

**ALASKA STATE LEGISLATURE**  
**SENATE RESOURCES STANDING COMMITTEE**

January 21, 2009

3:33 p.m.

**MEMBERS PRESENT**

Senator Lesil McGuire, Co-Chair  
Senator Bill Wielechowski, Co-Chair  
Senator Charlie Huggins, Vice Chair  
Senator Hollis French  
Senator Bert Stedman  
Senator Gary Stevens

**MEMBERS ABSENT**

Senator Thomas Wagoner

**COMMITTEE CALENDAR**

Overview: Natural Gas for Instate Use  
Alaska Gasline Port Authority  
Alaska Natural Gas Development Authority  
Enstar

**PREVIOUS COMMITTEE ACTION**

No Action to Report

**WITNESS REGISTER**

WILLIAM WALKER, Attorney  
Walker and Levesque, LLC  
Alaska Gasline Port Authority (AGPA)  
Anchorage, AK  
**POSITION STATEMENT:** Gave an update on AGPA.

HAROLD HEINZE, Chief Executive Officer  
Alaska Natural Gas Development Authority (ANGDA)  
Anchorage, AK  
**POSITION STATEMENT:** Gave an update on ANGDA.

COLLEEN STARRING, President  
Enstar Natural Gas  
Anchorage, AK  
**POSITION STATEMENT:** Answered questions regarding Enstar.

GEORGE SCHREIBER, President and CEO  
Continental Energy Systems -- the holding company of Enstar  
Rochester Hills, MI  
**POSITION STATEMENT:** Gave an update on Enstar.

**ACTION NARRATIVE**

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**CO-CHAIR LESIL MCGUIRE** called the Senate Resources Standing Committee meeting to order at 3:33 p.m. Senators Stevens, McGuire, Wielechowski, French, and Huggins were present at the call to order. Senator Stedman arrived shortly thereafter. Senators Thomas and Paskvan and Representative Ramras were also present.

CO-CHAIR MCGUIRE announced the excused absence of Senator Wagoner. She said in-state gas is now the most important issue for the committee.

Overview: Natural Gas for Instate Use

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WILLIAM WALKER, Attorney, Walker and Levesque LLC, Alaska Gasline Port Authority (AGPA), Anchorage, AK said he will give a brief overview. He provided the names of the members of AGPA'S nine-member volunteer board. It is chaired by Bert Cottle, the Mayor of Valdez.

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MR. WALKER thanked the legislature for its intent language passed last year in a vote of 58 to 1, which allowed AGPA to go to its partners and to the market and show that the exclusive license to TransCanada didn't negate LNG; "what you did with the passage of the legislative intent proved ... that the legislature has every bit of interest in the LNG project being considered and evaluated - so thank you very much for that." Following the intent language, AGPA received Administrative Order 242 from Governor Palin, which was also helpful, he said. It kept AGPA's partners interested, and AGPA would not be present today if the legislature had not done that. Mr. Walker went to Hawaii last year to meet with the Office of Hawaiian Affairs, which is analogous to the Alaska Federation of Natives (AFN). Hawaii is evaluating the importation of LNG. It is now using coal and diesel and wants cleaner and cheaper fuel, and they have expressed an interest in Alaska gas.

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MR. WALKER said the AFN passed a resolution to support an LNG project that gets energy to Hawaii and rural Alaska. The Office of Hawaiian Affairs may be coming to Juneau to speak with the legislature. He expressed an interest in continuing to develop that relationship.

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MR. WALKER said AGPA continues to work with Mitsubishi and Sempra, and it is entering its next level of agreements. They both want to come to Juneau to speak with the committee on what is happening on the world market and why they want to be involved in the Alaska LNG project. He noted that Mitsubishi brings in about 50 percent of the LNG to the Asian market. Sempra is one of the largest marketers of natural gas in the Lower 48, "so we feel we ... cover both spectrums - both the world market as well as the U.S. market by having both of those entities."

MR. WALKER said AGPA's focus since the passage of AGIA [Alaska Gas Inducement Act] is preparing for the open season in July, 2010. It has met with TransCanada. TransCanada has committed to build a stand-alone line to Valdez, which will be independent of a Canadian line if there are sufficient customers on that line. He thanked the legislature for its involvement in "that process." It is a significant piece because TransCanada is a very good pipeline company. AGPA has spent many days in Calgary with TransCanada long before AGIA began. Mr. Walker said he is pleased with TransCanada's track record, and AGPA plans to continue to work with it in preparation for the open season, and "it's just nice to have that piece taken care of." AGPA's role is the liquid fractionation facility in Valdez, he stated.

