MR. SWENSON replied the current contract runs to July 1, 2011.

REPRESENTATIVE TUCK presumed that under this second change in Amendment 1, the hope is for the state to get reimbursed for "cost incurred by the state of data and interpretation of data."

He asked whether in addition to the cost of gathering the data, the cost includes any legal or financial interpretation.

MR. SWENSON answered that specifically the data and interpretation of the data is the engineering work for those cost estimates, which is the work that has been done by "Baker and Associates" and their subcontractors.

[7:28:00 PM](#)

CO-CHAIR NEUMAN called attention to the language on lines 12-13 of Amendment 1 which states, "The request for proposals must include notice that proposals will be analyzed by the state, together with terms and conditions for selection." He said he thinks the intent of HB 369 is to have an in-state natural gas development team be independent of that because right now there is a lot of concern that the current in-state gas pipeline team does not have enough independence. He inquired whether people within the administration will analyze the proposals and have the ability to decide whether to accept them.

MR. SWENSON responded the analysis of the proposals will be done from fiscal and technical standpoints and looking at whether the company proposing to build the project has the ability to complete a project like this. Contractors will be hired to do that analysis because there is not the full expertise in-house to make determinations on the detailed engineering and the costing. Therefore, it will be both the state and contractors.

CO-CHAIR NEUMAN surmised Mr. Swenson's answer was yes.

MR. SWENSON replied yes.

[7:30:04 PM](#)

CO-CHAIR NEUMAN said he still has concern about getting full reimbursement of the costs. He understood Mr. Swenson will depend upon outside analysis and experts on this, and allowed that peer review is a good thing. He further understood that this means the administration, not the development team, will decide whether to move forward on this.

MR. SWENSON answered he believes the development team proposed by HB 369 would be the primary group that analyzes the proposals, not a single entity.

CO-CHAIR NEUMAN understood the proposals will be analyzed by the state and if the state makes a finding that it does not like the proposals it can say no and not accept the proposals.

MR. SWENSON responded correct.

[7:31:23 PM](#)

CO-CHAIR NEUMAN asked whether any of the 16 different options include a cost analysis for both a 48-inch gas pipeline and a 24-inch line from Prudhoe Bay to tidewater.

MR. SWENSON replied the work he is specifically discussing here is just for the 24-inch line from the North Slope to tidewater in the Cook Inlet, with offtake points in Fairbanks. There are numerous other options for bringing gas from the North Slope into the Railbelt region. As proposed from the very beginning, this project has been worked as a backup plan in case AGIA is not finalized in a timely manner. If AGIA is sanctioned, the necessity of running a 24-inch line to the North Slope would no longer exist. So, if [an AGIA pipeline] is not sanctioned by the time the "stand-alone" line is ready, then the state would continue with the stand-alone line and the [pipeline capacity] issue of more than 500 million cubic feet per day becomes a non-issue because there would be no AGIA at that point in time.

CO-CHAIR NEUMAN understood Mr. Swenson to be looking at this as a Plan B should a large diameter pipeline not work.

MR. SWENSON answered correct. It has been stated from the very beginning of this project that it is a backup plan to the AGIA process, or a large diameter line from the North Slope. The cost associated with gas from a large diameter line into the Railbelt would be - just from the standpoint of distance - much less than gas from a single 24-inch line from the North Slope.

[7:34:56 PM](#)

CO-CHAIR NEUMAN stated he does not think of this as a Plan B and that there is room for both projects to move forward. He said he is very frustrated to be hearing this project is Plan B and he believes the proposed provisions on lines 6-14 of Amendment 1 are more roadblocks.

MR. SWENSON replied that when he mentioned Plan B he was not suggesting that his team is moving forward as a Plan B. There is no plan to slow down the ongoing planning and engineering

process, he stressed. It will continue in parallel with the ongoing planning process for the large diameter [AGIA] line. When he says Plan B, he means it is a backup plan to the large diameter pipeline because the gas associated with a 48-inch line, and the state's ability to access that gas, will be significantly cheaper than building a line to the North Slope and the tariff associated with that. It does not mean his team is slowing down or changing the process in any way while working in consort. He stated his belief that when testifying before the legislature Mr. Noah presented very similar views of this project. The team is working incredibly hard to ensure that the state has this as an option for in-state gas.

