

ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE

February 11, 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: In-State Use of Cook Inlet Gas
Invited Presenters: Chugach Electric, Enstar, ML&P, RCA,
Department of Law, Division of Regulatory Affairs & Public
Advocacy

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

BRADLEY EVANS, CEO

Chugach Electric Association

POSITION STATEMENT: Presented Chugach's view on in-state natural gas use.

COLLEEN STARRING, President

Enstar Natural Gas

POSITION STATEMENT: Presented Enstar's position on in-state natural gas use.

BOB PICKETT, Chairman

Regulatory Commission of Alaska (RCA)

POSITION STATEMENT: Explained the RCA's position on in-state natural gas use.

DANIEL PATRICK O'TIERNEY, Chief Assistant Attorney General

Division of Regulatory Affairs and Public Advocacy
Department of Law (DOL)

POSITION STATEMENT: Commented on in-state natural gas use issues.

ACTION NARRATIVE

[3:33:43 PM](#)

CO-CHAIR LESIL MCGUIRE called the Senate Resources Standing Committee meeting to order at 3:33 p.m. Present at the call to order were Senators Huggins, French, Stedman, McGuire and Wielechowski.

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Overview: In-State Use of Cook Inlet Gas

CO-CHAIR MCGUIRE announced the overview of Cook Inlet gas.

BRADLEY EVANS, CEO, Chugach Electric Association, started off the discussion saying that Chugach is Alaska's largest electric utility; it's vertically integrated doing generation, transmission and distribution. It produces 27 GW of power and has 80,682 metered retail locations. It has wholesale contracts with Matanuska Electric Association, Homer Electric Association and the City of Seward for 48 percent of their power; 43 percent of it goes to retail and 9 percent goes to economy energy. Their operating revenues total \$288,292,112.

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Chugach serves power up and down the Railbelt grid through various wholesale contracts and retail membership (slide 4). The load center areas are the Interior, Fairbanks, Anchorage/Mat-Su and Kenai and these are interconnected by very weak links. They have about 75 MW of capacity with each of those links. Chugach doesn't have the ability to transfer generation from one end all the way to the other without some restriction.

MR. EVANS said that Railbelt generation is about 1,500 MW of installed capacity and it has an annual peak load of 850-900 MW.

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SENATOR STEVENS joined the committee.

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SENATOR FRENCH asked him to explain the physical restriction in moving power up and down the grid. Could power be moved from the Anchorage generating stations to keep Fairbanks' lights on?

MR. EVANS answered no and he explained that the utilities grew up around their population centers and eventually became interconnected. Each of the load centers has enough generation to serve the load there; so if you lost the interconnection the local area generation could be used. But they don't have the ability to move enough power to Fairbanks over the tie because its peak demand is probably around 200MW and the tie is capable of only 70 MW. The Kenai is a 80-90MW load and has a 70 MW tie. They are usually moving power south off the Kenai up into the Anchorage Mat/Su area.

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The Railbelt has a little more than 1,500 MW of installed electric capacity; the peak load is 850-900 MW. Of that, Chugach has 530 MW installed and through lease agreements for a unit down on Kenai and Bradley Lake they total 629 MW (slide 6).

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SENATOR FRENCH asked why there is so much more installed capacity on the Railbelt than is being used on an annual basis.

MR. EVANS explained that Chugach is required to have a certain amount of reserves and they usually shoot for 30 percent. Part of the original arrangement is that each area before they became interconnected had its own generation. After they became interconnected they had a surplus. That surplus isn't all efficient, though. Some of the equipment is over 40 years old and you wouldn't really want to run it. "It's kind of the Alaska thing," they never throw anything away as long as it's running. Out of that their base load is little bit south of that peak load. You can run hydro all the time so it doesn't have 100 percent peak load.

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Today the Chugach system is 90 percent natural gas-fired and 10 percent hydro. Their long term vision is to reduce dependence on fossil fuels, for supply, security, and environmental reasons - and they hope to reverse the 90/10 fossil/hydro to 10/90.

CO-CHAIR MCGUIRE said the committee would like to see and get updates of their portfolio mix as they go along in looking at setting energy policy.

