

**ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE**

February 20, 2009

3:36 p.m.

MEMBERS PRESENT

Senator Bill Wielechowski, Co-Chair
Senator Charlie Huggins, Vice Chair
Senator Hollis French
Senator Thomas Wagoner - via teleconference

MEMBERS ABSENT

Senator Lesil McGuire, Co-Chair
Senator Bert Stedman
Senator Gary Stevens

OTHER LEGISLATORS PRESENT

Senator Joe Thomas
Senator Gene Therriault

COMMITTEE CALENDAR

Overview: Securing a new supply of natural gas for Southcentral and Interior Alaska (bullet line and spur line)
Palin Administration, Joe Balash
Enstar Natural Gas Company, John Lau
Alaska Natural Gas Development Authority (ANGDA), Harold Heinze

PREVIOUS COMMITTEE ACTION

No previous action to consider

WITNESS REGISTER

JOE BALASH

Special assistant to the Governor

POSITION STATEMENT: Commented on Southcentral natural gas issues.

JOHN LAU

Enstar Natural Gas Company

POSITION STATEMENT: Commented on Southcentral natural gas issues.

HAROLD HEINZE

Alaska Natural Gas Development Authority (ANGDA)

POSITION STATEMENT: Commented on Southcentral natural gas issues.

ACTION NARRATIVE

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CO-CHAIR BILL WIELECHOWSKI called the Senate Resources Standing Committee meeting to order at 3:36 p.m. Present at the call to order were Senators Huggins, French, and Wielechowski.

Overview: Securing a new supply of natural gas for Southcentral and Interior Alaska (bullet line and spur line)

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JOE BALASH, special assistant to the Governor, said he works on energy and resource issues and would talk about instate pipelines.

He referenced a letter sent by the Deputy Commissioner of the Department of Natural Resources (DNR) to Representative Ramras dated April 1, 2008 about a pipeline from the North Slope to Cook Inlet. He summarized that the Palin administration's policy has been to pursue commercialization of Alaska North Slope (ANS) gas through the largest possible pipeline and to carry that gas to market while insuring that Alaskans have access to it.

The question as to the timing of a large diameter pipeline moving to market and how it relates to the needs for gas in parts of the state that haven't enjoyed access to gas, particularly in the Cook Inlet basin, brings into question the need to deliver a smaller volume of gas to the Southcentral region as well as other regions. He said the state would first look to the private sector to allow that to happen under current laws and if necessary, lend some support to that. However a number of questions would come into play if the state did lend support. The foremost is whether or not a public entity would construct, own and operate a pipeline or any other energy project or whether private entity would receive some form of assistance. Ultimately, the biggest question is if support is needed for one project, is that the best project or are there other choices to satisfy the energy demands of the state that may not necessarily be a pipe line. This goes to questions surrounding exploration and development costs, importation or alternatives for generating electricity.

MR. BALASH said at this point, there is interest from private sector parties, Enstar as a potential pipeline builder and Anadarko as a potential supplier, for a bullet line. The state has been in talks with them to find out what regulatory structures would be needed to facilitate a project like that.

Also he said the state has been pursuing collaboration on the part of the regional utilities in the Railbelt region for a couple of years and legislation will be introduced soon to enable that collaboration. As part of this effort, the state has begun the process of putting a contractor into place through the Alaska Energy Authority (AEA) that will conduct a regional integrated resource plan. It will take all the various potential energy supply components and find which ones are going to best serve the needs of the region. Initial drafts of the plan would be available in the third quarter of this year and that work would then be turned over to this regional electric company to pick up and move on with the decisions that need to be made.

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SENATOR FRENCH asked for the name of the plan.

MR. BALASH replied the title of the organization they are hoping to enable this year is the "Greater Railbelt Electric Transmission Corporation" and the second is a "Regional Integrated Resource Plan."

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SENATOR FRENCH asked if the organizations would be "lashed together" or independent.

MR. BALASH answered the Regional Integrated Resource Plan will have a contractor who is selected and paid by AEA; that work will be completed. The question then is who will pick up the ball and do something with it. If the enabling legislation to establish the Regional Electric Corporation is secured, then it would pick up that work product and begin the process of making the necessary arrangements and securing progress on a given or multiple project fronts.

