

SCOMM

129:7

STATE OF ALASKA

TONY KNOWLES, GOVERNOR

GAS PIPELINE OFFICE

550 W. 7th Avenue, Suite 1500
Anchorage, AK 99501
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FAX: (907) 276-0437

MEMORANDUM

TO: Commissioner Pat Pourchot, Chairman
Gas Pipelines Cabinet

Senator Gene Therriault, Chairman
Legislative Budget and Audit Committee

Terry Klatt, Foothills Pipe Lines Alaska Inc.

Gary Gustafson, Alaska Gas Producers Pipeline Team

FROM: William G. Britt, Jr. *WGB*
Gas Pipeline Coordinator

DATE: January 8, 2002

SUBJECT: Gas Pipeline Office Status Report
December 2001

Summary

Major activities during the month of December included:

- Work regarding a right-of-way (ROW) lease process for a natural gas pipeline project
- Work planning related to Foothills' ROW lease application;
- Permitting for the Alaska Gas Producers Pipeline Team (AGPPT) trenching tests;
- Budgeting for the second half of fiscal year (FY) 2002 and discussions with AGPPT and Foothills regarding modifications of the reimbursement memoranda of understanding (MOUs) for that period;
- Preparations for moving to new office space; and
- Recruiting.

A description of actions and status in each area follows.

Right-of-Way Lease Process

A concentrated effort was made during December to identify benefits and challenges associated with processing a State ROW application based on Notices to Proceed (NTP). I have concluded that an NTP-based lease may be necessary for the gas line due to the scope of the project. In late December I outlined a prospective NTP process to Commissioner Pourchot. Several procedural, substantive and policy issues will require resolution to successfully implement the process. Commissioner Pourchot gave me his approval to continue working those issues.

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January 10, 2002

Foothills Work Planning

During December my staff continued to work with Foothills to complete several tasks related to their lease application, including draft plan reviews, permitting strategy development, and scientific data collection. Foothills submitted a draft schedule for submittal reviews and approvals associated with their lease application. My staff is currently reviewing the draft schedule.

A focused review of a subset of Foothills' application submittals is currently underway. For example, the Department of Fish and Game (DFG) has completed reviews of draft plans for protection of subsistence resources, material exploration and extraction, and river training structures; the Department of Public Safety has reviewed a draft plan for blasting operations, the Department of Environmental Conservation has completed a review of a draft air quality plan, and the Department of Natural Resources (DNR) has completed a review of a draft plan for protection of cultural resources. DNR is also completing a land title search and report.

AGPPT Trenching Trials

Processing of AGPPT's permit applications for trenching trials near Deadhorse and Fairbanks continued during December. The comment deadline for the Division of Governmental Coordination's (DGC's) public notice on the proposed trenching trials was December 31. The only comments that were received were from regulatory agencies; no comments were received by the comment deadline from members of the public. Discussions with AGPPT regarding responses to comments are ongoing. We plan to distribute a proposed consistency determination, incorporating agency comments, January 9, 2002. We plan to issue a final consistency determination by January 15, 2002.

Budgeting

In late November I met with AGPPT and spoke with Foothills and Legislative Budget and Audit Committee members regarding budgeting for the second half of FY 2002.

Foothills reiterated their desire to move forward rapidly in the processing of their State ROW application and presented their preliminary funding ceiling for the remainder of calendar year 2002. In mid-December I submitted a draft MOU addendum, which reflected the proposed budget and scope of work for second half of FY 2002, to Foothills and the Department of Law for their review.

The Legislative Budget and Audit Committee agreed to my requested level of funding for the state's share of expenses, to fulfill tasks specified in MOUs and cover non-reimbursable costs for the second half of FY 2002.

AGPPT indicated that the only work remaining was the trenching trials, and the AGPPT representative drafted an MOU addendum for January through June that reflected costs associated with permitting and oversight associated with the trials and a portion of the GPO indirect costs. The cost estimate and subsequent discussions with AGPPT representatives indicate that AGPPT is willing to fund only a small portion of the GPO total indirect costs.

As of the end of December, a final GPO budget for the second half of FY 2002 has not been determined, pending feedback from AGPPT regarding their commitment to fund necessary functioning of the GPO in accordance with their MOU and Administrative Order 187.