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MR. WALKER said AGPA is working on cost estimates for that facility. It needs to "have the same level of cost estimate that TransCanada has. They have proposed a Class 4 cost estimate. We need ... to make sure that our cost estimate for the liquefaction and the fractionation units are of comparable class so that it flanges up ... because no one will be wanting to ship just to the end of the pipe. They'll need to know all the way through, including the shipping piece of it." So, AGPA will cover the liquifaction and the shipping. Some will take care of their own shipping, he noted. AGPA's goal is to attract customers to the open season, so it is important to make it attractive to the shippers - those that own the gas, whether it is the producers or someone who buys it from the North Slope producers. That's where AGPA's focus is now.

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MR. WALKER said AGPA believes that LNG maximizes the wellhead value of the gas. "We are all about in-state use of gas," he stated. AGPA's AGIA application initially had 22 off-take points, and it is now narrowed down to 18. "That's the kind of focus we have on in-state gas. We contacted every military base in the state ... any industrial user." The goal is to get as much gas used in Alaska as possible. AGPA has a long relationship with ANGDA [Alaska Natural Gas Development Authority]. The two groups have a memorandum of understanding together regarding gas. Recently Scott Heyworth attended one of AGPA's meetings. The two groups are going to work closer. "We applaud what they're doing - I think 'boots in the field' is the term that Harold [Heinze] has used." He said "that brings value to getting gas to Alaskans. We hope that their line only has to go to Glennallen instead of all the way to Delta. That's what we're working towards, and ... we applaud what they're doing, and we will continue to work with them."

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MR. WALKER said the biggest change in the past year has been in the market. Shale gas development is astounding, he said. He provided some articles on shale gas. With horizontal drilling "they fracture the gas hydraulically with water and the gas comes out." "The estimates are absolutely huge." The Marcella play in West Virginia to New York is estimated at 1,300 trillion cubic feet. There are estimates of two to three thousand trillion cubic feet of gas available in the shale gas development. This developed quickly because "when the price at Henry Hub went to \$13, suddenly there was plenty of money for technology to go in and do things that they couldn't do at \$2 and \$3, and some of the articles that I've read ... refer to technology as the absolute unsung hero in this process because that's really what has cause it to happen." The prices have now dropped, and recent articles said money can still be made on the shale gas at \$5. Today's price is \$4.79. In the last 12 months there has been a 10 percent increase in gas production because of shale gas. It is a "game changer," he said. Ottawa just decided to put "a couple million dollars" into the McKenzie project to get ahead of the shale gas. This is significant.

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MR. WALKER said Alaska has multiple options, and LNG makes an abundance of sense. One of the largest shale gas plays is in the Horn River Valley of British Columbia and is speculated to be as big as the Barnett play in Texas. He said the municipal

ordinance of Fort Worth allows drilling a gas well within 600 feet of someone's home without a variance. With a variance, a well can be drilled within 200 feet of a home, and then "everybody shares in the royalty." The Fort Worth area is producing about 3 BCF of gas, and some believe it can go up to 6 BCF. He noted that plays are spread out across the continent. It is great news for North America and the security of supply. "Some have speculated that there is enough for the next 100 years in the shale gas development."

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MR. WALKER said AGPA has watched its competition take advantage of that. AGPA received a letter from the Kitimat [British Columbia] receiving terminal 13 months ago indicating a desire for Alaska LNG. About a week ago it was announced that Kitimat is now an LNG export terminal with Mitsubishi as a partner. "We certainly don't fault them in any way. It just is another indication to us that people are putting a lot of credence in the shale gas development." Kitimat is looking at the premium Asian market for its LNG, and because of the change of pricing in the Lower 48 it made more sense to be exporting into the Asian market. That gives the first real competition on the West Coast, and now AGPA needs to work a little faster and harder.

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MR. WALKER said AGPA is an in-state project and an export project. The in-state part is the heart of the purpose of AGPA. In the North Slope, 8.4 BCF of gas is injected every day, and 2.7 of that could be taken off today, according to AOGCC [Alaska Oil and Gas Conservation Commission] Rule 9. "So we come from an existing source of proved reserves on gas - is where our project would begin." He believes that LNG provides the highest netback to the North Slope producers and to the state. It is important that AGPA can provide the highest netback to a holder of a lease. "We think it's helpful that for a later line through Canada that they could tie in at Delta Junction, and there'd be 550 miles of shared line." That helps the economics. AGPA is not interested in waiting for that to happen before a line through the rest of Alaska takes place, and that is why AGPA is pleased with the independent, stand-alone line to Valdez if there are sufficient customers. AGPA does not have a volume restriction of 500 MCF. AGPA is within AGIA and would be utilizing TransCanada and its license. The volume will be what the market will bear. It depends upon the train sizes and the consumption within Alaska. It is good not to be limited to the 500 MCF. There are some parts of Alaska that have never had access to natural gas,

and it is hard to put out a number. There may be development in the future, so he wants to be able to exceed 500 MCF.