SENATOR FRENCH said he thought this was a good idea, but questioned the extent of a regional company's ability to build a bullet line or a hydro project or drill for new gas reserves in Cook Inlet. "Trying to force the producers to drill for gas in Cook Inlet, I think, is impossible," he said.

MR. BALASH said he suspected you could get a whole lot of producers to drill in Cook Inlet by offering them \$20/mcf guaranteed for 20 years to drill there. The question is how to figure out what the right price is and if the market can be structured to make that happen.

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The price is an important consideration in the Plan. You have to come up with the capital to build the project and then ask how much the energy will cost delivered and the Plan would outline that vision.

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SENATOR HUGGINS asked Mr. Balash to share that vision with them and to "fill in the blank" around the contractor piece. And second, he wanted the thoughts of some of the key players from the Railbelt on this matter.

MR. BALASH said he didn't have any of the documents related to the solicitation for the contractors on the Integrated Resource Plan, but he would get and deliver them to his office.

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He said the solicitation has been developed in building off of the work that was done by the Railbelt Electrical Grid Authority Study Group (REGA) that was funded by an appropriation out of the Railbelt Energy Fund in 2006. The study was conducted by the AEA; their lead contractor was Black and Vetch. A very large advisory group was assembled consisting of each of the utility cooperatives, the municipal utilities and many of the other stakeholders that rely on electricity in the Railbelt region. They looked at the options for moving forward and planning the next generation of electricity generation and transmission on the Railbelt where much of the existing generation infrastructure needs to be replaced. At the end of the day, the mission is to provide reliable power at the lowest possible price to all consumers on the Railbelt grid.

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SENATOR HUGGINS said he still hadn't put this concept in a timeline for "first energy" or indicated where the milestones are and he wanted to know if the contractor had used the REGA study elements as a point of departure or were they collating and integrating it into a plan.

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MR. BALASH replied that the nature of the discussion since the completion of the REGA report has centered on how to transition and he stated:

There is no easy way to snap your fingers and bring the assets of each utility into some separate entity, particularly when you have municipal entities involved and particular covenants on the debt instruments that they have used to acquire facilities in the past. Some of the efforts that Chugach and ML&P have undertaken to consider a merger - they have discovered quite a lot of intricacy and difficulty that that would require. So what we have been working with, a working assumption as it were, is that the unified corporation would be enabled this year and then pursue the necessary transition agreements and commitments in a shorter period of time. But the actual transition to participating in the corporation and being availed of the benefits of the corporation would not necessarily be completed for as long as 10 years. In some cases there are assets that need to live out their useful life; and so there needs to be enough time for that to occur before the complete transition would take place.

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SENATOR HUGGINS said the other part is what the contractor would do with the REGA study product in shaping it for the Integrated Resource Plan.

MR. BALASH replied that the final REGA report identified the various options: maintaining the status quo where six separate entities continue to transmit and distribute power; and then looked at various ways to consolidate and otherwise aggregate the loads and delivery of service. It didn't come out with "you should do X." It came out with "here are the benefits of doing W,Y and Z." From that, the AEA has been conducting meetings with the general managers of the six utilities and chairs of the boards of directors of the utilities to develop a "white paper" and getting as much consensus as possible. From there, going to a drafting stage; from drafting, meeting with the utilities on a very regular basis and discussing what it needs now and what it needs later.

At this point in the discussion, he said, they need to enable the formation of a corporation that would consist of a board of directors that is representative of each of the utilities that is participating. That corporation would hire the staff

necessary to start doing the transition agreements for each of the individual electric utilities, and identify which assets can be transferred most quickly and which ones need time to just live out their useful life. He stated:

That process would take place if we're able to convince the legislature that that legislation is worthy. If that were to pass this session, the ideal would be that those transition agreements would start to be negotiated out - worked out - and available to understand in time for the next legislative session.