CO-CHAIR NEUMAN continued to disagree with Mr. Swenson.

[7:38:09 PM](#)

CO-CHAIR JOHNSON said Co-Chair Neuman is going down the same road he is. He inquired whether Mr. Swenson knows why he is before the committee today and why HB 369 was introduced.

MR. SWENSON assumed it is the frustration associated with a pipeline not being built currently.

CO-CHAIR JOHNSON said that is a very good assumption. He said another reason is that it also appears to him that a civil war is going on in the administration. He said this project is not a Plan B for the citizens he represents; rather, the big pipeline ought to be Plan B. His priority is getting gas for Alaskans. He said he is prepared to withdraw Amendment 1 because he sees nothing but delays and there is nothing in it so far that excites him.

MR. SWENSON stated he and Co-Chair Johnson are exactly on the same page. His first priority is getting gas as quickly as possible to the citizens of Alaska, and that is his primary objective in his job. When he says Plan B he is not meaning it has to be at a later date or is an either/or proposition. The way his team is working right now on this project is to make sure that the state has availability of North Slope gas, which is currently stranded, into the Railbelt region. His team is working as quickly as it can with the budgets that have been provided. The team is on track, under budget, and gas will be supplied to the Railbelt whether it be via a stand-alone line or a large diameter pipeline, if the projects move forward. Amendment 1 is specifically to put the state in the position of being able to go through the engineering effort that is required

to put together a project of this magnitude and provide a commercial offering as of July 1, 2011, and, currently, his team is on track with that. The project will continue forward depending upon what the commercial offering provides and also depending upon what the legislature decides to do at that point in time as far as investment in the pipeline and continuing on with the project to fruition for providing gas to both the Cook Inlet and Fairbanks regions.

7:43:06 PM

CO-CHAIR JOHNSON surmised that from what Mr. Swenson is saying this legislation is not needed.

MR. SWENSON responded he cannot address whether the legislation is absolutely necessary. He said he believes a lot of the language in HB 369 is being undertaken by his team, including talking with the other agencies and making sure there is not a civil war. He has worked with the Alaska Natural Gas Development Authority (ANGDA) and the Department of Transportation & Public Facilities (DOT&PF). He is more than willing to work with any of the other state agencies and entities, including the Alaska Railroad and the Alaska Housing Finance Corporation, to ensure continued development of this project. His team is moving forward in as quick a fashion as possible and is trying to ensure that it is an optimized project that will cost the least amount of money and provide the majority of the gas to the majority of the people in the state. He said he thinks the legislation as currently written will cause significant issues with his team's ability to do the engineering that will optimize that work. The amendments were initially offered to help stay on the track that his team is currently on and move the project forward.

7:44:50 PM

CO-CHAIR NEUMAN presumed that Mr. Swenson is about as frustrated now as Mr. Noah was when Mr. Noah left. He posed a scenario in which a 48-inch line is built from Prudhoe Bay to Fairbanks that can carry 5.5 billion cubic feet per day, which would make 1.0 billion cubic feet per day available for in-state. The cost estimates he has seen on such a line range from a difference of \$1.3 billion to \$1.7 billion between a 24-inch line and a 48-inch line, so he is assuming a medium difference between the two lines of \$2 billion. Pumping 4 billion cubic feet per day would take four compression stations at \$250 million each for a total of \$1 billion. To run those operating costs and the write-down

of those plants in five or six years would be another \$1 billion. If both these projects are continued, the compressor that is in the Prudhoe Bay gas treatment plant can move 1.0 billion cubic feet of gas per day down a 48-inch line with no additional compressor stations. So now, \$2 billion has been eliminated from the cost to still have the availability of 1.0 billion cubic feet per day of gas in-state and still have the availability to add four compressors. This would keep both projects as Plan A.

[7:48:49 PM](#)

MR. SWENSON replied he is unsure on the math and costs associated with the aforementioned scenario. He said the pre-build line from the North Slope to Fairbanks has been discussed by his team, and he thinks it is a viable option that should be considered as things move forward as there would be time value of money, as was discussed earlier. The amount of investment associated with building a 48-inch line and compressor stations, or at least being ready if a large export market is developed and building from that 48-inch line whether through Canada or to a liquefied natural gas (LNG) facility in Valdez, must be looked at very carefully. He agreed that maximizing resource development on the North Slope must be looked at for all of the options. The North Slope has a significant resource and the ability to access that gas and get it to market is critical in the way forward of the state; the state must make sure to stay open to all of the options.