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MR. EVANS said that Chugach has four natural gas suppliers - Marathon, ConocoPhillips, Chevron and ML&P. They have four contracts that are indexed to three commodities - West Texas Intermediate (WTI), heating oil and natural gas - and the prices change quarterly based on how those commodities react in the open market. They are volumetric contracts to be consumed in 2010 and 2011.

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CO-CHAIR WIELECHOWSKI asked the status of negotiations to get gas supply in the future.

MR. EVANS said he has confidentiality agreements, but they are ongoing and not easy to negotiate.

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CO-CHAIR WIELECHOWSKI asked if they filed something with the Ninth Circuit Court of Appeals.

MR. EVANS replied not as part of their gas negotiations.

CO-CHAIR WIELECHOWSKI asked what the rationale was to block the Department of Energy's (DOE) extension of the LNG plant.

MR. EVANS replied that Chugach didn't agree with exporting LNG.

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CO-CHAIR WIELECHOWSKI asked if he thought exporting LNG has an impact on Chugach's ability to negotiate a reasonable price for Cook Inlet and Railbelt consumers.

MR. EVANS replied a balance has to be reached between all the economic interests. He understands that LNG exports are important for production in the Cook Inlet and that there might be a loss of reserves if they don't produce at a certain rate.

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SENATOR HUGGINS asked in the near term if they had an increased supply of natural gas, would that make him more optimistic.

MR. EVANS replied that question is probably why he is here today. They are very concerned with the mix of players and policies. It will take at least 10 years to make substantial headway in getting a substitute for Enstar's natural gas supply; in the meantime there are supply issues.

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CO-CHAIR WIELECHOWSKI asked how much Chugach pays for its natural gas now.

MR. EVANS replied their current average price is \$6.67/mcf. They consume about 30 bcf/yr.

CO-CHAIR WIELECHOWSKI asked if they had a 22 percent increase similar to what Enstar struck, what would that do to the Southcentral consumers' electricity bills.

MR. EVANS answered that cost was around \$8/mcf; so if you ratchet up from \$6.67 you are looking at another 15 percent increase. Half of Chugach's bill is gas and he showed them a slide of a residential bill. He said that Enstar delivers the molecules, but Chugach converts the molecules to a different energy form and there is a tremendous cost associated with that; so the base rate of their bill is built upon that.

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Current Chugach Activities were on slide 11. Gas contract negotiations are underway for volumes beyond current contracts. They are working on building more efficient combined-cycled generations so they can lower consumption of fuel by 25-40 percent depending on which unit is shut down. Their conservation program has already seen good results, and they are also working on small wind and hydro renewables.

He said Chugach's contracts with the people it sells power to have been modified so those projects can be brought online without coming back to the RCA for modifications. They are also support the Railbelt Unified Power Provider concept, which is necessary for the various utilities to work under to be able to migrate away from fossil fuels.

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SENATOR STEDMAN asked where the other 90 percent of energy will come from when they flip to 10 percent fossil fuel.

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MR. EVANS replied that under the Railbelt Unified Power Provider several other potential projects are coming up that are worth pursuing. They have been engaged in the Fire Island wind project, one outside of Healy and another one on the Kenai. They need geographical diversity because "the wind is blowing somewhere." The obvious hydro that is worth pursuing is Susitna. The reason they think it failed in the first place is because it

was too large; so scaling it to meet today's needs with the option of adding on later could be the right approach. For instance, the civil part of the project could be built, but the transmission and the power house that is needed for today's load could be installed. This is the expensive part, but other proposals include building the dam in stages of height. He said there has also been an interest in Chakachamna and other geothermal projects. He emphasized, however, that "You absolutely need the unification of the Railbelt utilities to do this. It's not something that one utility can take on by themselves."

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SENATOR STEDMAN asked if they could get to 90 percent non-fossil fuels without Susitna and Chakachamna.

MR. EVANS replied he had no good answer; but he thought they needed a large scale hydro approach to get there quickly.

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CO-CHAIR WIELECHOWSKI recollected that the whole Susitna project would cost \$18 billion. At what point do you say well for that much money maybe they do a bullet line instead?

MR. EVANS answered that \$18 billion is a high number for the ultimate build-out of 1500 MW. If it was scaled back to 400 MW, it might be more doable. They need to run good numbers through an integrated resource plan model.

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CO-CHAIR WIELECHOWSKI said the legislature is being pulled in a lot of directions this session to incentivize the bullet line, and they want to know where best to spend their efforts. He asked Mr. Evans to continue giving input on this issue.