Other issues that need to be specified to the degree they can be are the ones surrounding financing, in particular. This history of state corporations in Alaska is that some are pure start ups that go out and enter into a business arrangement all on their own and there are some like AHFC that were capitalized on the front end. And exactly how this organization will start out is going to be dependent in large part on the commitment and willingness of each of the respective utilities to get with the program.

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The policy, as it were, from Governor Palin has been that it's not appropriate to spend additional state dollars on the utilities for their benefit until they start working together. We all know we're all better off working together as opposed to at ends, and that if we want to achieve the efficiencies of scale that are available to all of the rate payers on the grid, that that kind of collaboration and joint planning and paying needs to take place.

CO-CHAIR WIELECHOWSKI said when he and Senator McGuire set this meeting up, the idea was taken from a lot of other legislators - that Southcentral is running out of gas. Everyone has competing ideas about how to solve the problem - a bullet line, a spur line off the large diameter line, import gas from Asia, or drill in Nenana Basin or Cook Inlet for new gas. They wanted a public discussion to find out where the administration stands on these things. He asked Mr. Balash to talk a little bit about what the best course is. How do they get the lowest cost, most abundant supply gas to Cook Inlet consumers and the Interior?

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MR. BALASH answered that there is a role for government to play, but the administration's view is that the private sector can best make those choices. One of the impediments to development of additional gas resources in the Cook Inlet Basin is the ability to place that gas into a market. In Southcentral, the primary markets have been the various utilities, and they have enjoyed very long contracts that provided most of their service for a very long period of time - at presubscribed and prescribed rates. Only in the last decade have people seen the need to start finding additional supplies to supplement those contracts that are beginning to run out.

One of the first issues the administration faced in 2007 was the question of whether or not to support the extension application of ConocoPhillips and Marathon for their LNG export facility. Initially the administration wanted to impose a number of conditions that surrounded the supply of gas to Alaska's domestic markets on that license. One of the things they ultimately resolved with the owners of that facility was to make a portion of its capacity available to third parties who have gas, the idea being that in order to first encourage people to find gas, they need to be able to count on a place to sell it.

The terms of the settlement with ConocoPhillips and Marathon on that point made a segment of their capacity at the plant available in the two-year extension. If they were going to apply for another extension, it would be for a five-year extension and in that five-year extension even more of the plant would become available to third-party access. The idea was that looking further out, you create more opportunity in the market place for someone to place gas if they were to go out and find it.

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SENATOR FRENCH asked if access to the LNG plant for those who drill was added to the export license or would it get added next time.

MR. BALASH answered that it is a provision in the settlement agreement between the state and the owners of the facility. It's not in the export license, itself. It's in effect now, and it will grow if they apply for another extension.

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SENATOR FRENCH said some folks have said it won't be long before we have to import LNG. He asked if imports would be subject to a different set of jurisdictional authorities than exports.

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MR. BALASH replied that his understanding is when it comes to an export facility you need permission from the Department of Energy. If it's an import facility it needs permission from the Federal Energy Regulatory Commission (FERC).

SENATOR FRENCH asked if the facility could export gas in the summer and import it in the winter.

MR. BALASH replied that it's hard to say.

SENATOR HUGGINS asked on a scale of one to ten, what is the likelihood of Cook Inlet gas going to Fairbanks in the next five years.

MR. BALASH qualified his answer for existing proven reserves to be a one. If, however, in the next two to three years someone "breaks their bid off" on 3 tcf/gas, then there's a greater chance that Cook Inlet gas would go to Fairbanks.

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SENATOR HUGGINS said all but one person he has talked to in all the forums he has been to in that area have said it was feasible. He reminded them that last year the legislature passed a resolution saying that instate gas is a priority. Then he recalled, subsequent to that, there was a news conference that talked about a public/private entity. Up until that time, they heard from Enstar that it was going to build a pipeline from the north down to Southcentral for \$3.3 billion. The news conference said that potentially the prevailing course was taking gas to the north as a spur off of the big pipeline. He asked if that was accurate so far.