[7:50:11 PM](#)

CO-CHAIR NEUMAN said the goal is to provide the maximum amount of gas to as many people as possible, whether those people are Canadian or Alaskan. He said he thinks the scenario he just presented should be the number one scenario if it has not already been included as one of the 16 scenarios currently under consideration.

CO-CHAIR JOHNSON withdrew Amendment 1.

CO-CHAIR NEUMAN commented that the withdrawal of Amendment 1 will give members more time to consider it.

[7:54:00 PM](#)

MR. SWENSON, in response to Co-Chair Neuman, stated that the current process in defining the 16 different scenarios will have

a number of different scenarios of compressor stations depending upon the type of natural gas liquids that are going through the pipeline and where the processing facility is located.

MR. SWENSON further explained there are four different pipeline configurations. One configuration is a central gas facility (CGF) residue gas only from North Slope gas conditioning, and Cook Inlet natural gas liquid (NGL) extraction. In this scenario the only gas being transported is the methane gas from the slope and all of the impurities are taken out at the conditioning plant on the North Slope and given back to the producers. The second configuration is CGF residue gas only and Cook Inlet gas conditioning and NGL extraction. In this scenario the residue gas is taken to a conditioning plant in the Cook Inlet region. The third configuration is CGF residue gas only and North Slope gas conditioning and North Slope NGL extraction. In this scenario the natural gas liquids are taken out on the slope and the processing facilities are on the slope. The fourth configuration is CGF residue gas spiked with CGF stabilizer with North Slope gas conditioning and North Slope NGL extraction. In this case the gas is transported with the impurities and spiked to make sure it does not corrode the pipe.

MR. SWENSON added that each of the four scenarios will be evaluated at four different throughputs: from 250 million cubic feet per day on up to 1 billion cubic feet per day. Those sizes, pressures, and fluid volumes will all have different configurations of the pipeline; so there will be compressor stations at different positions, different locations of gas processing facilities, and each one of those has to be optimized to the current conditions of the pipeline route.

CO-CHAIR NEUMAN observed that the total of 16 different scenarios comes from analyzing the four different types of gas at four different volumes.

MR. SWENSON agreed.

[7:57:45 PM](#)

REPRESENTATIVE KAWASAKI noted that Section 1 of Version E would establish the position of in-state gasline project manager. He understood that to be Mr. Swenson's current title.

MR. SWENSON responded correct.

REPRESENTATIVE KAWASAKI observed that among other things, HB 369, Version E, would establish the Joint In-state Gasline Development Team composed of the Department of Transportation & Public Facilities, the Alaska Natural Gas Development Authority, and the Alaska Railroad. He presumed Mr. Swenson already works with these entities and asked whether Mr. Swenson thinks this provision is superfluous.

MR. SWENSON replied that it is correct his office is working with the different agencies although he has not yet started with the Alaska Railroad given he has only been on the job for two months. From the standpoint of bonding, he thinks working with the Alaska Railroad would be very important. In regard to the other agencies identified by Version E, he has worked with the Department of Transportation & Public Facilities to identify right-of-way issues, as DOT&PF is the agency of application for the right-of-way. He has also worked extensively with Mr. Heinze of the Alaska Natural Gas Development Authority to ensure collaboration and no duplication of work.

[8:00:03 PM](#)

REPRESENTATIVE KAWASAKI called attention to the provision in Version E for establishing an In-state Gasline Steering Committee composed of numerous agencies and individuals. He said it seems counter-intuitive to add all of these entities as far as streamlining and efficiencies go. He requested Mr. Swenson to speak to this.

MR. SWENSON answered he cannot speak to a specific inefficiency, but noted that there is a tremendous breadth and amount of interest for in-state gas. While he is not speaking for the sponsor, he believes the intent is to ensure the inclusion of all the stakeholders in the process. Having that number of people providing input may add to the timeline, but he cannot specifically relate to that.

[8:02:36 PM](#)

REPRESENTATIVE TUCK summarized the provisions of Version E and offered his understanding that the in-state gasline project manager would continue for one year after the July 2011 commercial offering. He asked whether the Joint In-state Gasline Development Team and the In-state Gasline Steering Committee would continue to be needed.

