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STATE COMMITTEE REPORT

DATE: 5/1/92

FURTHER:

DATE TURNED INTO OFFICE: May 6, 1992

Resources Committee considered CS FOR HOUSE BILL NO. 557 (RESOURCES)

"An Act exempting production facilities and terminal facilities that are used solely for production, compression, transportation, or storage of natural gas from regulation for purposes of preparation of discharge prevention and contingency plans and compliance with financial responsibility requirements, and defining 'natural gas.'"

and recommends:

- replace with \_\_\_\_\_ CS \_\_\_\_\_ (\_\_\_\_\_)
- or  adopt previous \_\_\_\_\_ CS \_\_\_\_\_ (\_\_\_\_\_)
- attaches amendment(s)

- same title
- new title
- technical title change (HB only)

adopts \_\_\_\_\_ Letter of Intent

further referral to the \_\_\_\_\_

do pass

do not pass

no recommendation

individual recommendations

NEW FISCAL NOTES: Dept/Date

zero fiscal notes \_\_\_\_\_

fiscal notes \_\_\_\_\_

appropriation--no fiscal note

PREVIOUS FISCAL NOTES: Dept/Date

zero fiscal notes \_\_\_\_\_

fiscal notes \_\_\_\_\_

DO PASS:

*Jim Galt*  
*[Signature]*

OTHER RECOMMENDATIONS:

*Committee - Memorandum No AA*  
*Paul G. Shuff* No Rec

*[Signature]*  
Chair: Signature and Recommendation



# Alaska State Legislature

## HOUSE OF REPRESENTATIVES

### REPRESENTATIVE GAIL PHILLIPS

Official Business  
PHONE: (907) 465-2689  
FAX: (907) 465-3472

STATE CAPITOL  
JUNEAU, ALASKA  
99801-1182

TO: Members of the Senate Resources Committee

FROM: Representative Gail Phillips *Gail Phillips*

DATE: May 4, 1992

RE: AS 46.04 -- CS HB 557 (Resources)

I am pleased today to present this House Oil and Gas Committee bill which clarifies our statutory and regulatory controls on oil and natural gas.

Prior to this proposal, the protective measures in Title 46 also encompassed natural gas, liquified natural gas, and related gases. This is simply inappropriate for the intended purpose of Title 46, which is to ensure the prevention or cleanup of spills of oil and "other hazardous substances".

Most of us are aware of the basic chemical differences between oil and gas; and, having closely observed the effects of the two most recent oil spills in our state, we are all too aware of the nature of oil for purposes of clean up.

Had these spills been spills of gas in equivalent volumes, our state, our people, and our natural resources would not have undergone the catastrophe we experienced in 1989. This is because gas dissipates into the atmosphere, leaving no residue, no sheen, no by-product to harm the environment.

I feel we have an obligation to impose statutory controls that recognize these differences and present an even-handed approach to environmental protection.

That is not to say that we are proposing to ignore regulatory controls on all gas operations. This legislation would lift the financial accountability and contingency plan requirements only for gas production and terminal facilities, which already undergo stringent separate reviews by DOT,

OSHA, and EPA. But it leaves in place those requirements for exploration facilities, where either oil or gas may be discovered, or in any facility where both oil and gas are produced.

I urge you to support the passage of this legislation, and I would invite Members of the House to visit the facilities on the Kenai Peninsula such as the Phillips Petroleum LNG plant at Nikiski to get a first-hand look at a natural gas production facility.

Thank you for your consideration of this bill.

# DIVISION OF LEGAL SERVICES

## LEGISLATIVE AFFAIRS AGENCY STATE OF ALASKA

(907) 465-3667 or 465-2450  
FAX (907) 465-2029  
Mail Stop 3101

240 Main Street, Suite 500  
Juneau, Alaska 99801-2101

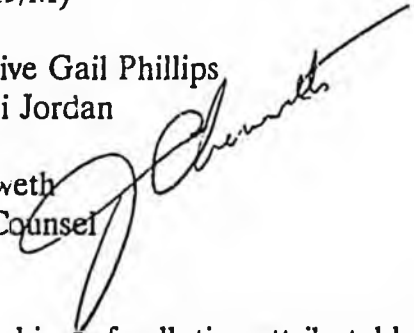
### MEMORANDUM

February 21, 1992

**SUBJECT:** Treatment, for purposes of regulation and conservation, of natural gas and liquefied natural gas and of facilities related to their production -- sectional analysis of draft bill (Work Order No. 7-LS1919/M)

**TO:** Representative Gail Phillips  
ATTN: Judi Jordan

**FROM:** Jack Chenoweth  
Legislative Counsel



AS 46.04 generally addresses the subject of pollution attributable to oil and hazardous substances. In that chapter, under current law, liquefied natural gas--natural gas that is converted to liquid form by pressure and cooling--and the related gaseous hydrocarbons of "butane" and "propane"<sup>1/</sup> have been included within the definition of "oil" under AS 46.04.900:

(9) "oil" means oil of any kind and in any form, whether crude, refined, or a petroleum by-product, including but not limited to petroleum, fuel oil, gasoline, lubricating oils, oily sludge, oil refuse, oil mixed with other wastes, crude oils, liquefied natural gas, propane, butane, or other liquid hydrocarbons regardless of specific gravity;

Hence, these substances have been subject to regulation in the same manner as oil. Because of their inclusion in the definition of the term "oil," facilities for the production of natural gas are generally subject to the same requirements as are applicable to those producing crude oil.