MR. BALASH responded that he missed a step. At the end of the session, the governor's office submitted a budget amendment request for \$10 million to go to the Office of Management and Budget (OMB) for the purpose of "RSAing" to the respective agencies that could do the work necessary to understand the best way to deliver gas instate. A particular scope of work was associated with that and the question was, should the folks at DNR, the folks at AEA or should the folks at ANGDA do that. The administration wanted the flexibility to be able to direct that money as he identified who had the capacity to do the work the soonest.

At the end of the day, the result was that \$4 million went directly to ANGDA. The administration did not receive any

additional dollars to conduct any sort of work along those lines beyond what was appropriated for existing agencies and their existing responsibilities. After the \$4 million went to ANGDA in April, discussions were had between Enstar and ANGDA and the administration thought there was an agreement in principal to get everybody working together towards the same ends. But progress has not been what they had hoped.

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SENATOR HUGGINS said he thought there was one other step. When they were back here in the summer time, there was a \$25 million line item that was being pushed by the administration for ANGDA.

MR. BALASH replied that request was submitted on December 15 for \$5 million; he wasn't sure what happened this last week.

SENATOR HUGGINS said the amount varies depending on what document you look at.

MR. BALASH agreed and explained that the \$25 million to ANGDA was a request that had been developed in the course of seeking AGIA license approval in the special sessions. One of the fundamental questions about AGIA was how Alaskans would get access to the gas, he explained. They knew the big pipe would make access available at the off-take points required under the terms of the license, but the question was how that gas would get to the markets in-state. He explained further:

At the time, the expectation was that for lack of a private sector party stepping up and saying they would do it, that we needed to enable ANGDA to take the steps necessary to go out and do the permitting and early design work until such time that there would be a private sector party to take over. And so that's why the \$25 million at that time was requested. And as the session completed, there was not any additional dollars appropriated to ANGDA in the special session.

As we approached the coming legislative session in putting together the FY10 budget, we really had to scrub numbers down as best we could, and the decision was to come in with a smaller bite on ANGDA to make sure that they could still continue to make progress, but recognizing that we couldn't necessarily get the full bite given the state of the price of oil at that time, which deteriorated further over time.

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SENATOR HUGGINS responded:

And we're really getting to what I hope we can improve upon because I think it's important for the state - is you're describing some things which are important, but it's new news to me. And I mean I just challenge myself, you and the other members and anybody else that's listening that has a party to this that we start working together to emerge in these. And the same thing with developing the process, so that when you give us legislation we can hit the ground running and not read the legislation for the first time as the concept. That is hugely important.

I'll say it one more time - that we need to work together in the development, at least as information flow, so that when we receive something we are prepared to begin the execution phase of it, not just the education phase of it.

Now, but let me get back on point for my final question on this - is okay - so there was a news conference in April or correction, in July, not what ANGDA has done and not what Enstar has done, what has the administration done on in-state gas since that news conference?

MR. BALASH replied:

The administration has continued to work with the parties in understanding their plans, how they fit together, how they don't. And in the fall, particularly, there was quite a bit of activity relating to the treatment of unit agreements in Cook Inlet in particular leases - and trying to see if there was something that could be done to get people in that part of the state, and in a particular area over on the west side of the Inlet there, to work together collectively to make sure that a jack up rig would actually make it to the Cook Inlet.

It's been a while since a jack up rig has been available there. I don't remember off the top of my head exactly what the timeline is, but with regards to exploration in the Inlet there are some prospects that could be drilled if a jack up rig were available. And

there would probably be enough work to keep it busy for a couple of years. The question is who is going to pay to mobilize it and bring it up, and then guarantee that it will be returned to whence it came. And the idea that ultimately came out of some of the disputes in the Inlet were to try and get various unit holders and unit operators to work together so that they could coordinate their activities and assets to make that happen.

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SENATOR HUGGINS said:

It appears to me that the trend in Cook Inlet is just the opposite - that when you look at Cosmopolitan as an example and others, and you listen to the people that are the 'producers' there that they're reducing their expenditures and they're saying we're not going to do things because of the economics. But I may be wrong, but help me out if I am.

MR. BALASH said he isn't wrong, but the question about activities and expenditures in Cook Inlet depends on what resource you're talking about. If you're talking about oil, yes reductions are occurring; people are putting off work if not cancelling it. Gas has some efforts under way.