MR. SWENSON responded he does not know whether the bill's language provides for the steering committee to continue. The assumption in the fiscal note is that after the commercial offering has occurred the steering committee would need to meet only once a year to keep everyone informed of the progress towards first gas.

[8:04:54 PM](#)

REPRESENTATIVE TUCK understood that after the commercial offering Mr. Swenson is forecasting the steering committee may be needed only for receiving information and updates. He presumed the development team would be needed until the project is finalized.

MR. SWENSON replied correct, there are many decisions to be made all the way through the engineering and construction path. The DOT&PF, pipeline coordinator, and the funding groups will certainly be necessary throughout that time and that would be the case regardless of whether HB 369 passes.

[8:06:01 PM](#)

REPRESENTATIVE TUCK inquired whether the development team would be privy to all of the private purchaser's information and decision making.

MR. SWENSON answered that similar to the ongoing AGIA process, the data being gathered through the engineering process is confidential. However, the state's investment in that process will require that the project team have access to that confidential information and continue to work with the pipeline builder to ensure the project moves forward as planned.

[8:07:52 PM](#)

REPRESENTATIVE TUCK, in regard to the earlier question about whether this bill is necessary, recited the language on page 4, lines 7-12, Version E, regarding cooperation and access to information. He asked whether Mr. Swenson already has access to all of the information or whether this language is needed for Mr. Swenson to move further.

MR. SWENSON responded he believes it is important the language at least addresses the confidential information that is developed by the entity that is gathering it. Currently, his team does have access to the information, such as the

confidential aerial photography, orthoimagery, and Light Detection And Ranging (LIDAR) that was gathered along that pipeline. While he cannot address at this time whether this language is specific to the language that is necessary, a significant amount of confidential information will be generated and processed during the development phase of the pipeline.

REPRESENTATIVE TUCK understood Mr. Swenson currently has access to that information.

MR. SWENSON replied correct.

[8:10:07 PM](#)

REPRESENTATIVE TUCK, in regard to "tidewater" on page 7, line 5, Version E, inquired whether there is a definition of tidewater that indicates it does not mean the North Slope coast.

MR. SWENSON answered he believes the language on page 7 is specifically addressing the natural gas that is produced on the North Slope north of the 68th parallel, which basically runs through the middle of the Brooks Range.

REPRESENTATIVE TUCK noted it is not said on page 7 that it is talking about the Cook Inlet distribution system.

MR. SWENSON replied he believes that also includes Valdez. Tidewater would just be bringing North Slope gas to the southern ice-free ports for the possibility of export from the state.

REPRESENTATIVE TUCK said he wants to ensure that tidewater does not mean taking gas to the Beaufort Sea.

MR. SWENSON allowed clarification may be necessary.

CO-CHAIR NEUMAN, given the receding icecap, said he believes an LNG facility on the North Slope or in northwest Alaska is an option that has probably been discussed in board rooms.

REPRESENTATIVE TUCK said that is the reason why he is asking for the clarification.

[8:12:20 PM](#)

REPRESENTATIVE SEATON, in regard to tidewater and Co-chair Neuman's reference on a previous day to bringing a gasline to the non-tidewater Donlin Creek Gold Mine, inquired whether Mr.

Swenson's reading of the bill would include a spur line to the mine or would require clarification that this be allowed.

MR. SWENSON answered he assumes the reason for addressing tidewater in the bill as written is to bring the pipeline all the way to tidewater or into the Cook Inlet or Valdez regions. It does not preclude offtake points anywhere along the route, such as offtakes to the Donlin Creek Gold Mine, the Fairbanks region, or the Interior.

[8:14:05 PM](#)

REPRESENTATIVE SEATON asked whether Mr. Swenson believes the current Version E language would allow for a gas transmission line to be extended from tidewater to go from Anchor Point to Homer, a distance of approximately 14 miles.

MR. SWENSON, in regard to bringing the gasline to tidewater, responded he believes it is the intent of the language to bring it into the distribution system that currently exists in the Cook Inlet. Extension of that system with the additional resources that would be provided by this pipeline would certainly be conducive to extending the current ENSTAR system, such as an extension from Anchor Point into the Homer region or any of the developments that could happen within the Cook Inlet, as well as along route from the North Slope/Fairbanks area into the Cook Inlet basin area or any part of the Railbelt. He believes the language would not preclude that type of activity.