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SENATOR HUGGINS asked if TransCanada agrees with no restriction.

MR. WALKER said yes, as long as it comes through its line. AGPA has committed to working with them.

CO-CHAIR MCGUIRE asked if that is in writing.

MR. WALKER said AGPA is getting that and will provide it to the committee. TransCanada is already working on the open season. "They've done the over-flight to Valdez." AGPA is working on the volume estimate to provide to TransCanada this week. TransCanada needs to know the size of the pipe so it can come up with a cost estimate for the Valdez portion. AGPA, Semptra, Mitsubishi, and TransCanada are "working toward their open season." The pipeline route will be parallel to TAPS [Trans Alaskan Pipeline]. There have been three environmental impact statements; two were done by Alyeska and one was done by the Yukon Pacific Corporation, so there are few surprises in that route. TransCanada will be doing the pipeline portion. AGPA will enjoy all the benefits of AGIA, including expedited considerations. The largest in-state line provides the anchor for more economical gas development in Alaska. Offtake locations will benefit from that larger volume. "Our anchor tenant is the world market." Tokyo is very interested in gas from Alaska, and they have been receiving gas from Nikiski since 1969. Alaska has the highest rating in the world on on-time deliveries, and it is the longest contract, by far, that's ever been honored. That means a lot to companies that require that to generate the product.

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MR. WALKER said, "We have the anchor tenant ... and how that would be distributed on the world market between the West Coast of the U.S., Hawaii and Asian market, the market will really be the test for that." He likes the fact that it is all within Alaska.

CO-CHAIR WIELECHOWSKI said during the open season next year, in May or June, the Asian corporations and countries will have the opportunity to make deals with the oil companies to put the gas in the line for a line down to Valdez.

MR. WALKER said that is correct, "They would either be able to buy it at the wellhead prior to the open season or purchase it

with the shipper, the current lessee, retaining control of it to their site."

CO-CHAIR WIELECHOWSKI asked if there are states, countries, or organizations that are planning on doing that.

MR. WALKER said AGPA would probably not have Mitsubishi and Semptra if that was not going to happen. He believes they have a high level of confidence that it will be a successful open season.

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CO-CHAIR WIELECHOWSKI said the most important thing for Alaskans is getting the quickest and cheapest natural gas. He asked if AGPA's route provides that. What is the best for Alaskans?

MR. WALKER said AGPA is the quickest because of the sheer economics. There are proved reserves and a market that will take the volume that Alaskans cannot use. "We believe that the line parallel to TAPS through an existing corridor is the quickest and surest." The goal is to get it to Alaskans at an economical price, and that is what the LNG project provides. It provides the anchor tenant that allows there to be economies of scale for the transportation of the gas. The goal is to get the tariff as low as possible. That same benefit equates to \$10 billion to the consumers in Canada with the TransCanada line. The same concept would apply in Alaska.

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CO-CHAIR WIELECHOWSKI asked what that cost might be.

MR. WALKER said it depends on the volume at the open season. It needs to be enough to offset the costs. The tariff will be significantly lower than it would be with a much smaller line.

CO-CHAIR WIELECHOWSKI asked about the recent rejection of the renewal of the permits for Yukon Pacific.

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MR. WALKER said he knows that company has spent a lot of time and money on its efforts. There may be reconsideration for it, but he doesn't know if that will affect AGPA. "We will either work with them with their permits or we will apply our own permits." He doesn't think it is a problem at all.

SENATOR FRENCH said one hang up with the LNG project was getting an export license to send the gas overseas. He suggested the

recent discoveries of volumes of natural gas in the Lower 48 may be an impediment to the big pipeline, but it may provide an opportunity to overcome the difficulties of shipping overseas. He asked if the Obama administration would look more favorably on an export license for Alaska's gas given these new discoveries.

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MR. WALKER said AGPA follows that closely. There is a presumption of export. America wants to export products, he stated. To not grant it has to overcome the proof that there will not be enough gas for the United States. The shale gas has resoundingly shown that there is plenty of gas in the U.S. The export license can "interruptible" in case there was a shortage in the Lower 48. The balance of payments is important, and AGPA would be happy with any one of the reports that have come out. "ICF has come out with some significant reports in Washington D.C. on the amount of shale gas -- when the energy consultants are referring to the lower 48 as awash in gas ... that's good news for us as Alaskans when we go for the export license." There is a desire for gas for Americans, and he noted that Alaskans are Americans too, so if Alaska has to export to provide gas to Alaskans, "that should be taken into consideration and we shouldn't be prevented from using our resource" for fear of a future shortage in the Lower 48.