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SENATOR THOMAS said he gets a lot of questions in Fairbanks from people along the same lines; they read the paper and some actually watch "Gavel to Gavel" so they see testimony by various folks. They watched the state geologists last week saying that in 10 or 11 years the Cook Inlet supply of gas will be depleted regardless of what the reserves are. So it seems that getting the plan evaluated would be a good idea. It's important to get that rig in there and take the six most probable locations to at least evaluate. Who's going to pay for it is something different. If the gas industry thought it was likely that they were going to find a lot of gas down there, they would probably be doing it and trying to talk the administration into supporting a greater export license, because that's where the market has been.

Also, people are concerned that the pipeline won't get built. Senator Murkowski's remarks yesterday also caused people to become even more concerned that the potential for coal bed methane throughout the U.S. surrounding the area that supposedly

this gas goes into is getting is getting greater all the time. The question he gets mostly is, "What are you guys going to do...are we going sit around and wait another two years till the open season?" He asked what the legislature and the administration is doing to move forward on supplying a source of gas which is supposed to be the short term fix.

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MR. BALASH responded that with regard to existing resources in the Cook Inlet, the RCA kicked off a series of conversations in January regarding gas supply planning for the various pieces of infrastructure. However, he emphasized that reserves and deliverability are very different issues and it's important to understand the differences. Reserves might not be able to deliver out to the peaks needed on particular cold days even though they may last for many years. Regulators are doing what they can to get all of the participants in the system to talk with each other, but getting a reliable supply of resource to tie into the Southcentral system is a "tricky question," Mr. Balash said.

Let's imagine that a bullet line would tie into the Southcentral system, and it's going to do so on December 31, 2014. If it's going to deliver 500 mscf/day on that day, that's going to be a shock to the system. There's not going to be a light switch that gets flicked, and you're not just going to shut down everything in Cook Inlet on that day either.

So, how all of that takes place is something that is no easy feat, and is one that, in large measure, will be worked out through and with the various commercial parties involved - the utilities that consume the gas, those who might export and those who will deliver. And all of those things can be accommodated in reasonably commercial ways when we get nearer to that point, but that is an issue that has to be taken into consideration as the various parties needed to make commitments to actually make a project happen sort through those issues.

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SENATOR HUGGINS said he hit on an important point when he said "it gets closer for the commercial customers," but it made him nervous. One of the best things the state could be doing now is enhancing the commercial customer base, and he emphasized, "We

can't wait." He asked Mr. Balash to explain what he meant by "closer to it" in getting to first gas.

MR. BALASH replied, if December 31, 2014 is when you want first gas to be coming from a North Slope pipeline into Southcentral, the question is how long it will take to construct the pipe. The people he has talked with suggest that it's going to take three seasons; that would indicate the year 2011 for what would be a "sanctioned decision where people sign on the dotted line and everything gets going." Then the question becomes who needs to be involved in those discussions and who are the parties going to be. "Who will deliver the gas? Who will construct the pipe? Who is going to supply the gas? And who is going to buy the gas? Those are all elements necessary to make a project real."

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SENATOR HUGGINS remarked, "Precisely;" and he said his thought is very simple:

The state should be facilitating the commercial base that puts the demand that shines a bright light on the economics that whoever is going to build the pipeline, whoever is going to have the gas source has some confidence that in fact it works - so we can push. And until we do that, and start creating some certainty it's always going to be uncertain. It's the same reason we never built a gas pipeline.

We continue to have these meetings, but we never build one because we're going to do it later. Everything is going to be later. I can tell you, the people in Fairbanks - what I heard from them - and tell me what did the task force had to say - I'll digress for a moment. What did the task force find about gasifying Fairbanks?

MR. BALASH recalled the task force that FedCo put together called for support for an in-state bullet line type of project.

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SENATOR HUGGINS asked what the task force thought about the line coming from south to north.

MR. BALASH answered he read an earlier draft of the report briefly, but the conclusion was that it was unlikely that gas from Cook Inlet would be moving north.