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January 10, 2002

Office Space

Tenant improvements and build-out for the selected office space in the Key Bank Plaza building continued during December. We anticipate moving to the new space by mid-January 2002.

Recruiting

No additional GPO personnel were hired during December 2001. The GPO currently consists of 14 staff from 4 designated State agencies and two federal agencies:

- DNR staff consists of my position, my deputy, the Administrative Manager, the Administrative Assistant, an Administrative clerk, a Records Analyst [shared with the Joint Pipeline Office (JPO)], and a Computer System Administrator (shared with JPO)
- DFG staff consists of a liaison, a Design and Permitting Coordinator, and a Field Inspection and Compliance Coordinator
- Liaisons from DEC, DGC, Bureau of Land Management (BLM), and Minerals Management Service (MMS) have been assigned to the GPO

In addition, the Department of Law has assigned two Assistant Attorneys General (AGs) to assist us.

Recruitment is ongoing for a Chief Engineer, a Right-of-Way Chief and a Public Information Officer. The 3 remaining designated agencies - DLWD, DTPF, and DPS - are also recruiting for liaisons. Recruiting continues to be difficult due to the low compensation and extraordinarily high risk associated with the positions. Final decisions regarding the hiring of these positions are on hold, pending the outcome of a final FY 2002 (second half) budget for GPO.

Other Activities

GPO staff met with one of our assigned assistant AGs to discuss confidentiality authorities and applicability for historical and contemporary documents submitted by ROW lease applicants. The AG's office is currently preparing guidelines for handling documents submitted with confidentiality disclaimers.

GPO staff met with the JPO's technical consultant regarding establishing an electronic document logging and recordkeeping system for new and existing documents.

DFG staff is taking the lead in working with our computer system administrators and interested and affected staff on system requirements and approaches to databases and GIS for the GPO. In mid-December DFG and DGC personnel from GPO attended a GIS demonstration presented by Foothill's local consultant, Michael Baker Jr., Inc.

In early December the Deputy Pipeline Coordinator attended a Natural Gas Transportation and Marketing conference presented by the Rocky Mountain Mineral Law Foundation. Other attendees from Alaska included representatives from the Dept. of Law, DNR, Phillips Alaska, Inc. and local private law firms.

A large project to organize and index historical gas pipeline documents on file at the JPO continued during December and an updated index was completed at the end of December.

Work continues in the 6 divisions of DNR supporting the GPO: Mining, Land, and Water for land title work; Support Services/Land Records Information for land status work; Parks and Outdoor Recreation/Office of

- 4 -

January 10, 2002

History and Archeology for permitting assistance; Geological and Geophysical Surveys for research; SPCO for administrative support; and Oil and Gas for technical assistance.

Looking Forward

I plan to travel to Calgary and Ottawa in January or February, budget allowing, to continue our Canadian outreach efforts.

During the next several months, GPO staff will begin working with local governments, Native corporations, tribal councils and other aboriginal or First Nations organizations, the Alaska Mental Health Trust, the Alaska Railroad Corporation, the University, and other landowners and stakeholders with direct approval authorities.

The GPO intends to initiate a more aggressive outreach program during early 2002. In addition to the speeches, testimony, and interviews we now provide, we plan to distribute a newsletter, create and maintain a web site, and hold public meetings.

Cc: Michele Brown, Commissioner of Environmental Conservation
Frank Rue, Commissioner of Fish and Game
Wilson Condon, Commissioner of Revenue
Joseph Perkins, Commissioner of Transportation and Public Facilities
Ed Flanagan, Commissioner of Labor and Workforce Development
Deborah Sedwick, Commissioner of Community and Economic Development
Patrick Galvin, Director, Division of Governmental Coordination
Connie Nesgoda, Office of Management and Budget
John Katz, Director, of State/Federal Relations, Office of the Governor
Bruce Botelho, Attorney General
Heather Brakes, Senator Therriault's Office
Nico Bus, DNR
Colleen Burgh, GPO
Robin Pierce, GPO
Susan Anderson, JPO
Nancy Welch, MLW
Richard McMahon, LRIS
Judy Bittner, OHA
Milt Wiltse, DGGS
Jeff Mach, DEC
Jonne Slemons, DFG
Nina Brudie, DGC
Larry Ostrovsky, Law
Martin Schultz, Law
Kelly Nicoletto, DPS/DFP
Colleen McCarthy, BLM
Dennis Hinnah, MMS

