

SB

226



Official Business

ALASKA STATE LEGISLATURE

SENATE RESOURCES COMMITTEE

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Juneau, AK 99801

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Sponsor Statement

Senate Bill 226

"Stranded Gas Pipeline Carriers"

Senate Bill 226 provides the framework for a stranded gas pipeline to proceed by establishing procedures, authorities and clarifying the duties of stranded gas pipeline carriers. Changes proposed by SB 226 are intended to apply to all potential stranded gas pipeline projects, to clarify state and federal regulatory jurisdiction, to complement a non-discriminatory federal process which will apply to any export volumes of stranded gas, to provide for instate gas transportation and sales, and to provide needed exemption from public utility designations for a stranded gas pipeline project.

SB 226 amends the Pipeline Act (AS 42.06) to define a stranded gas pipeline consistent with existing state statute and to clarify the Regulatory Commission of Alaska's authority and duties in regulating a stranded gas pipeline. SB 226 also specifies the criteria for the RCA to establish a fair, predictable and timely process to determine initial intrastate capacity and a method for needed pipeline system expansions to accommodate increased demand in state gas supplies.

Other changes proposed by SB 226 exempt stranded gas pipelines from the requirement to operate as a public utility and limit the common carrier requirements for stranded gas pipelines to the transportation of intrastate gas.

SB 226 also defines the types of intrastate transportation services available in a stranded gas pipeline system and how the tariffs and fees will be set.

Collectively, these changes are intended to provide greater certainty and predictability in the regulation of stranded gas pipeline systems. With passage of SB 226, gas export project sponsors will have increased ability to market Alaska's stranded gas reserves, to compete more effectively with alternative export projects, and to attract the large investments required to construct and operate the pipeline and related facilities needed to condition, transport and export stranded gas reserves.



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Sectional Analysis Senate Bill 226

"Stranded Gas Pipeline Carriers"

Section 1. Limits the circumstances under which a right-of-way lessee that owns or operates a stranded gas pipeline must act as a common carrier to intrastate transportation of stranded gas.

Section 2. Exempts the owners or operators of a stranded gas pipeline from operating as a public utility under the "Alaska Public Utilities Commission Act."

Section 3. Extends the Regulatory Commission of Alaska's jurisdiction and authority to intrastate transportation of stranded gas through a stranded gas pipeline.

Section 4. Outlines additional requirements for a stranded gas pipeline carrier to be issued a certificate of public convenience and necessity. These requirements relate to the pipeline capacity and volume, public notice and criteria for a request for service. In addition, this section specifies information to be considered by RCA in determining the total volume of intrastate transportation of stranded gas by a stranded gas pipeline and when the total volume can exceed the amount substantiated by written comments and contracts.

Section 5. Specifies the conditions under which the commission can require expansion, enlargement or extension of a stranded gas pipeline system and requires the commission to set rates to offset the costs incurred.

Section 6. Allows a stranded gas pipeline carrier to charge separate rates for firm transportation service and for interruptible transportation service. In addition, this section allows a stranded gas pipeline carrier to charge a reservation fee as a condition of providing firm transportation service and outlines costs that can be included in the reservation fee.

Section 7. Defines terms relating to stranded gas and stranded gas pipelines.

FISCAL NOTE

STATE OF ALASKA
2000 LEGISLATIVE SESSION

BILL NO. SB 226

Revision Date/Time (Note if correction) _____	Dept. Affected _____	Revenue _____
Title <u>Stranded gas pipeline carriers regulation</u>	BRU	Revenue Operations
Sponsor <u>Senate Resources</u>	Component	Oil and Gas Audit
Requester <u>Senate Oil & Gas</u>	Component No.	115

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
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CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2000) cost: 0.0

POSITIONS

Full-time	0	0	0	0	0	0
Part-time	0	0	0	0	0	0
Temporary	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)

This bill clarifies the regulatory environment for a potential North Slope natural gas pipeline, and would not impose any additional costs beyond those necessary for regulation currently. It would not create any revenues either.

Prepared by: <u>Roger Marks</u>	Phone <u>269-0082</u>
Division <u>Oil and Gas Audit</u>	Date/Time <u>18-Feb-00</u>
Approved by Commissioner <u>Wilson Condon</u>	Date _____
Agency <u>Department of Revenue</u>	

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ANS LNG Sponsor Group – SB-226 Testimony
Senate Resources Committee
2/21/2000

Mr. Chairman, members of the committee, for the record, my name is Michael Hurley. I work for ARCO Alaska, Inc in the ANS Gas Commercialization Group in Anchorage, and am currently assigned to manage the commercial regulatory efforts for the Alaska North Slope LNG Sponsor Group.

I am here today to express the sponsor group's support for SB-226.

For the last year and a half the sponsor group, comprised of ARCO Alaska, BP Amoco, Foothills Pipe Lines Ltd., Phillips Petroleum and Marubeni Corporation, has been actively pursuing development of a new design for a market viable LNG export project; including the development of a commercial regulatory regime which will provide the regulatory certainty our long term customers require, while at the same time, meeting the needs of the state and federal regulators for adequate access and commercial oversight. SB-226, we believe, strikes that balance, providing the Regulatory Commission of Alaska (RCA) clear and unambiguous oversight of intrastate gas transportation.

Section 1 of the bill clarifies the current Right of Way Leasing Act common carriage requirement to apply only to intrastate gas shipments.

The second and third sections of the bill clarify that a stranded gas pipeline system's intrastate shipments would be regulated under the Pipeline Act (AS 42.06), rather than under the Utilities Act (AS 42.05).