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SENATOR HUGGINS said there are two countries that buy [U.S.] bonds: Japan and China. This economic relationship and China's great thirst for the resource, "may become overwhelmingly important for us as we build up this growing debt of trillions, which probably is even more important than an export permit because it may be fundamentally spring-loaded until we have to do the export permit when we look at the economic analysis of who buys our bonds."

CO-CHAIR MCGUIRE asked if Enstar's proposal is competing or not.

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MR. WALKER said AGPA is pleased with anyone wanting to move gas in Alaska, "so we don't really look it as a competitor; we look at it as a different concept. They have a totally different concept than we have." The goal is for the best one to proceed. AGPA is working with TransCanada because of the AGIA process and because of the volume restrictions and the opportunity to have the world market as the anchor tenant. He applauds anyone spending time, money, and effort to get gas throughout Alaska.

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The committee took a brief at-ease.

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HAROLD HEINZE, Chief Executive Officer, Alaska Natural Gas Development Authority (ANGDA), Anchorage, said he will give an update since his last hearing in July. He noted the recent changes in oil prices, the meltdown in financing, and potential employment issues. It is not all bad in that "we have created some momentum on the big gas pipeline." Today there are two active sponsor groups moving forward. The decline in oil prices "bought us some time." There are still people in bush Alaska suffering from the high fuel prices, but there is some relief.

MR. HEINZE said ANGDA's current project is the Beluga-to-Fairbanks linkage. It links Beluga to Palmer through Glennallen and on to Delta Junction in a high-pressure gas pipeline. It then provides for either a high-density plastic pipe or small-diameter steel pipe (awaiting the big pipe) linking Delta Junction on up to Fairbanks. That project is an outgrowth of a challenge given to ANGDA because of the extreme energy costs experienced by Fairbanks.

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MR. HEINZE said, "That is the B2F project." ANGDA has a conditional right-of-way "between the Palmer Glennallen area" from the state. It parallels the Trans Alaskan pipeline from Glennallen up to Delta Junction and up to Fairbanks. ANGDA can make economic sense of this project, "feeding a relatively small volume of Cook Inlet gas all the way up to Fairbanks." The economics are not the greatest, but if it had existed in July when the cost of gas was high it would have provided substantial relief to the people in Fairbanks. There may be less interest with the current price of oil near \$40. It will not remain at that price forever, "so we see this project as one that is worthy of moving forward and at least have it as an option." ANGDA wants to preserve options, he said. None of these [projects] require huge commitments at this point, and they have been advanced with very modest efforts and expenditures compared to the scale of the potential savings. ANGDA completed the wetlands work for the entire route.

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MR. HEINZE said the wetlands work is a major permitting step. ANGDA has also initiated the federal Environmental Impact Statement on the entire Beluga to Fairbanks project, which is

the necessary step for the state and federal right-of-ways and all other federal permits. That process takes about 18 months so there should be a draft result in less than a year from now. He doesn't expect many difficult issues to arise from it. In about 18 months the final permits should be complete. The Army Corps of Engineers is the lead agency. "There is no way to do an EIS in less than about 18 months." It is his expectation that all permissions will be in order by the first half of 2010 and in the position "to start building something."

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MR. HEINZE said ANGDA has used some of the support it has received to help form the core of a value-added manufacturing conference in April of this year. It is jointly sponsored by the Tri-Borough mayors in the Cook Inlet area and is a world-class conference to attract the major international petrochemical companies to "light up Alaska and the availability of a huge quantity of ethane that may be coming off the North Slope for their potential consideration." It is a crucial first step and the best way to advance this. ANGDA hired a number of people through the Anchorage Economic Development Council to actually put on the conference. ANGDA has opened mutual-interest discussions with TransCanada and its willingness to look at going to Valdez. TransCanada has been true to its word on that. It placed as much priority on Delta Junction to Valdez as it did on Delta Junction to the border. ANGDA was already working on acquiring additional information in the Delta Junction to Glennallen area. In that area of overlap, he expects to find working with TransCanada very productive. Under AGIA, TransCanada is spending a percentage of public money and it makes sense to work closely.

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MR. HEINZE said ANGDA is seriously negotiating purchasing propane molecules on the North Slope with the intent that when that agreement is reached it will become the basis for private-sector construction of a propane extraction plant, and trucking, barging, and all activities associated with distributing propane from the North Slope. He believes that will offer a fuel alternative to many rural communities along rivers or tide water, including Cook Inlet. The terms of that agreement have not been finalized, but he has every reason to expect that it will offer a competitive fuel price for many parts of Alaska. Last week ANGDA announced its intention to form a gas-supply co-op for the utilities. ANGDA's major concern is the role it can play as an aggregator. Many utilities are fractured in their needs and don't have the financial ability to take long-term

positions that are necessary for shipping commitments and "other things like that." ANGDA looked at the alternatives and found that existing state statutes are good for the formation of a co-op. It takes a limited amount of people to prepare papers of incorporation. He envisions a traditional, menu-driven, Kansas farmer-type co-op. The members of the co-op will set the menu and drive the priorities, and they can choose what to use. In this case the focus is on seven or eight of the electrical co-ops. He said he believes there is reasonable interest in order to take it to the step of forming [the co-op]. Feedback so far has included gas storage and immediate contracting for gas in this aggregated and cooperative format.