Alaska Reserves and Production

- **36% of total U.S. oil reserves.**
- 8.0 billion barrels of oil
- **17% of total U.S. gas reserves**
- 35 trillion cubic feet of gas
- **20% of total U.S. oil production**
- 1.04 million barrels of oil per day

Sources: Alaska data are from Department of Natural Resources, Division of Oil and Gas, 2001 Annual Report
U.S. data are from U.S. Crude Oil, Natural Gas, and NGL Reserves, 2000 Annual Report, U.S.D.O.E.-E.I.A.

The State Revenue Pie

Petroleum Revenue Sources, (FY 2001)

Total Royalties, Bonuses, Rents & Settlements:

\$1,145.9 Million

General Fund Royalties, Bonuses & Rents^{1,2}:
\$798.8 Million

Royalties to Permanent Fund &
School Fund⁴:
\$337.1 Million

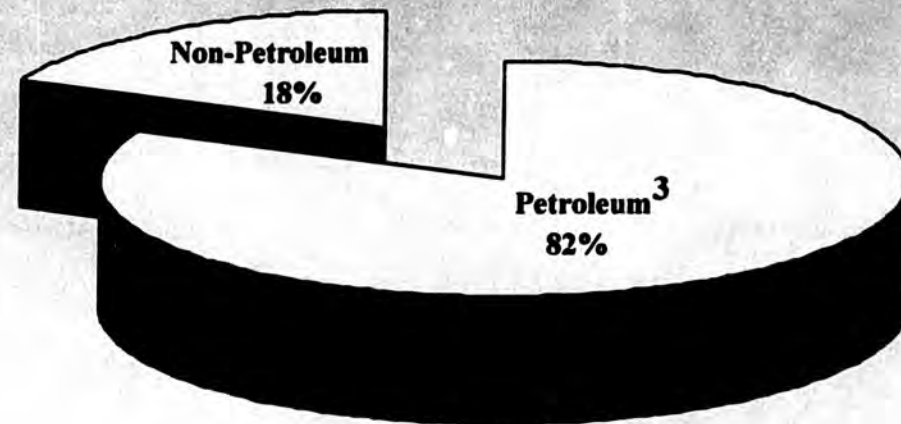
Settlements to CBRF⁴:
\$10.0 Million
(Includes Royalties & Taxes)

Taxes:

\$1,125.4 Million²

(Oil & Gas Property Tax + Tax Settlements +
Income Tax + Severance Tax)