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MR. EVANS answered they are just about ready to issue the contract for the integrated resource plan for the electric utilities in the Railbelt and those numbers would be run through it. That would indicate a preferred path to follow this year, at least on an economic basis.

CO-CHAIR WIELECHOWSKI asked if the governor's proposal of a joint utility fits in with his vision.

MR. EVANS replied yes, and that the governor supports his mission, but it doesn't mean they have a detailed plan. It is a

good first step to solve this problem in the most efficient manner.

CO-CHAIR MCGUIRE asked what the timelines of the governor's proposal are and what conversations had he been a part of.

MR. EVANS replied they meet weekly with the administration on this with the other CEOs, the AEA and the RCA. He hoped to get enabling legislation this year, and then it would take a year to develop a more detailed transition plan; it's like bringing different businesses together. He would hope to report on it at the next session.

CO-CHAIR MCGUIRE asked if he meant setting up the structure for the task force.

MR. EVANS answered no; more along the lines of a corporation that everyone could work together in.

CO-CHAIR MCGUIRE asked if the utilities would be incentivized to become members.

MR. EVANS said that is a good question. Chugach is there now, and he thought the incentive was to have a more affordable future.

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CO-CHAIR MCGUIRE asked what if individual utilities don't want to be members.

MR. EVANS replied that would be a problem. That utility might contract services in or buy power from the Regional Railbelt Energy Corporation. Industry has a lot of incentive to work together if you look at the structural problems.

SENATOR HUGGINS said these things are easier broken down in phases and asked if they had four or less phases, how that would help unification.

MR. EVANS answered that enabling legislation would develop a light framework around developing the concept. The first year would be spent studying an integrated resource plan to come up with an affordable future for everyone. Governance and financing matters would have to happen at the same time. The long term would be the vision of going to renewables or not. It would be a good thing to unify the transmission system that has different

owners, so if you're an IPP or renewable developer, you would only have to deal with one person.

SENATOR HUGGINS asked if he is looking at a prototypical model.

MR. EVANS replied that Alaska is really unique in a lot of different ways and sometimes it's inappropriate to take large scale systems and bring them up here. They are taking the best of what is out there to put something together that would work for Alaska.

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MR. EVANS said the problem is that we are moving from an era of abundance to limited supply. Security of supply and affordability are issues and they collide with each other; many organizations are involved and have different priorities. Prior activities have not produced a comprehensive resource management plan and management of the Cook Inlet is lacking.

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The graph of Cook Inlet gas production shows a steep cliff starting in 2006. The slide on page 16 showed the gas demand: LNG exports, gas utilities, electric utilities and military bases. To reduce the demand they are trying load interruptions - with other sources of energy, for instance - and conservation.

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They are suggesting that the Comprehensive Cook Inlet Resource Management Plan would meet and protect consumer needs, address fuel supplies security, increase transparency and information sharing amongst the consumers, the producers and the administration, provide input to a Railbelt Integrated Resource Plan, provide guidance for investment decisions, optimize resource management, and provide information for rational policy decisions. All of the studies have been done, but "no one has knit it together to make it work and we think we need to do that." He said they need someone to give them some direction.

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SENATOR FRENCH asked to whom he is assigning this task.

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MR. EVANS said he didn't like investing this issue in one agency because it crosses a lot of boundaries of divergent interest. They have room for two agencies, like DNR and DOR, to be in charge and then an advisory steering committee, made up of

consumers, stakeholders, RCA, the producers and the various utilities for them to report to.

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CO-CHAIR WIELECHOWSKI said he liked this idea and said it merits further discussion.

SENATOR HUGGINS said that Mr. Evans' point that bringing the players together is very important, and he agreed that the stakeholders should be brought in. The idea needs to be matured. He stated the previous administration pursued the concept of the state facilitating bringing one or more jack up rigs into Cook Inlet for exploration and he asked for Mr. Evans' thoughts on that and if he knew what happened to that initiative.

MR. EVANS replied it was an important initiative and he didn't know what happened. Cook Inlet resources are scarce and expensive and if they are going to be developed, maybe they need to look at issuing different leases and how the state partners with them, so consumers' expectations are realistic.