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CO-CHAIR MCGUIRE asked the impetus for that.

MR. HEINZE said ANGDA conducted open-season workshops, and it included someone from a co-op of utilities that buys gas in the ground. The members are about 200 different utilities. It is made up of utilities from about six different states and is part of their gas portfolio. Since Alaska's electric utilities are small and fractured, a co-op will get a volume discount and will allow them to "work against each other in terms when they need things" and help each other out, including time trades. It would be member driven, and ANGDA's job would be to launch, facilitate, and help with bonding for long-term purchase of pipeline space or purchase of gas. He will have more details in a few weeks after the board meets.

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MR. HEINZE said ANGDA has been working with the concept of a public/private partnership. The in-state system will benefit by not being purely public or private. That is a classic approach used for many different things. Here the setting is different, so ANGDA is working on realistic goals and structure. ANGDA's major issues for the next six months include working "with the utilities to prepare for a fully and very active open season process with either TransCanada Alaska or Denali in 2010." Both of those groups have indicated their intention to move to the open season sometime in 2010. They may do it sooner than they say in order to have a competitive advantage in seeking a FERC [Federal Energy Regulatory Commission] certification. ANGDA wants to do everything it can to prepare utilities - maybe through a co-op - for that open season. "We've done a lot of work to get here; it has taken a lot of time and energy ... it's going to take a lot more work to get there, but this is the single most important thing we see." There will be a tremendous

benefit to Alaskans "in terms of in-state gas being on the table from day-1 in the big pipeline's open season. Missing the opportunity to fully participate may bring on severe penalties.

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MR. HEINZE said there still exists the opportunity for some significant level of field construction activities as early as 2010. It is a window that might not stay open for very long. The economy of Alaska might want this activity in 2010. Meeting the earlier timeline might have significant benefits. ANGDA found that there is a sense of momentum that something is going to happen since the inclusion of the two sponsor groups. If the open season occurs in 2010, even if the gas doesn't move for many years after, most major pipelines know that they need to catch that opportunity. That is good. One concern is that the basic process here in Alaska not be restricted. The competition on the in-state part is great. He said he welcomed AGIA at the time because it created competition between Denali and TransCanada Alaska. In-state competition will be healthy too, and ANGDA will do everything "to help that happen."

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CO-CHAIR MCGUIRE said she had wondered if an Enstar-type line would be "mutually exclusive to the plans that you've laid out, because your project and the Port Authority's are heavily dependent on the open season in 2010 and the AGIA process, but different and distinct from the proposed bullet line, and so I'm glad to hear those comments."

MR. HEINZE said he sees Enstar as an example of competitive concepts, and "I think that's good. I would be worried if we thought we could pick the right answer right now." One should expect "the reversal of the world in six months," and realize it isn't easy to divine the right solution. He would suggest expanding the players, concepts, and opportunities. Let the market speak through the commitment of gas, financing, and funding. That is crucial for getting the best deal for Alaska.

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CO-CHAIR WIELECHOWSKI asked how a public/private partnership would work if it is market driven.

MR. HEINZE said he wished he had all the answers. It needs to be worked on. Indications are that it is easy to evaluate a private-investor approach or a fully public approach - it's all debt. There are many examples of public/private partnerships "in achieving some of the good from both sides, and it does require

give. An investor doesn't make as much in a public partnership. He said he would not support the public taking all the risks, and he doesn't think the public has the expertise. The middle ground is good, but he doesn't know where that middle ground is. One needs to hire consultants and ask the right questions. There is a risk/reward ratio that needs to be understood. That can be part of the process over the next year - "not of making a decision, but of understanding at least form and structure and those kinds of questions, because that's ultimately what affects the utility bills all of us pay."

CO-CHAIR WIELECHOWSKI said he thought Alaska had that. The governor had a press conference and said that ANGDA would be working with Enstar. "Where are we with that situation?"

MR. HEINZE said there have been conversations and some attempts "to do some things." Enstar's main conversations have been with the administration. But to his knowledge "we have not progressed in this area." ANGDA has conversed with other companies, and he believes there is some opportunity to progress with them.