SENATOR HUGGINS asked when the study indicated Fairbanks would get gas.

MR. BALASH said he couldn't remember what the report said precisely on that point. He remembered they identified the FNG project as a potential solution to a lot of the issues that face the Interior. In terms of a project that has a known supply, of all the ones they have talked about today, his understanding is that they are the only ones who do have a supply contract in hand.

SENATOR HUGGINS said one of the things in Mr. Balash's memo is the 500 mmcf/day limit on instate gas. It's his thought they grossly violate that number because every statistic he has heard, particularly for commercial use, will lower the tariff and make the gas more economical for his neighbors. What was his perspective on that.

MR. BALASH responded that the 500 mmcf/day issue is imbedded within AGIA to make sure the state is perfectly free to do what it wants to deliver natural gas to residents of the state. The 500 mmcf/day exception in AGIA relates to a competing project meaning one that is designed to deliver more than 500 mmcf/day to market, and the state would be in violation of its agreement with TransCanada Alaska if it extends preferential royalty or tax treatment or grant of state money to another person. "So, if the private sector wants to put together a project that is going to deliver more than 500 mmcf/day and there is no preferential tax or royalty treatment or grant of state money involved, no problem."

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SENATOR HUGGINS said it appears to him that they have now moved through the private piece and the center piece of the news conference said the marketing issue is a "public/private partnership." He asked Mr. Balash, "Didn't you go down to Chicago or someplace with Enstar and talk to them?"

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MR. BALASH replied that he went down in January with Deputy Commissioner Rutherford and met with Enstar's executive leadership and their holding company.

SENATOR HUGGINS said he assumed elements of that were talk about a "public/private partnership."

MR. BALASH responded the questions they discussed there are what Enstar saw as the barriers to them pursuing a project, and in the course of the conversation they described some things that they thought, after conferring with their lawyers, needed to be changed in state law. Enstar was under the impression it needed a specific change in statute to allow for a conditional right-of-way from the DNR. But they didn't need to do that. For instance, Mr. Heinze obtained a conditional right-of-way across the Glenn Highway for the ANGDA project.

Enstar described other things that they saw in state law that did not necessarily allow a project that they would like to pursue happen. The issues are ones that appear in the Right-of-way Leasing Act, the Pipeline Act and the Utility Act.

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SENATOR HUGGINS said he heard in a news conference that part of the concept potentially is using an entity that would have a bonding authority with tax benefits - potentially an arm of state government. Does that fall under the provisions of state participation? Would that put the state in violation of the AGIA provision?

MR. BALASH responded: "The question is whether or not the state provides preferential tax or royalty treatment or grant of state funds. That's what the statute says."

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SENATOR HUGGINS agreed and went on, if ANGDA did the financing for the pipeline and other aspects of it, would Enstar or a surrogate build the pipeline, and would that be in violation?

MR. BALASH said he was sure some lawyer somewhere would disagree with whatever answer he provided, so he didn't want to answer.

SENATOR HUGGINS said, "What's your answer, though. You're the advisor."

MR. BALASH said he wouldn't give him an answer to a hypothetical question.

SENATOR HUGGINS said the legislature needs to know if that is a violation.

MR. BALASH responded, "The question I would ask is what would be the purpose of answering a hypothetical question at this point when there's not a question in front of the legislature to grant

bonding authorization to an entity to go build a pipeline that may be more than 500 mmcf/day that may be a competing project under the terms of AGIA?"

SENATOR HUGGINS asked him to assume that all of those are true.

MR. BALASH said he was not prepared to make that assumption today.

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JOHN LAU, Enstar Natural Gas Company, said he liked Mr. Balash's explanation of the difference between deliverability of gas and gas reserves. He thought the lines would intersect in 2013/14. He commented that even though you may produce as much as you can, you do not have total annual capacity to fit the needs. At that point, imports will be needed along with already-installed storage. These concepts marry well with a pipeline project because Cook Inlet needs as much storage as is economically feasible. As to the ramp up issue, it's important to understand that when the pipeline is "turned on" it runs at as a high a capacity as it can right away.