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SENATOR HUGGINS said his MEA "got skewered" because they were pursuing a course of action that potentially would have involved coal. He asked if that was part of a scenario for him in some phase.

MR. EVANS replied that Chugach spent quite a bit of effort looking at a coal model at Beluga and wanted to go down the gasification path if they were to choose coal versus conventional pulverized or fluidized bed. They would actually get CO2 as a byproduct out of coal gasification, and that can be used in the oil and gas industry to enhance recovery in the Cook Inlet, a ready market. But it has a lot of risk, which they couldn't take on by themselves. Coal is not very popular, there's a lot of risk in terms of cap and tax trading systems going forward and it was expensive. Also the coal technology wasn't mature enough to take the risk in Alaska because when you have project failure and you don't have backup, you have a bigger problem than you started out with. He thought coal gasification could be looked at again in another decade. In the meantime a lot of other resources can be developed.

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CO-CHAIR MCGUIRE announced an at ease at 4:18 p.m.

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CO-CHAIR MCGUIRE called the meeting back to order at 4:20 and announced that Ms. Starring would present an overview for Enstar.

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CO-CHAIR MCGUIRE announced an at ease at 4:20 p.m. She called the meeting back to order at 4:23 p.m.

Enstar Natural Gas Company

COLLEEN STARRING, President, Enstar Natural Gas Company, said the first graph was Enstar's 10-year supply outlook. On her power point the blue line indicated their Beluga contract tied to oil; the red line is the Marathon contract which is tied to oil; the small pink and yellow lines are the deals they have with both Conoco and Marathon selling gas at the weighted average cost of the system. The year 2011 showed a 10 bcf shortfall, and this continues to grow. Unocal has the option to step down their contract by 3 bcf each year going out and 2008 is the first year they did that.

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Slide 3 showed Enstar's in-state gas market and the entities that are receiving gas from Cook Inlet now are listed in yellow; the light green are the military bases.

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CO-CHAIR MCGUIRE announced an at ease at 4:24 p.m. and called the meeting back to order at 4:25 p.m.

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MS. STARRING said the teal circles were current or future markets that could be served through a bullet line.

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Slide 4 showed current demand using their 10-year forecast in the Interior and Southcentral. Enstar is projected to be about 42 bcf/yr., power generation is at 40 bcf/yr., LNG as it was being exported when the plant was at full capacity was at 78 bcf/yr. If the Agrium plant came back, that would be another 55 bcf/yr. and other Cook Inlet industrials was at 6 bcf for a total of 221 bcf/yr. and an average of 606 MMcf/day.

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Slide 5 indicated a Cook Inlet comparison of peak days for the years 99/07/09 at -19°/-10°/-11°F. Total Cook Inlet deliverability was estimated at 763/543/440 MMcf/day

respectively. Over a seven-year period, there was about a 30 percent per year decline in deliverability. This year they experienced a new peak day on the system on January 3, a holiday weekend when it was only -11°F, and Enstar transported 314 MMcf/day. The deliverability in Cook Inlet was only 440 MMcf/day. It's interesting that the LNG plant which diverts in times of need was down to 40 MMcf/reserve. "That's what was left in the Inlet and Enstar's concerns that as we look out and have a sustained cold period that we are not going to be able to meet the demand."

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To address some of these issues, Ms. Starring said, they had completed various projects in the last two years spending \$4.2 million. About five to six years ago the gas supply used to come from the west side, but now it comes from the east side and the system has had to be reconfigured, increase pressures, and add compression to be able to get the gas where they need it at the times they need it.

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MS. STARRING said in the coming years the Cook Inlet gathering system could be a bi-directional line. Enstar is looking at increasing compression on its 12 and 16 inch twin lines on the east side of the Inlet. They could look at some kind of subsidization of the tariff, LNG regasification and other storage.

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SENATOR FRENCH asked what "incentives to deliver gas on the west side" meant.

MS. STARRING replied that tariffs are associated with each of the pipelines and most of the gas now comes from the east side. Tariffs are involved when you ship back to the west and some kind of a reduction in the tariff could happen on the Beluga line.

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MS. STARRING answered Enstar has a requirement to develop storage, and they are looking at the existing LNG facility and infield storage, but they haven't been able to find a suitable reservoir. However, she said, infield storage would probably be a good partnership for all of the utilities to develop together.