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SENATOR STEVENS asked about moving propane by barge to residents that are off the grid.

MR. HEINZE said Alaska's small communities look like the farm communities in the Midwest. The big propane companies operate where there are long distances between users. Alaska has a certain amount of propane tank users, but it comes from Canada and Bellingham, so there would be an opportunity for a different source. Another idea is having a tank that is the same size as an ISO-container - "the common 20-foot, 40-foot you find all over Alaska; we manage to get them everywhere ... without roads, and you imagine a tank inside that steel frame," which could be used to fill with propane. Making those containers in Alaska, and other things like that, by using low-interest loans will solve some of the storage and transportation issues. ANGDA is trying to "get it to the point where it tips to the [Alaskan] entrepreneurs."

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SENATOR HUGGINS asked why not tailor in-state gas to an AGIA process. "Why wouldn't we take in-state gas and just boiler plate it down to an AGIA process?"

MR. HEINZE said the virtue of the AGIA process is to create competition, but competition can be created without going

through that process. The flaw of AGIA was to try and pick a winner, but the market picks winners. "And I think we're going to ultimately end up with that in the big line too."

SENATOR HUGGINS asked about a gas-supply co-op and guidance from the administration.

MR. HEINZE said the ANGDA board is empowered, under statute, to do whatever it takes to help get North Slope gas to market in a way that benefits Alaskans. There is a liaison with the administration in the Department of Revenue. Mr. Heinze, himself, is a state employee, as are the people who do ANGDA's contracting. ANGDA is obligated to follow all of the state procurement rules and all the public notice provisions. There is a pretty good public turnout at times at ANGDA's meetings. ANGDA gets public feedback, and it has outreached all along the route. "In terms of guidance I thought I received some of that in July ... the governor issued a press conference; we were there ... she told us to take care of Fairbanks if we could; develop whatever ideas."

SENATOR HUGGINS asked about administrative guidance subsequent to July.

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MR. HEINZE said it is important that "both the propane timeline and B2F ... is a result of the stimulus given to us in that guidance." Since then, ANGDA has moved forward. "If you follow us closely you'll see that our meetings and our direction and decisions are pretty well publicized in the Petroleum News, occasionally the other media chooses to cover us whether it be talk radio or the Anchorage Daily News."

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The committee took a brief at-ease.

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COLLEEN STARRING, President, Enstar Natural Gas, Anchorage, thanked the committee.

GEORGE SCHREIBER, President and Chief Executive Officer, Continental Energy Systems -- the holding company of Enstar, Rochester Hills, MI, said he will propose a way to solve the in-state gas issue. He showed a chart on the availability of gas in Cook Inlet. In the middle of the next decade, if there is no in-state gas flowing to Enstar's customers by 2014, Enstar won't be able to supply new customers, and old customers will be cut

off. He showed the Enstar gas supply contract comparison. "We have taken the contract we negotiated about two and a half years ago - APL-5 - and extrapolated out to where we are, which is the last two contracts on the right side of the page." He said the APL-5 agreement went out to 2016, which marries nicely with Enstar's proposal for a line that will be delivering gas in 2015. That was an all-requirements contract, so as Enstar needed gas and the market grew, "they" were contracting to supply all of that gas. The RCA [Regulatory Commission of Alaska] rejected APL-5, and "look what happens to the volumes." Volumes in the APL-5 contract were 60 BCF, and it is 10 BCF under the current contract. The new contracts are not all-requirements contracts. Enstar spent three years and over \$2 million with consultants and lawyers negotiating these contracts, and the prices are virtually the same. "I would submit to you that the RCA did our customers a huge disservice by turning down the APL-5 contract."

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MR. SCHREIBER showed the state of gas in Cook Inlet. "We can't wait for the big line to come on." The customers need it. For each dollar the customer pays to Enstar, 96 cents goes to the cost of delivering gas. There is only 4 cents in every dollar that goes to Enstar. Higher gas prices hurt his business, because Enstar's profitability is tied to rate and volume. With low prices, customers use more gas and Enstar makes more money. At high prices, customers conserve and less gas flows through the line, and Enstar makes less money. Some people have trouble understanding that. Enstar will try and insulate itself from those volumetric fluctuations so it can promote conservation.

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MR. SCHREIBER said Alaska still enjoys the lowest cost of gas in the nation. If there is not gas in 2014 or 2015, the impact on customers will be dramatic and there will be a huge impact on the state's economy. He presented a chart showing that natural gas is cheaper than oil, propane, and electricity. In 2015, Enstar will not be hooking up new customers and will drop existing customers. His cost estimates do not include the cost of the new furnace and water heater, which will be borne by the customers. Customers who are now paying \$150 a month for gas will pay \$218 a month for oil or over \$500 a month for electricity.