FY 2001 Unrestricted Revenue



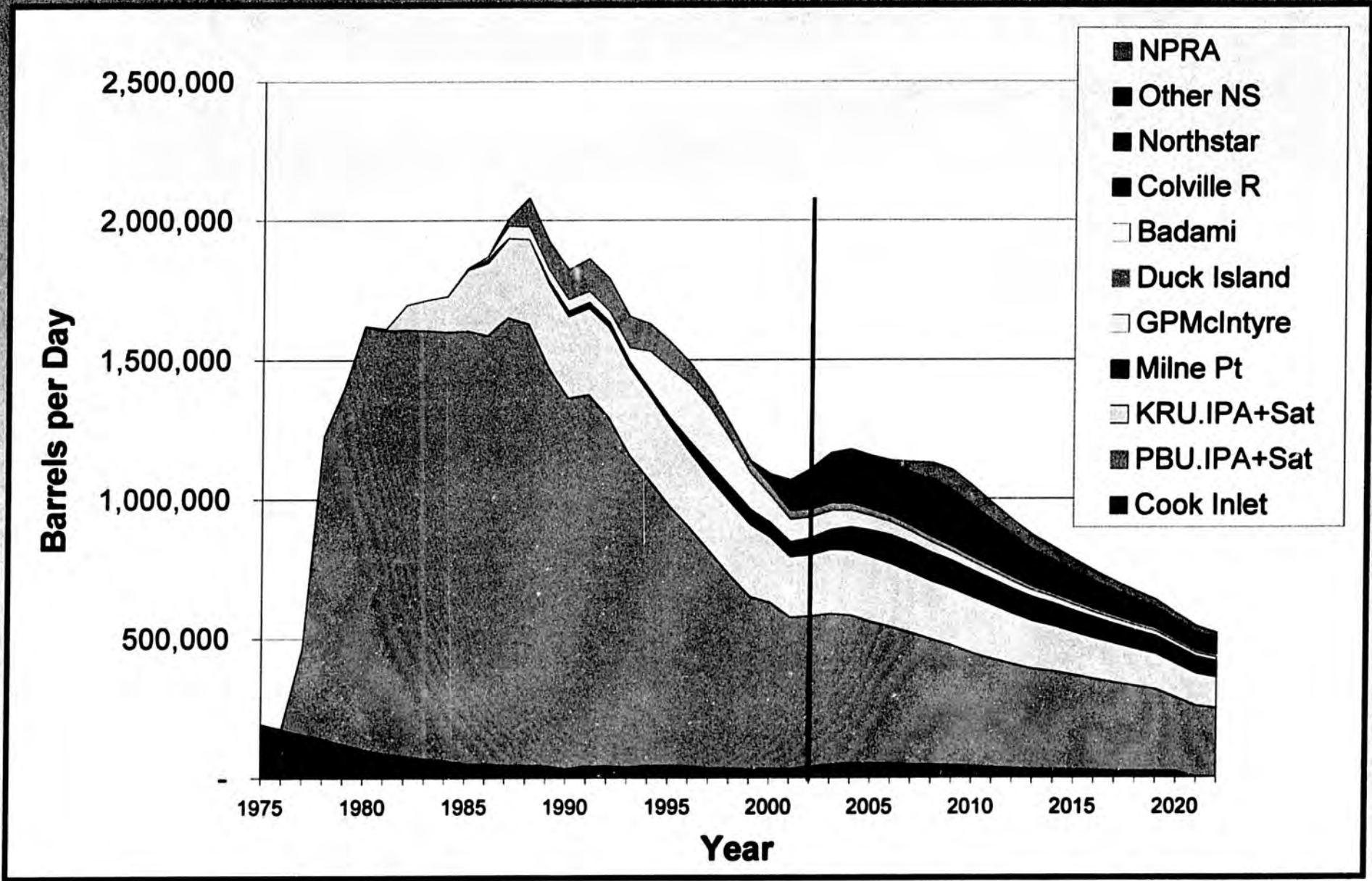
1 Includes Federally shared rentals

2 Source: pg. 23, DOR