SENATOR FRENCH said someone told him the answer to all our problems or at least one component of getting between now and

first gas is an LNG import facility. How much would that cost or could the valves be turned around?

MS. STARRING answered that slide 9 indicated they looked at regasification equipment, which would address that need. They do know that the LNG facility is critical to Southcentral for short-term, mid-term and long-term needs, but it has many issues around it - like FERC issues - and it could be used as a peak shaving facility or as an import facility. Also a ship could be brought in to supply peak needs as early as 2011, although she didn't know what the LNG would cost.

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SENATOR FRENCH asked what a peak shaving facility operation is.

MS. STARRING answered that Enstar looks at their gas supply in terms of base gas, seasonal gas, and peak gas. The peak needs are why Enstar's load is so hard to serve. There may be 11 days a year they need that peak amount of gas for that coldest time of year. Having a re-gas facility would let them pull the gas quickly to suit their needs in those cold periods.

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SENATOR HUGGINS reemphasized what Ms. Starring said, that you can't turn your back on the key the LNG facility holds to lots of scenarios. The capability flowing both ways of serving emergencies and expansion is "hugely important."

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MS. STARRING said one producer in the Inlet has proved up 8 bcf, but there is no pipeline. That would be about a \$20-million expenditure and they are considering it. That could help in the short term and allow them to do additional exploration, but it wouldn't be enough for the long term. World energy prices are an unknown and importing LNG into Alaska is a foreign idea, but that, too, should be explored. Enstar has been negotiating contracts for the last four years; it has brought four before the RCA and hasn't gained approval for any of them. A week ago she sent out an RFP to seven producers; Enstar asked for strict compliance with RCA Order 8 and are hopeful they will get a response so they can purchase gas they need in 2011.

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SENATOR HUGGINS asked what the price tag is in going through an RFP process.

MS. STARRING replied they have incurred \$2.3 million for the last two years in legal fees and other costs associated with the negotiation and the approval process of contracts.

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CO-CHAIR WIELECHOWSKI said the biggest problem he sees is huge spikes in price along with people on fixed incomes. Is it possible to lock in today's low prices for the next 20 years?

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MS. STARRING replied she doesn't own the resource. The price is negotiated with the producers and Henry Hub is at a record low. A significant portion of one of their contracts is tied to Henry Hub and it has been in the \$4-\$5 range. She was once involved with a company that had a "frozen program" that allowed them to negotiate a supply. At that time it was \$5 for five years and it wasn't easy to get. Over the lifetime of that contract, consumers in a small community saved over \$60 million.

SENATOR WIELECHOWSKI said he wanted to see efforts like that. The Japanese were paying half of what Cook Inlet consumers were at one time because they negotiated long-term contracts.

MS. STARRING said, "I understand that."

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She said Enstar has to continue making infrastructure investments to just insure the energy security of its current customers; however, they are a public utility and have a duty to serve their future customers as well. Enstar believes that a bullet line is the right solution, and now is the time to move forward with that. That is what they intend to do.

CO-CHAIR WIELECHOWSKI recalled that Anadarko said absolute earliest first gas is 2016. Enstar has testified that it needs it by 2015.

MS. STARRING responded that there is no disconnect with Anadarko who they talk to on a regular basis. Anadarko's first gas is possible at 2016/17 and Enstar's need is 2015. There are ways to bridge that one-year gap with storage or finding additional resources.

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CO-CHAIR MCGUIRE asked if Enstar supports Chugach's concept of having a comprehensive plan for Cook Inlet.

MS. STARRING replied that she supported the concept.

CHAIR MCGUIRE asked specifically what she thought about an integrated co-op.

MS. STARRING said she hadn't been part of the weekly meetings. Fundamentally, the business is a little different, so she would have to see the plan. She is open to listening to any of the ideas.

SENATOR HUGGINS asked what dynamic storage creates for Enstar.

MS. STARRING answered in the short term it has to be developed to meet peaking needs. Long term, if there is a big line, the optimum way to flow that line is the same amount every day; it's not going to want to ramp up and ramp down. Enstar thinks utilities should develop storage for themselves, because it would smooth out the costs for their customers. They could buy gas at non-peak times when prices were lower and store it for use at peak times.