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<sup>1/</sup> The terms "butane" and "propane" appear in the definition of "oil," AS 46.04.900(9), and nowhere else in that chapter. Standard reference works identify these two substances as hydrocarbons associated with oil that, under normal conditions of temperature and pressure, appear in gaseous form but are readily converted to and handled in liquid state. In that sense, then, they are not unlike liquefied natural gas and are treated like it in this measure.

This measure changes the status of natural gas and liquefied natural gas by deleting them from the definition of "oil" in order to alter in part the regulatory treatment applicable under AS 46.04 of natural gas production facilities.

\*

The deletion of the reference to "liquefied natural gas," "propane," and "butane" from the definition of "oil" in AS 46.04.900 is made by bill section 3. Since the remaining portion of the definition includes some potentially ambiguous references under which natural gas might continue to be regulated, as a drafting matter I opted to set out in the definition of the term "oil" a new subparagraph, subparagraph (B), to make sure that natural gas and liquefied natural gas would be wholly excluded from the regulation.

\*

The remaining bill sections, with one exception, consider the status of facilities.

Under AS 46.04.050, certain key sections of AS 46.04 are explicitly made inapplicable to certain facilities. Under current law, small oil terminal facilities only are exempt from the provisions of AS 46.04.030 (requirement of preparation of oil discharge prevention contingency plans), AS 46.04.040 (demonstration of proof of financial responsibility for operation of oil terminal facilities, exploration and production facilities, pipelines, and tank vessels), and AS 46.04.060 (state's right to inspect these facilities at reasonable times and without facility owner's prior consent).<sup>2/</sup> The addition of a new paragraph made in bill section 1 adds natural gas production facilities to the exemptions and provides a definition for that term.<sup>3/</sup>

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<sup>2/</sup> The exemption provided for small oil terminal facilities is expressed in terms of barrels of crude or refined product. There is no equivalent threshold for hydrocarbon products extracted as natural gas and converted to liquid form. It is not clear to me that defining the exemption in this manner (that is, in terms of "barrels," extends the exemption to a small facility that transfers, processes, or stores natural gas product in liquid form.

<sup>3/</sup> Inclusion of natural gas production facilities within the inspection exemption of AS 46.04.060 does not necessarily mean that inspections of these facilities by personnel of the Department of Environmental Conservation will cease. Under AS 46.03.020(6):

Sec. 46.03.020. POWERS OF THE DEPARTMENT. The department may

...  
(6) at reasonable times enter and inspect with the consent of the owner or occupier any property or premises to investigate either actual or suspected sources of pollution or contamination or to ascertain

(continued...)

These changes in the definition of the term "production facility" as it relates to gas have significant legal consequences involving natural gas production facilities. First, natural gas production facilities are exempted from the spill prevention and contingency requirements imposed by AS 46.04.030(b) and 46.04.030(k)(2). Second, natural gas production facilities are exempted from the proof of financial responsibility provisions of AS 46.04.040(b), currently set at \$20,000,000. Finally, natural gas production facilities are exempted from inspection under AS 46.04.060.

AS 46.04 differentiates between various kinds of facilities. In bill section 2, in order to make sure that the exemption provided by bill section 1 is not applicable to natural gas exploration facilities, the definition of the term "exploration facility" is amended to incorporate an explicit reference to natural gas.

Bill section 4 amends the definition of the term "production facility," to facilities that are used for "crude oil and associated liquid hydrocarbons," hereby omitting from the definition of production facility those that treat with hydrocarbons in gaseous form.

Bill section 5 supplies a definition for the term "natural gas."

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3/ (...continued)

compliance or noncompliance with a regulation that may be adopted under AS 46.03.020 - 46.03.040; information relating to secret processes or methods of manufacture discovered during investigation is confidential;

There are also "inspection" references in AS 46.04.020(c)(3) and 46.08.040(a)(2)(C), though these are arguably of no substantive significance in the context of this measure and may be ignored.

At best the treatment given the subject of inspection exemption by this version of the bill creates an ambiguity. To assure a total exemption from inspection, additional language should be added on page 1, line 8, after "facility;" to say:

"a natural gas facility is also exempt from inspection under AS 46.03.020;"

## LIQUEFIED NATURAL GAS

Liquefied natural gas ("LNG") is manufactured from natural gas at the Kenai LNG Plant, which is jointly owned by Phillips Alaska Natural Gas Company and Marathon Oil Company.

The LNG manufacturing process begins with additional purification over that required for pipeline transport and sale of natural gas in its gaseous state. That is, the natural gas, which is predominately methane, undergoes the removal of contaminants such as carbon dioxide and water. The natural gas is then liquefied by a refrigeration process that lowers its temperature to -240 deg. F (-151 deg. C). The pressure of the LNG is then reduced to slightly over atmospheric pressure, which further cools it to -259 deg. F (-161 deg. C) and allows the removal of inert nitrogen gas. The LNG is now at 1/600th of its original volume and at low pressure, which makes long-distance shipping feasible. The LNG is stored at the receiving terminal as a liquid and is vaporized as needed for use as a high-quality fuel.

Liquefied natural gas is half as dense as water, is colorless, odorless, nontoxic, and sulfur-free. If exposed to ambient conditions, LNG quickly warms and evaporates, leaving no sheen or residue.

"Liquefied natural gas" is defined as "oil" with regards to "oil pollution control" in AS 46.04.900 (9). Oil discharge prevention and contingency plans are intended to portray that an applicant "has access to sufficient resources to protect environmentally sensitive areas and to contain, clean up, and mitigate oil discharges from the facility or vessel within the shortest possible time". It is difficult to envisage the utility of including LNG in the definition of oil under the context of oil pollution control.