MR. SCHREIBER said what he is proposing "changes the market for natural gas in Alaska." He proposes to move newly discovered gas to the Interior and Southcentral Alaska. It is the right thing for his customers and his business. He will require a

governmental framework that promotes private-sector investment with predictable and fair market prices for natural gas. Enstar will start by taking gas from the foothills near Gubik and bringing it to Southcentral, with a 33-mile spur line to serve Fairbanks. It will be 690 miles long and 20 inches in diameter. It will flow 500 MCF per day and cost about \$4 billion. Enstar will invest \$5 million in engineering, environment, right-of-way, and other studies by the first part of March. Field work will begin in 2009, and the other items listed on his handout will require another \$14 million. In 2010, Enstar will spend another \$53 million - "this is all on the permitting, the engineering, the site and that kind of thing." The big bucks will start to be spent in 2011, he said.

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MR. SCHREIBER said Enstar has retained a world-class team of consultants for the engineering and siting to get this pipeline flowing by 2015. For this project there must be gas supply on the north end. There is no gas in Cook Inlet that will be able to be taken anywhere. Enstar also needs customers. There are several areas along the pipeline where it hopes to pick up additional gas, "under the theory that if you build it, they will come." He believes Enstar can start out with gas from Anadarko, which had one rig in the Gubik area last year and now has two rigs. He expects a report from Anadarko this spring on what is there, but the increase in number of rigs indicates supply in sufficient amounts. Finding customers to take the gas is what he worries about. The Agrium plant and an LNG export facility need to be fully operating. Fairbanks will have to be "built out." If Fairbanks is completely gasified, it will have about the same demand as Anchorage because of its weather. Other opportunities may be available, like a petro-chemical plant, a limestone operation that needs a heat source, and others. The driving force is to get a significant customer base, because that will decrease the costs to all.

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MR. SCHREIBER said the need for additional gas is getting to a critical point. "It's going to have a significant impact on the market if we're not successful getting our line in place. We have contracted all of our requirements only through 2010, not through 2016." Natural gas consumption and fair market prices are important to continued economic growth and in securing future gas supplies. The cost of switching from gas will be detrimental. Government-mandated discounts won't remedy supply and deliverability. Government needs to set sound public policy that allows private-sector investments to develop this business

and develop storage. Time is critical; the gas needs to start flowing by 2014.

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SENATOR STEDMAN said he is confused. A few months ago Enstar said in a press conference that it was planning on going north out of Cook Inlet. He asked what changed.

MS. STARRING said there hasn't been a change. There was a discussion about getting relief to Fairbanks quickly, but Enstar had gas contracts pending before the RCA at that time that gave Enstar an additional five-year supply. "We also had one of our current suppliers who we have options to purchase additional gas." Since that time, the RCA didn't approve those contracts as submitted. The RCA required amendments, and Enstar was not able to negotiate those amendments with the producers. So Enstar realized that it went from 60 BCF of gas to 10 BCF. One current supplier declined an option for gas that Enstar had under contract out in 2013. It has become clear that if there is gas in the inlet, no one is offering it to Enstar under contract; nobody is exploring. "We know that there's been exploration in the inlet; however, those efforts have not been successful." It's geology, she said, and she thinks the producers are drilling and exploring but not having success like they did in the 1960s and 1970s. The big finds have not proved up.

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MR. SCHREIBER said, "These are commercial guys, and they want to monetize their assets. We are finding it more and more difficult to get them to contract for gas, and so our thinking has changed dramatically. We are going to have to get gas from the north and bring it south because the gas in the inlet is just not there."

SENATOR STEDMAN said, "On page 16 under 2009, it talks about the field work in a legislative package." He asked what that was.

MR. SCHREIBER said Enstar is in a conceptual stage of trying to figure out if it needs some legislation to help expedite permitting and right-of-way review and to make sure that fair market prices can be determined in a timely fashion. "We're considering whether that might make some sense to propose some legislation for you all to consider to help in the process so we can make our timeline of 2015."

MS. STARRING said Enstar has looked at issues such as contract versus common carrier. It has been cognizant of the AGIA process

and trying to connect to it. "At this point we're just looking at a lot of things that could come into play."

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MR. SCHREIBER said, "Notwithstanding today's capital markets, we have the financing for this project basically in place." The people who own Enstar and Continental just raised \$5 billion, and they have \$1 billion to invest in this. This is the kind of investment they have been looking for, and they are excited about it.

SENATOR STEDMAN asked if Enstar will come to the legislature for money or for a partnership.

MR. SCHREIBER said no.