Fall 2001 Revenue Sources Book

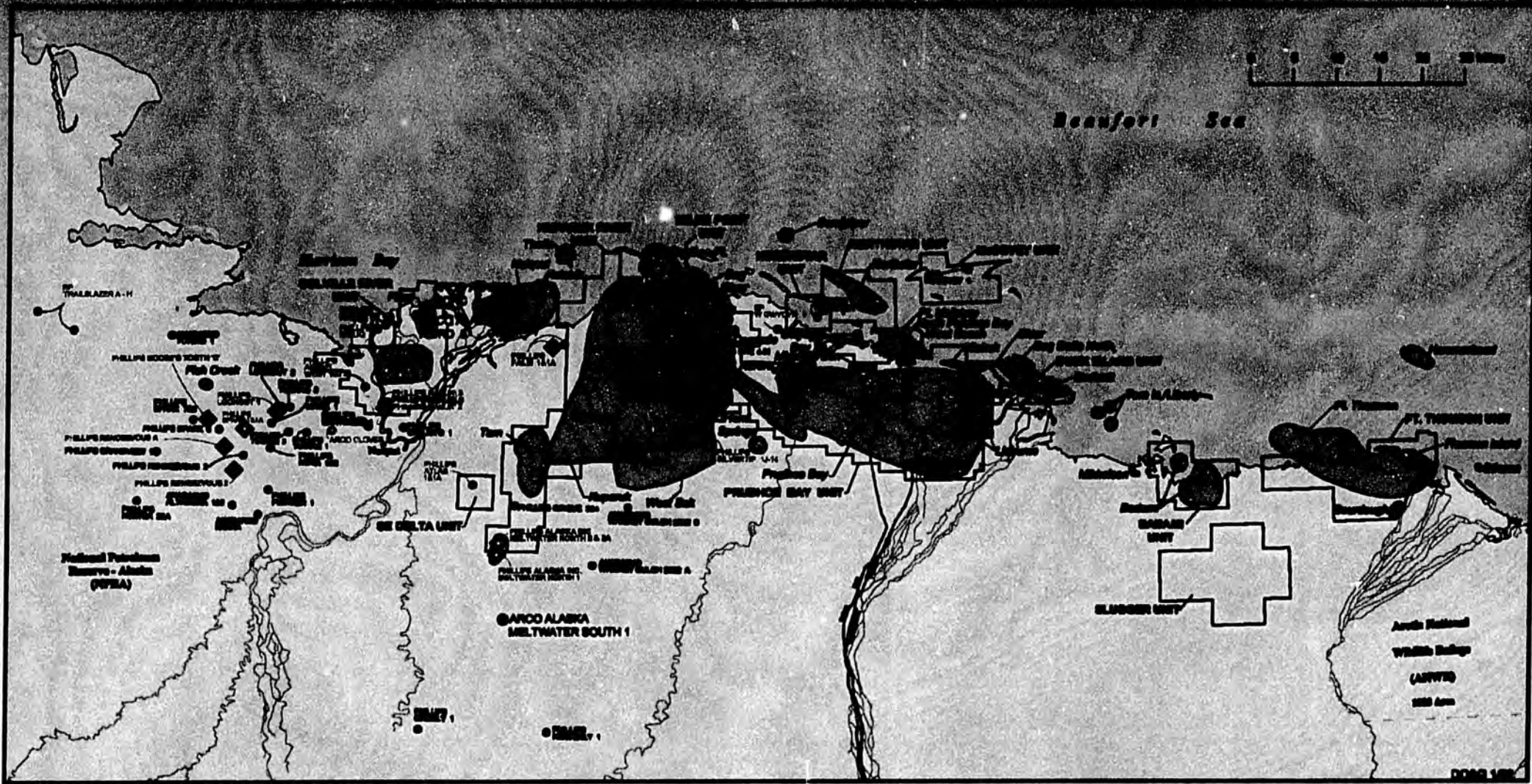
3 Source: pg. 22, DOR Fall 2001 Revenue Sources Book