[8:15:52 PM](#)

CO-CHAIR NEUMAN reminded members that this is Mr. Swenson's opinion, which may not be the same as the sponsor's intent.

REPRESENTATIVE SEATON noted he has been talking to the sponsor about the extension and offtake issues, as well as a lateral pipeline such as for Donlin Creek Gold Mine. He said he will be offering some clarification language in this regard later on.

CO-CHAIR NEUMAN urged the receipt of amendments as soon as possible so members have a chance to review them prior to committee meetings.

[8:17:09 PM](#)

CO-CHAIR JOHNSON presumed there is some information that Mr. Swenson does not have access to at this point.

MR. SWENSON nodded yes.

CO-CHAIR JOHNSON stated that the advantage of bringing the Department of Transportation & Public Facilities, the Alaska Natural Gas Development Authority, and others under one umbrella would be to have that information. A confidentiality agreement would build a certain level of confidence within those organizations that the information would be held confidential. This would increase the project's knowledge base and allow it to proceed in a more expeditious manner. He said he believes there is information that Mr. Swenson's team does not have, but needs, and part of the intent of this bill is to bring all the parties together to have that information while maintaining confidentiality.

8:18:19 PM

CO-CHAIR NEUMAN asked whether Mr. Swenson is aware of any information gathered by any agencies of the state that he does not have.

MR. SWENSON replied one of the key issues is the current engineering process and use of the most modern data available along a 2,000-foot-wide corridor from the Cook Inlet Region to the North Slope. A significant amount of data has been gathered along that corridor from the many different times that these different pipeline options have been looked at. Additionally, a significant amount of data has been gathered along the current railroad and DOT&PF right-of-ways and all of that information would certainly be helpful. While the current initial engineering work has the most modern data, additional information such as subsurface information would help in that process, as would any information within that corridor or geotechnical work outside of that corridor.

CO-CHAIR NEUMAN requested Mr. Swenson to provide a list of the information that would be helpful to him.

MR. SWENSON agreed to do so.

8:21:17 PM

CO-CHAIR JOHNSON inquired whether the Department of Transportation & Public Facilities has been asked for information by the in-state gas project manager or any other pipeline entity.

FRANK RICHARDS, Deputy Commissioner, Office of the Commissioner, Department of Transportation & Public Facilities (DOT&PF), answered that the department worked previously with Mr. Harry Noah and his consultants in regard to DOT&PF right-of-way information. The department has a lot of right-of-way, but that right-of-way is not defined as well as it should; thus, there is a lot of information that has been asked for that DOT&PF has been unable to give. He added the department needs to have more detailed right-of-way analysis in terms of actual property boundaries that can be shared with the project team.

8:22:15 PM

CO-CHAIR JOHNSON asked whether the department's fiscal note accompanying HB 369 would allow for defining those property lines. He further asked what else the fiscal note provides.

MR. RICHARDS responded that the fiscal note identifies the personnel that would be established within DOT&PF. Such personnel would include an Engineer V to act as a technical expert for the DOT&PF commissioner while sitting on the development team. An environmental impact analysis manager would oversee the work done within DOT&PF's right-of-way to ensure compliance with state and federal requirements within the right-of-way. An administrative assistant would help with the day-to-day functions of the engineer and analysis manager. The fiscal note includes \$1 million in capital cost to define the right-of-way where the department does not have the clear legal descriptions and, if acquiring more right-of-way is needed by the in-state project, to go out and do those right-of-way assessments and pre-acquisition development efforts.

8:23:52 PM

CO-CHAIR JOHNSON inquired whether there is anything in the federal agreements that would prohibit the state from advancing a pipeline within the right-of-way.

MR. RICHARDS replied the department currently permits utilities, such as pipelines, electrical lines, and telephone cable, through the right-of-way and that is allowed under the federal provisions that the department operates under. The federal highway would demand that a utility, in this case a pipeline, not be permitted that conflicts with a future road alignment. That is why, in the department's conversations with the in-state pipeline project manager, it has been that DOT&PF gets

sufficient right-of-way to ensure a design that prevents those conflicts that would then result in future costs.