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CO-CHAIR WIELECHOWSKI said he has a lot of concerns. He really disagrees with Mr. Schreiber's assessment of the RCA decision. It was the right decision for the Southcentral consumers who have seen their [gas] prices triple in the past few years. Many conversations with people that deal with production in Cook Inlet have noted that capitalization costs for the wells are 50 cents to the dollar. There are more costs for the newer wells, but many of the existing wells are still working. "I know there is still continued production, but I know it hasn't increased that dramatically, and so I think the consumers in Southcentral would greatly disagree with your assessment that the RCA did a disservice."

MR. SCHREIBER said the historical costs of the wells go back 40 years. One of Enstar's suppliers has spent \$100 million trying to find new reserves in Cook Inlet and has been unsuccessful. The price that Enstar is asking customers to pay supports continued exploration and development, which has been unsuccessful to date. "The other problem with the RCA rejecting that order [is that] they put a tremendous amount of risk on our customers to be able to make sure we have supplies of gas for them in a market of declining reserves, because that contract was an all-requirements contract. Our supplier was on the hook to supply whatever gas we needed, and now we don't have that."

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CO-CHAIR WIELECHOWSKI said Conoco-Philips testified here a couple of months ago that it had a 20-year supply in Cook Inlet. It had 1.7 TCF in proven reserves. DOE [U.S. Department of Energy] would not have approved an export license if there

wasn't enough gas for Southcentral. Conoco-Philips verified that when it submitted its application to DOE. The producers are saying there is plenty of gas in Cook Inlet. The average basin reserve is about eight years, "and we've got more than double that in Cook Inlet."

MR. SCHREIBER said, "I'm sure what they also told you [is] that if the LNG plant doesn't operate, the gas will not be there." Wells fill up with water and the gas becomes undeliverable, "so you can't have one without the other." Mr. Schreiber said he did not know what Conoco-Philips said, but he thinks it is fair that the consumers pay the market price for gas that will incentivize the producers to find more gas, like Anadarko is doing up north, and the consumer will benefit. Otherwise the consumer will have to use oil or electricity.

CO-CHAIR WIELECHOWSKI asked what Enstar's projected cost per MCF once this line is running.

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MR. SCHREIBER said, "If we used what we have used in the past, whether it's with Unocal or whether it's with Marathon or Conoco, if you used a Henry Hub price, OK, that is a proxy for the market price. The reason Henry Hub is used because the guys that do that for a living are then able to hedge the cost of gas, and they can do things in their business off of a price which the market recognizes as a proxy for the market price." So he doesn't know what it will be in terms of dollars, but by following Henry Hub, that will be approximately what Enstar's customers will pay for gas - including transportation costs.

CO-CHAIR WIELECHOWSKI said, "So Henry Hub's at \$4.83?"

MR. SCHREIBER said if there was a rolling average of Henry Hub of \$4.80, customers would be paying that "instead of the \$8.97."

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CO-CHAIR WIELECHOWSKI asked if that would be an acceptable index for Enstar in Cook Inlet.

MS. STARRING said, "Most certainly." The contract with Unocal/Chevron was tied to Henry Hub. When Enstar negotiated the subsequent contract, it was the negotiated index that was turned down. The markets work. At some point during the hearings the price was between \$9 and \$10, and now it is down to \$4 or \$5. "We believe we'll have a very good story to tell customers next January first, but again, you can't predict the market."

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CO-CHAIR MCGUIRE said that was the contract that was rejected because of a viewpoint that Henry Hub prices may not be indicative of the market in Alaska. The Japanese LNG contract was used as an example.

CO-CHAIR WIELECHOWSKI said his point is if money is made at \$4.80, and Alaska consumers are paying \$10.57, it is a big gap.

MR. SCHREIBER said, "We're not making money on the commodity ... It is a straight price pass-through." When Enstar signs up to buy gas, it makes no money on it. It is all pass-through to the consumer.

SENATOR HUGGINS asked what Enstar did during the recent cold weather.

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MS. STARRING said the cold snap was a challenge. If management was left out of the equation and the field operators worked together, everything would have been fine. Enstar's three suppliers were back filling each other as they had problems with deliverability and their wells. The LNG plant was fully diverted. "They had 10,000, I believe, left at the plant. The plant was full diverted into the system to keep everybody up and running." The 11-day cold snap had an average of -12 degrees. If it had been a few degrees lower, "we would lose considerable parts of our system."

SENATOR STEDMAN referred to potential anchor tenants to guarantee success. He asked how critical the export facility is, and what those facilities are.

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MS. STARRING said, during economic analyses, Enstar has considered the current LNG plant in Kenai fully operating and exporting at capacity, as well as Agrium. One or the other would suffice, as would a new export facility. The in-state gas requirement is about 250 million cubic feet, and LNG or Agrium would take up the other 250, which would make a very affordable tariff for customers.

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The committee adjourned at 5:11 p.m.