In section 4, a new subsection is added to the Pipeline Act creating procedures, within RCA's existing pipeline certification process, for determining the amount of pipeline capacity which should initially be set aside for intrastate transportation.

That process sets out distinct criteria for capacity for Local Distribution Companies (LDCs) which must submit their gas purchase

contracts to the RCA under current regulations, and for industrial gas users who must provide written commitments to transport intrastate gas volumes, supported by take or pay purchase commitments with stranded gas producers.

Likewise, in section 5 of the bill, expansions of a stranded gas pipeline may be ordered by the RCA only if such requests for additional intrastate capacity are supported by firm contractual commitments.

Section 6 allows the RCA to consider allowing a reservation or similar charge for firm intrastate transportation in the intrastate tariff.

Finally, section 7 of the bill adds several definitions of terms referred to in other sections of the bill, in an effort to increase the clarity and understanding in the other sections.

Mr. Chairman and members of the committee, I would like to thank you for your sponsorship of this important piece of legislation, and for this opportunity to express our support for SB-226, which is currently before you.

In closing, as you may be aware, the companion bill, HB-290, was recently amended before being passed from its first committee of referral in the other body. If you or any members of the committee have any questions on the bill, or on those amendments, I'd be happy to address those at this time, or at your convenience.



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February 21, 2000

TO: All Members, Senate Resources Committee

FR: Ross Coen

RE: Senate Bill 226

Dear Members of the Senate Resources Committee,

I am writing with regard to Senate Bill 226 in order to call your attention to what my organization believes to be a minor and altogether fixable fault in the bill. The Alaska Forum for Environmental Responsibility is a statewide, non-profit group that seeks to hold both government and industry accountable to the laws designed to safeguard Alaska's environment.

In Section 7, Paragraph 16 of SB 226, the definition for "stranded gas pipeline" specifically excludes "marine terminal facilities...including pollution control equipment[.]" I believe that this passage means the following: if this bill passes in its current form and the proposed natural gas pipeline is built by the ANS Sponsor Group then the marine terminal and spill response activities would be exempt from any regulation or oversight by the coordinated state agencies in the Joint Pipeline Office.

One could argue that this minor language in only one Senate Bill could not possibly grant such a monumental exemption, but it appears nevertheless to set a dangerous precedent as to what the state may regulate and what it may not. You might call it the proverbial first step down that slippery slope.

It is my understanding that the proponents of SB 226 have argued for this exemption because (1) by excluding the marine terminal you would decrease the gas' transportation costs, thereby increasing state revenue; and (2) the Joint Pipeline Office is charged with regulating only pipelines, not facilities. Both points are fallacious.

First, Roger Marks with the Department of Revenue has testified that the state may include regulatory authority on marine terminal oversight while not affecting the transportation costs of the gas. Second, both Bill Britt, the State Pipeline Coordinator, and Mike Barnhill with the Attorney General's office have testified that the state's regulatory authority is expressly defined as to include both pipelines and facilities. A claim to the contrary is not only erroneous, but ignores the more than 25-year history of the Valdez Marine Terminal.

I respectfully request that the House Resources Committee amend SB 226 to remove this exemption found in Section 7, Paragraph 16. Careful oversight of not only the gas pipeline but of all related facilities is necessary to ensure the safe operation of this industry so vital to Alaska's economic future.

Thank you,

Ross Coen

Comments of Roger Marks

State of Alaska Department of Revenue

House Bill 290 / Senate Bill 226

February 1, 2000

This represents a preliminary analysis by the administration, including the Departments of Law, Revenue, and Natural Resources, the Regulatory Commission of Alaska, and the State Pipeline Coordinator's Office.

In-state use of gas would be a very valuable benefit of an Alaska North Slope liquefied natural gas (LNG) project. However, if the gas is commercialized most of the volume will be for export. And the financing of this multi-billion dollar project will require establishment of long term contracts with buyers. A set amount of pipeline capacity will need to be reserved for contractual obligations.

At the same time the economics of the proposed export projects appear to be financially marginal. They could not afford to take North Slope gas to market if they have to bear the cost of pre-investing to provide substantial excess capacity if there were a risk the capacity would not be used. To do so

could affect the economics such that there would be no project, and no one would get gas.

Whereas it is straightforward to arrange for pipeline capacity and gas supplies for intrastate use before construction starts, attaining pipeline capacity after operation begins may be difficult and expensive.

Consequently, the question of how to allocate space and gas needs to be addressed before the line is built.

What this bill does is provide a possible way to reduce the potential gas supply risks perceived by the foreign market, facilitating the marketing of the gas, while providing a mechanism for communities to procure gas. The administration supports this broad intent.

This said, the bill raises complex issues that could have significant long-term impacts. Some of these issues include:

- 1) Local jurisdictions committing in advance to secure pipeline capacity without knowing what the cost will be, especially if the gas purchase contracts are also not in place. (There may be, however,

mechanisms available to reduce risks to buyers without unduly harming the pipeline sponsors.)

2) Allocation of capacity between intrastate and export use in the event of shortages or excesses of capacity.

3) Exclusion of the pipeline from the Alaska Public Utilities Regulatory Act and subjection to the Pipeline Act. We are still analyzing the extent to which the differences between the two may be material.

4) Exclusion of marine terminal facilities from the Right-of-Way-Leasing Act. This may affect the ability of the State to lease State land for such facilities and to oversee land management. It could also affect intrastate shipments of LNG should they be desired.

Thus we are not yet sufficiently comfortable with the measures in HB 290 to endorse them at this time. The multi-agency team will continue to analyze the bill and provide recommendations to the legislature.