8:25:19 PM

CO-CHAIR JOHNSON asked whether there are any places where pipeline runs beside the road that would provide a history for how to avoid right-of-way problems.

MR. RICHARDS answered the department will normally permit the utilities within its existing right-of-way. The department has not purchased right-of-way to allow for a utility to then come into that right-of-way because the department has always had sufficient right-of-way in place. In those cases where the department has permitted a utility within the right-of-way and later undertook a design effort that required moving the road, the department was responsible for re-locating that utility and the project bore the cost.

8:26:33 PM

CO-CHAIR NEUMAN noted that quite a bit of the proposed pipeline route does not follow right along a road. He said he does not think the department would have to purchase rights-of-way because so little of the proposed route is along existing roads. He surmised DOT&PF has looked at the proposed route.

MR. RICHARDS responded the department has looked at the concept of the route in terms of places specifically identified by Mr. Noah, such as along the Dalton Highway where there are some areas in the right-of-way and some in close proximity to the right-of-way. He and Mr. Noah discussed the concept of DOT&PF acquiring that right-of-way from the Department of Natural Resources or the U.S. Bureau of Land Management and then providing it for the use of the pipeline. In further response, he said the department has an application for the right-of-way from the Department of Natural Resources.

8:29:24 PM

CO-CHAIR NEUMAN said he believes less than 100 miles of the proposed pipeline route is along the highway.

MR. RICHARDS replied he does not know the actual mileage, or the proximity, or which concept it is actually going to take. The geohazard analysis that Mr. Swenson talked about could result in the route being moved. In the fiscal note, the department put

together its best indication of what it may take depending upon what final route selection was made by the engineering studies.

CO-CHAIR NEUMAN inquired whether the fiscal note includes funding for purchasing property from the Department of Natural Resources.

MR. RICHARDS answered no, the capital dollars identified in the fiscal note are for private or federal lands that may need to be acquired and the funding is for hiring consultants to help in that selection.

[8:30:41 PM](#)

MR. RICHARDS, in response to Representative Kawasaki, said that currently DOT&PF is the applicant for the state lands from the Department of Natural Resources and for the federal lands from the U.S. Bureau of Land Management. In further response, he said DOT&PF has the power to take land by eminent domain, but he is unsure whether that would be allowed or prohibited for this specific purpose. While the department has statutory authority to construct pipelines, he would have to seek legal opinion on the issue of eminent domain in this regard.

REPRESENTATIVE KAWASAKI requested he be provided with a copy of this legal opinion.

[8:32:53 PM](#)

CO-CHAIR NEUMAN inquired where DOT&PF is at in the permitting process.

MR. RICHARDS replied the permits he was referring to are in the right-of-way permit applications to the Department of Natural Resources for state lands that would be needed and to the Bureau of Land Management for federal lands. Those applications were completed in late November/early December [2009] timeframe. The application process will likely take six to twelve months; he offered to get back to members in regard to exactly how long. In further response, he said the permits are for the crossing of federal lands and state lands where DOT&PF would not have existing lands that can accommodate the project.

CO-CHAIR NEUMAN surmised the permits do not include private lands.

MR. RICHARDS answered correct.

CO-CHAIR NEUMAN presumed DOT&PF has eminent domain ability for the taking of private lands.

MR. RICHARDS reiterated he would have to defer to legal counsel to tell him whether DOT&PF has that power.

[8:35:02 PM](#)

REPRESENTATIVE KAWASAKI asked how much money DOT&PF has spent in the last several years on the in-state natural gas pipeline project development right-of-way.

MR. RICHARDS responded he is able to address only the most recent efforts that were done with Mr. Noah and now Mr. Swenson. After passage of the legislation that put Mr. Noah in place, Mr. Noah came to DOT&PF asking for assistance and support in this regard. Since passage of AGIA, the department liaison - the development director for the natural gas pipeline - has been in place. The liaison worked with Mr. Noah throughout the summer and fall on those applications. No extra dollars were expended because this position was already a permitted position within DOT&PF. In further response, he said this position is currently staffed by John Reeves of Fairbanks, who works on in-state and large diameter gas pipeline issues related to DOT&PF.