4 Source: pg. 19, DOR Fall 2001 Revenue Sources Book










1975-2022




2002

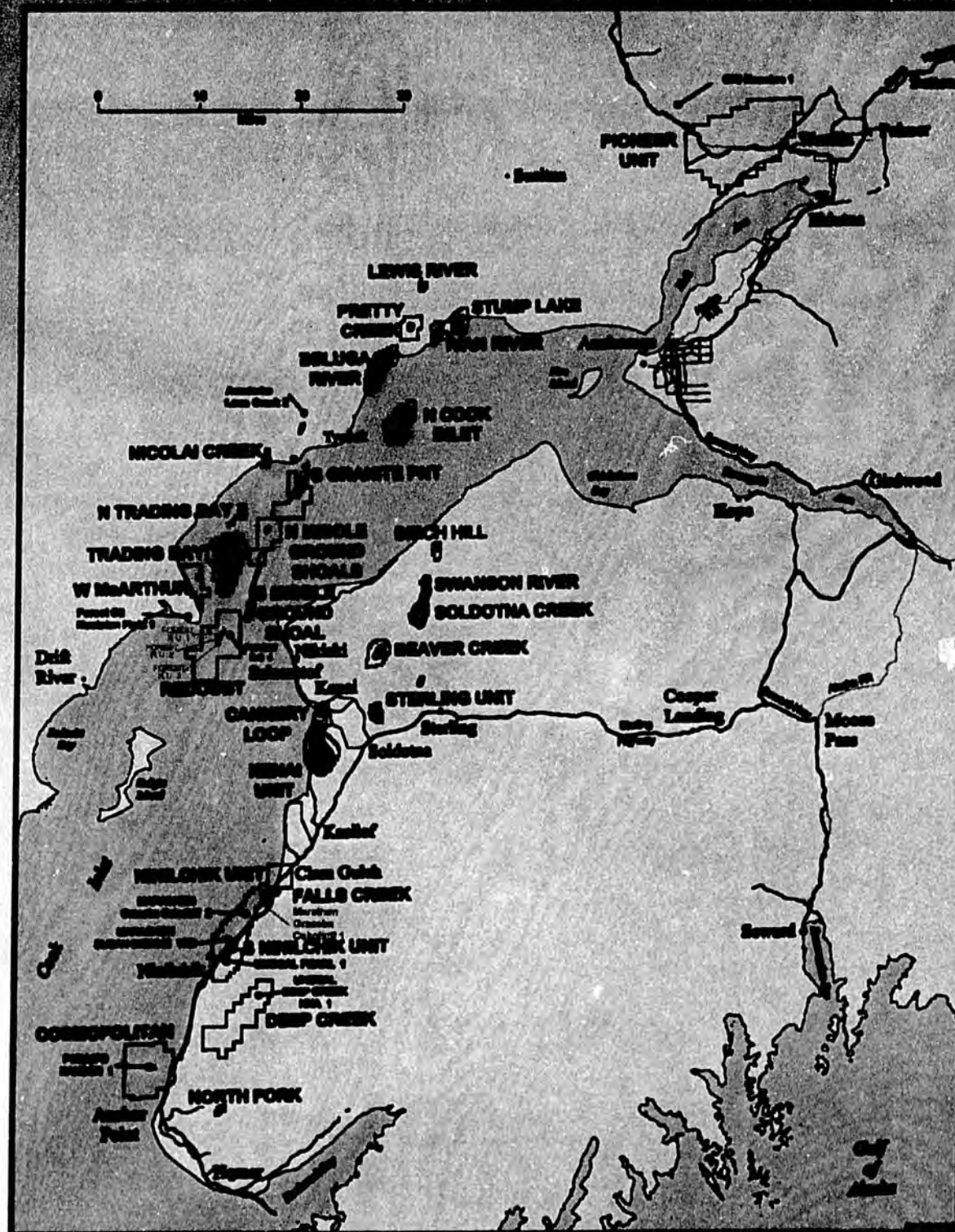
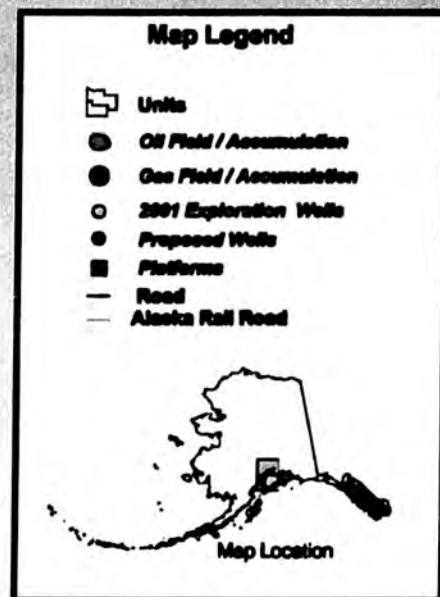