Regulatory Commission of Alaska

[4:44:31 PM](#)

BOB PICKETT, Chairman, Regulatory Commission of Alaska (RCA), said the RCA is the state agency that protects Alaska's rate payers from unfair and unreasonable rates for public utility service. A very important component of the rate for public utility service is the price of gas in Southcentral Alaska. These prices are passed through to the consumers directly, so any increase or decrease in the price of natural gas has an immediate effect on business owners or families' economic wellbeing.

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We are going from an area of relative abundance and very inexpensive natural gas to a time where constraints on supply and deliverability are much more apparent, he said. Over the last five years in Cook Inlet rate payers have seen an unprecedented increase in the price of natural gas. The typical large commercial user in 2003 paid \$17,000 for natural gas supplies while for that same amount in 2009 he would pay \$44,000. In 2003, the price for Enstar was roughly \$2.55/mcf; this year they are looking at \$8.75/mcf, nearly double the Henry Hub price.

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What is RCA's roll with natural gas in Cook Inlet? The RCA regulates utilities under AS 42.05 and natural gas pipelines under AS 42.06 for instate service. It is involved in the natural gas arena in a couple of ways. They do not directly regulate the producers, but they evaluate gas sale agreements between utilities and the producers. The RCA's standard of review considers whether the utility acted in a prudent manner and whether the terms of the gas sale agreements insure reliable and reasonably-priced utility service.

MR. PICKETT explained in this responsibility, the RCA is guided by AS 42.05.431(a). Under this subsection, the RCA is required to determine whether a gas sale agreement's particular terms within such an agreement are unjust, unreasonable, unduly discriminatory or preferential. In making this determination, the utility filing a gas sale agreement with the RCA has the burden of proof. And the RCA basis its decision on the record developed in the proceeding. This determination must be viewed in the context of Cook Inlet, which is unique among natural gas markets in the United States.

The reserves-to-production ratio for Cook Inlet is approximately 10:1. This is in the same range as is typical for Lower 48 production areas. Cook Inlet is unique as it is the home of the only plant in the U.S. that liquefies natural gas and ships it out of the immediate area as LNG and it has been doing so for 40 years.

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MR. PICKETT said the RCA has determined that Cook Inlet is a natural gas production basin.

SENATOR FRENCH asked why that finding is significant.

MR. PICKETT answered the significance is in looking at the Cook Inlet basin, two of the 100 largest fields in the U.S., the Beluga River and the north Cook Inlet field, are present. Cook Inlet is not a consumption basin. Existing pricing mechanisms of a consumption basin will be significantly higher than those found in production basins. The difference between the two is the cost of gas. Generally a consumption basin is far from the source and incurs additional transportation rates to ship the gas, in the Lower 48 sometimes, many thousands of miles.

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SENATOR FRENCH said it seems in a production basin you would normally find prices lower than in a consumption basin.

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MR. PICKETT replied that is normally the case. He said the Commission has also found that the Cook Inlet market is unique in terms of the presence of market power. ConocoPhillips, Marathon and Union Oil of California, a division of Chevron Union, control the vast majority of natural gas that is supplied in Cook Inlet. Of these three, ConocoPhillips and Marathon are the two largest; they also own the Kenai LNG export facility. The Cook Inlet market is vertically integrated with the two largest producers being their own best customers through the medium of sales to the LNG export facility.

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This leads to the issue of pricing Cook Inlet gas because Cook Inlet is not an open and transparent natural gas market. No commonly accepted natural gas pricing mechanism exists in Cook Inlet and since the 2001 RCA "Henry Hub" order, a variety of pricing proxies have been considered by utilities, producers, the Attorney General, and the RCA. To date, none of these pricing proxies has resulted in an RCA-approved gas sale agreement that currently delivers gas to utility customers.

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MR. PICKETT offered some comments specifically related to the LNG plant and the findings of the Commission. They found in their review of the latest record, which resulted from three and a half weeks of hearings, that the Department of Energy's (DOE) decision to extend the producers' export authority negatively impacted Enstar's negotiating position with resulting terms of the contracts brought forth to the Commission.

He stressed that that it's important to look at Cook Inlet as an over-all system, incorporating both the regulated utilities and the unregulated producers, and just the impact it has on residences and businesses in the whole Inlet. The idea of a comprehensive resource management plan should be pursued.