[8:36:56 PM](#)

REPRESENTATIVE KAWASAKI noted that he earlier had an amendment dealing with reimbursement for project cost incurred by the state. He inquired whether Mr. Richards anticipates the costs incurred for that work would be covered by this amendment.

MR. RICHARDS replied he does not believe DOT&PF's internal costs, specifically Mr. Reeves' time, would be charged out. The department has not had a large operating budget to define the engineering analysis that is being done by Mr. Swenson's team. As a landowner and as an engineering organization the department is able to provide the support that it can, but it is mostly in-kind support.

[8:37:53 PM](#)

REPRESENTATIVE TUCK asked whether Mr. Reeves was also doing the same type of work with the Alaska Natural Gas Development Authority.

MR. RICHARDS answered he believes Mr. Reeves was a member of the Alaska Gasline Port Authority prior to coming to DOT&PF. Subsequent to coming to DOT&PF, Mr. Reeves has worked with ANGDA, but this work has been minimal. In further response, he said DOT&PF has had correspondence with ANGDA, but it has not been an extensive effort.

REPRESENTATIVE TUCK surmised Mr. Reeve's position was primarily for right-of-way access no matter the entity asking for it, and that Mr. Reeves had worked with Mr. Noah and ANGDA.

MR. RICHARDS explained Mr. Reeves was hired to initially work with the AGIA applicant to look at the logistics and infrastructure needs on the highways, bridges, and airports that DOT&PF owns and operates to ensure that the department's infrastructure could facilitate, rather than hinder, a large diameter pipeline construction project.

[8:40:01 PM](#)

CO-CHAIR NEUMAN inquired whether Mr. Reeves still works for the department.

MR. RICHARDS responded yes.

CO-CHAIR NEUMAN asked whether there was a point in time where Mr. Reeves was the main person in charge of applying for the permits for DOT&PF.

MR. RICHARDS replied yes.

CO-CHAIR NEUMAN inquired whether Mr. Reeves is still the main person in charge of applying for permits for DOT&PF.

MR. RICHARDS said Mr. Reeves is currently out of state, so most of the efforts for the in-state gasline are presently coming to him through Mr. Swenson. In response to further questions, he said Mr. Reeves is on vacation and doing some part-time work, about five days a month, for DOT&PF. He explained that the permit was assembled by Mr. Noah's team of consultants and Mr. Reeves, in consort with Mr. Noah and Mr. Noah's consultants, was the signatory on that permit.

[8:41:49 PM](#)

CO-CHAIR NEUMAN related that Mr. Reeves gave testimony on December 15, [2009], that his work on the permits at DOT&PF was

to ensure that the in-state gas pipeline was expedited. He asked whether he is now hearing that Mr. Reeves is not the lead person ensuring that the permits are done.

MR. RICHARDS answered yes, that is Mr. Reeves' job, and the permits have been submitted; so the work effort required by DOT&PF is waiting for the permit process to go through its internal workings at the Department of Natural Resources and the U.S. Bureau of Land Management. In further response, he said Mr. Reeves has been on leave without pay since January 2010.

[8:44:10 PM](#)

CO-CHAIR JOHNSON inquired whether the Department of Transportation & Public Facilities is ready to go if HB 369 passes.

MR. RICHARDS responded that DOT&PF is game; the department likes to construct roads, airports, and infrastructure, and it sees the benefit of providing energy to Alaskans. In further response, he said the department does not have a Plan A or a Plan B, it is just ready to go.

CO-CHAIR NEUMAN asked whether Mr. Richards would place the in-state gas pipeline as DOT&PF's highest priority.

MR. RICHARDS replied it would be the priority for those individuals working on the project, provided DOT&PF has the assets to do the work it is asked to do. The department has numerous fronts that it works on - highways, aviations, buildings, ports, harbors, and the marine highway system - and all are high priority to the citizens of Alaska, and this project would be high priority as well.

CO-CHAIR NEUMAN said he is upset that the person who had this project as his number one priority has not been working at the department since January.

MR. RICHARDS answered that Mr. Reeves is scheduled to be back at DOT&PF at the end of this month or next month, and this is his priority.

[8:47:33 PM](#)

REPRESENTATIVE TUCK reviewed the amount of travel and meeting times budgeted in the fiscal note for the Division of Oil & Gas.

He inquired whether DOT&PF's budget will allow for its personnel to meet this schedule.