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SENATOR THOMAS said that several demand studies for the state had been done; the most recent comprehensive one was done when Agrium was still operating. The study considered doubling Agrium's consumption over a period of time, it didn't consider any more exports. It considered every utility that has a coal generating facility would be converted to gas, and that there would be gas into areas, but there was no real consideration of how it would get there - it was used as an expansion. It also included discussion about computer-server warehouses as a new industry and a variety of other uses - and at that point, 500 mmcf/day would be the state's need - in 2020. He asked what the administration foresees as the need and how that would impact the economics of Enstar's gasline should the Gubik gas become available in 2016.

MR. LAU said that was an old study, and that Enstar, ML&P and Chugach Electric are amending their 10-year gas deliverability plan. He said there has to be a change within one year because their current contracts will no longer be in place in two years. Deliverability can be hobbled together for a few more years and then they will get to the point of no longer being able to provide peak deliverability in the winter on the coldest day.

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HAROLD HEINZE, Alaska Natural Gas Development Authority (ANGDA), said Mr. Balash had very completely, fairly and accurately summarized the events that are on the table.

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SENATOR WAGONER wanted Mr. Balash to talk about the RCA's denial of two contracts for gas supply that have been negotiated over the last three year period and the negative impacts those are having on gas exploration throughout Cook Inlet.

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MR. HEINZE said when he talks about instate gas, he is talking about citizen consumers; they are the ones who pay and are at risk. Their consideration when they are the dominant players of public private partnership is probably entirely appropriate. When it's dominated by industrial customers, they make less sense. Scott Baliss is currently doing a study that looks at the very basic ideas of public/private partnership as they apply to an instate gas pipeline and he will share those with them.

He also reminded them that the Denali and AGIA open seasons are scheduled for the summer of 2010. Background information says that the FERC process that both will operate under if the state doesn't participate in the form of its utilities seeking long-term commitments to ship gas, we are at a tremendous disadvantage beyond that initial open season. So, one of ANGDA's main focuses has been on that and that is their highest priority.

Finally, he visualized three or four months from now that somebody in the Nenana Basin, Cook Inlet, Gubik, or somewhere would find gas. "All we need is one success in any one of those places and the dynamics of all this change instantly." A lot of stuff is in play over the next two years; the state needs to keep its options open and he looks forward to the continued guidance from the administration on how to advance on as many fronts as they can.

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CO-CHAIR WIELECHOWSKI said he personally agreed with the RCA's decision and asked Mr. Balash if he wanted to comment on Senator Wagoner's question.

MR. BALASH said he wanted to comment on something Mr. Heinze just mentioned in terms of the need for the utilities in question to make commitments at the initial open season on the big pipeline projects. He couldn't speak for Denali, but for the

AGIA licensed project, one of the commitments made by the licensee was to solicit demand every two years and to provide service along the pipeline to instate destinations. If our utilities aren't prepared to make a very large financial commitment on the close of the open season in July 2010, there will be another opportunity just two years later.

4:58:16 PM

With regard to the RCA ruling, he observed as a person who had once worked with the legislature, that the last contracts that were approved were in 2002. In the preceding events and actions that have taken place, the term of the contract, the price offered by the producers in question and the range of service offered by the producers in question have all in some ways deteriorated. The term has gotten shorter; the price has gotten higher and the service has gone from all requirements and full service to peak and load pricing.

That's not to say these things are bad or shouldn't be taking place, he said, but one of the things he has heard is a point of frustration for the members of the Commission is that they can only make a decision based on the record in front of them. Perhaps the administration can do more with regard to completing that record with options and other considerations that might be useful as they weigh the given components of a given contract.

5:00:58 PM

SENATOR WAGONER said the main point of his question was to bring out the fact that although people are trying to explore for gas, if they can't find a market to sell it into, they will take their money and go elsewhere. Therefore, if they can't find a solution to the RCA problem and gas producing problem, they won't have anybody who wants to drill in Cook Inlet. "Actually, they want to drill for oil and maybe find gas."

5:01:54 PM

CO-CHAIR WIELECHOWSKI thanked everyone for their comments and adjourned the meeting at 5:01.