The RCA recognizes the importance of the LNG export facility that has benefits to Alaska as a whole and that the export of LNG stimulates the exploration and development of new reserves. Having said that, he said, they believe that it is in the interests of local utility rate payers to require that the producers finalize the contracts with the local utilities before receiving authorization to explore for natural gas.

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SENATOR FRENCH asked what specific steps the legislature could take to make Cook Inlet an open and transparent natural gas market.

MR. PICKETT replied that is extremely difficult to answer; "The RCA doesn't have the ability to compel non-regulated producers to do anything." It is in the best interest of all the parties to realize they are at a "tipping point" for the Inlet. To continue the commercial and industrial side and meet the needs of the consumer it's very important that some reasonable proxy be developed or accepted, and RCA's Order U0858 is a good starting point.

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CO-CHAIR WIELECHOWSKI said he appreciated their decision in trying to protect the consumers of Alaska and keep gas prices at a reasonable rate. To that end, he asked the status of the litigation surround the RCA's denial of the requested rate increases for future years that also said they should be capped at other production basins throughout the country, particularly in Texas, Oklahoma and Alberta.

MR. PICKETT replied they are not involved in any litigation on that issue at this time. Enstar is using the weighted average cost of gas in Cook Inlet, which is allowed under their existing tariff and has been in place since 1981.

SENATOR WIELECHOWSKI asked if that was charging 21.9 percent instead of charging their requested 22 percent.

MR. PICKETT said he didn't know the exact differences, but that sounded approximately correct. The bottom line is in 2009 they were entitled to collect roughly \$8.75 Mcf.

SENATOR WIELECHOWSKI asked if the contracts been renegotiated to the satisfaction of the RCA for future years.

MR. PICKETT answered he understood that Enstar executed two contracts for a two-year period, and Ms. Starring said they have an RFP on the streets to look to the outlying years.

[4:57:38 PM](#)

DANIEL PATRICK O'TIERNEY, Chief Assistant Attorney General, Division of Regulatory Affairs and Public Advocacy, Department of Law (DOL), observed that from the perspective of the AG in his role as a public advocate that the Commission has articulated a standard which is the end result of Docket U0858;

it adopts a price proxy index that consists of a number of production basin price points in sort of a market basket that is averaged, and that mechanism is meant to serve as a cap on pricing in the Cook Inlet. Given that it is a very imperfect market and, therefore, that a price proxy index is necessary in the first instance is what the Commission came up with after a lot of consideration. "It is considerably consistent with the advocacy of the AG in this case and in prior cases, that advocacy being the market basket approach to a price proxy index is probably the best substitute for a free market driven price."

[5:00:22 PM](#)

MR. O'TIERNEY said the question now is what the producers and Enstar will be able to do with it. Meanwhile Chugach is trying to negotiate its own supply contract going forward.

[5:01:01 PM](#)

SENATOR WIELECHOWSKI asked what hammer the people of Alaska have to force the RCA to intervene in the Ninth Circuit case.

[5:01:37 PM](#)

MR. O'TIERNEY answered it's not clear that the AG in his capacity as the public advocate under existing statute is actually empowered to unilaterally take action in the Ninth Circuit context. The second point he can make is that state as que estate has intervened in that proceeding and he couldn't say more because his section, Division of Regulatory Affairs and Public Advocacy, is not prosecuting that case.

SENATOR WIELECHOWSKI asked if there is a contingency plan to require adherence to the RCA order.

MR. O'TIERNEY replied from the AG's perspective, the RCA order stands relative to docket U0858; it can only be applied when there is a contract in hand to apply it to. "So, first there has to be a contract on the table between Cook Inlet producer's supplier and a supply recipient." That could be Chugach or Enstar. Once those are presented for Commission review, there will be an opportunity for the AG as a public advocate to participate, as well as the state in its capacity as the que estate if one of the other state agencies sees fit.

[5:04:29 PM](#)

CO-CHAIR MCGUIRE asked if there has been any discussion of changing the way leases are offered in Cook Inlet.

MR. O'TIERNEY replied that he is not in a position to answer that question, but representatives from DNR are talking before the RCA today on current thinking about lease holds as it relates to storage and other things.

5:05:35 PM

CO-CHAIR MCGUIRE thanked everyone for their comments and adjourned the meeting at 5:05 p.m.