MR. RICHARDS responded the department did include travel for these meetings in its fiscal note for HB 369. In further response, he said he does not recall how many meetings were anticipated.

8:50:04 PM

REPRESENTATIVE KAWASAKI cited the various state entities that would be involved in the project under HB 369 and noted that these entities are already charged with certain duties under current statute for assisting with getting an in-state gas pipeline built. He asked whether Mr. Richards believes communication is currently lacking so that this bill is necessary to make a gasline happen.

MR. RICHARDS replied his personal analysis is the bill provides an emphasis at the highest level of government to drive forward this project and show its importance. The department does work with the other entities named within the bill to be on the development team. The commissioner of DOT&PF sits on the board of the Alaska Railroad and Alaska Industrial Development and Export Authority (AIDEA); therefore, that cross-communication already exists and the department does work jointly with its sister agencies to push forward priority projects.

8:52:06 PM

REPRESENTATIVE KAWASAKI inquired whether Mr. Richards believes the addition of a steering committee with over 20 members will help or hinder the process.

MR. RICHARDS answered that DOT&PF has an extensive public process that it lives with daily for large or complex projects. The department sets up meetings with the individuals that would be most impacted by that project to hear their input, concerns, and recommendations. That process has proved very beneficial in meeting the needs of the public and stakeholders. Thus, the steering committee can be of much benefit as long as everyone knows the urgency and everything is done in a timely fashion.

8:54:27 PM

REPRESENTATIVE KAWASAKI commented he thinks both DOT&PF's and DNR's processes are cumbersome; therefore he does not see HB 369

as moving the state in the direction of getting a gasline. The development team and avoidance of duplication of studies and plans are positives, but it seems this could be done without writing a new section of law.

CO-CHAIR NEUMAN responded he is counting on the experience of the sponsor in this regard.

[8:56:04 PM](#)

REPRESENTATIVE SEATON noted that while the bill has the 2011 and 2015 timelines, he does not see a timeline for an open season. He asked where an open season comes into this timeline, given that open seasons are a critical factor in timing and planning

REPRESENTATIVE MIKE CHENAULT, Alaska State Legislature, sponsor of HB 369, replied the bill does not specify dates for an open season. He said he does not believe the AGIA process specifies a specific date either. While he does not have a specific date for an open season, he feels HB 369 is the best way to get to an open season for in-state gas.

[8:58:38 PM](#)

CO-CHAIR NEUMAN cited the language on page 3, lines 13-14, Version E, that states "take actions necessary to enable natural gas to flow down the pipeline by 2015." He said those actions will be determined by the development team as it goes through the process.

MR. SWENSON explained that an open season process is regulated by the Federal Energy Regulatory Commission (FERC) - if the pipeline is a FERC-regulated pipeline. However, it is assumed that the in-state gas pipeline will not be regulated by FERC and will instead be coordinated by the U.S. Bureau of Land Management. For a non-FERC pipeline, there is not what is termed an open season. Rather, after the commercial offering, the entity building the pipeline will go to other companies, including producers and consumers, to marry that relationship between the producer and the consumer.

[9:00:13 PM](#)

REPRESENTATIVE SEATON inquired whether an in-state, non-FERC process requires open access bidding. In response to Co-Chair Neuman, he said he understands the FERC process but not the in-state non-FERC process. Therefore, he is asking whether the in-

state process is open to all comers like it is for an open season under the FERC process.

MR. SWENSON explained that current pipelines in the Cook Inlet region carrying gas between different units and to consumers are common carriers and are regulated by the Regulatory Commission of Alaska (RCA). A single entity building a pipeline between its facility and its reserves does not have to be common carrier, but an in-state gas pipeline would be RCA regulated similar to what is seen in the Cook Inlet. In further response, he said he would like to defer this question until he can get legal counsel to make sure he is answering correctly, but it is his understanding that this in-state gas project would be a common carrier and regulated through the RCA.

[9:03:44 PM](#)

CO-CHAIR NEUMAN requested members to provide any amendments to other members at least 24 hours before the next meeting.

REPRESENTATIVE TUCK advised he may look into an amendment that defines tidewater.

CO-CHAIR JOHNSON urged that amendments be prepared for the next meeting so the bill can be acted upon at that time.

[HB 369 was held over.]

[9:05:58 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 9:06 p.m.