Map Legend

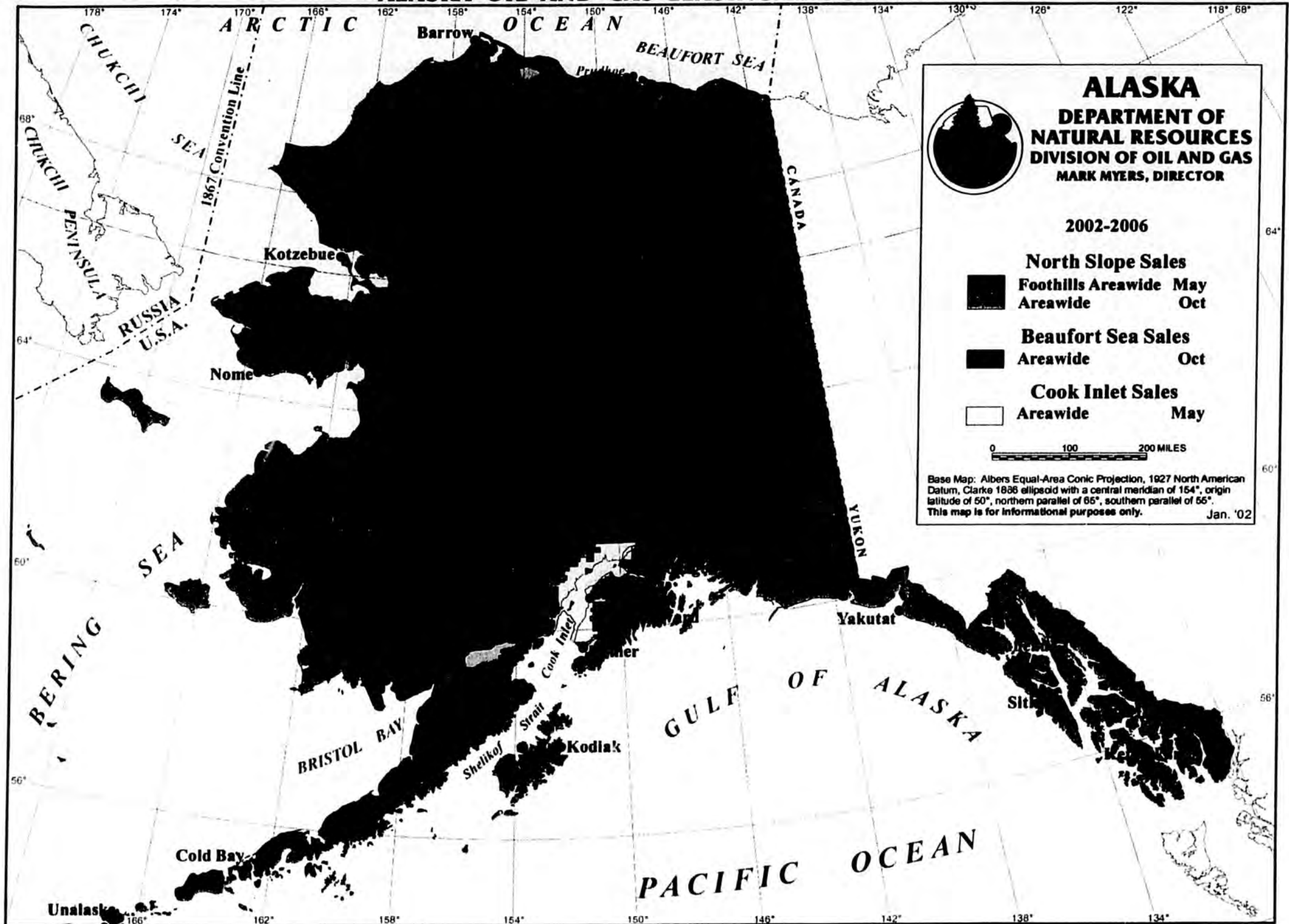
	Units		Road
	Oil Field / Accumulation		Trans-Alaska Pipeline
	2000 Exploration Wells		
	2001 Exploration Wells		
	2002 Proposed Wells		
	Active Wells		
	Recent Discoveries		


Map Location

Cook Inlet Oil & Gas Activity January 2002



ALASKA OIL AND GAS LEASING PROGRAM



ALASKA
DEPARTMENT OF
NATURAL RESOURCES
DIVISION OF OIL AND GAS
MARK MYERS, DIRECTOR

2002-2006

North Slope Sales

Foothills Areawide May
 Areawide Oct

Beaufort Sea Sales

Areawide Oct

Cook Inlet Sales

Areawide May

0 100 200 MILES

Base Map: Albers Equal-Area Conic Projection, 1927 North American Datum, Clarke 1886 ellipsoid with a central meridian of 154°, origin latitude of 50°, northern parallel of 65°, southern parallel of 55°. This map is for informational purposes only. Jan. '02

FIVE-YEAR OIL AND GAS LEASING PROGRAM PUBLIC NOTIFICATION SCHEDULE



Proposed Sale Area & Date	2002					2003					2004					2005					2006														
	J	F	M	A	M	J	F	M	A	M	J	F	M	A	M	J	F	M	A	M	J	F	M	A	M	J	F	M	A	M					
Cook Inlet Areawide 2002 May	F	S																																	
	C	E		F	S																														
	C	E		F	S																														
Cook Inlet Areawide 2003 May						C	E		F	S																									
						C	E		F	S																									
						C	E		F	S																									
Cook Inlet Areawide 2004 May											C	E		F	S																				
											C	E		F	S																				
											C	E		F	S																				
Cook Inlet Areawide 2005 May																C	E		F	S															
																C	E		F	S															
																C	E		F	S															
Cook Inlet Areawide 2006 May																					C	E		F	S										
																					C	E		F	S										
																					C	E		F	S										

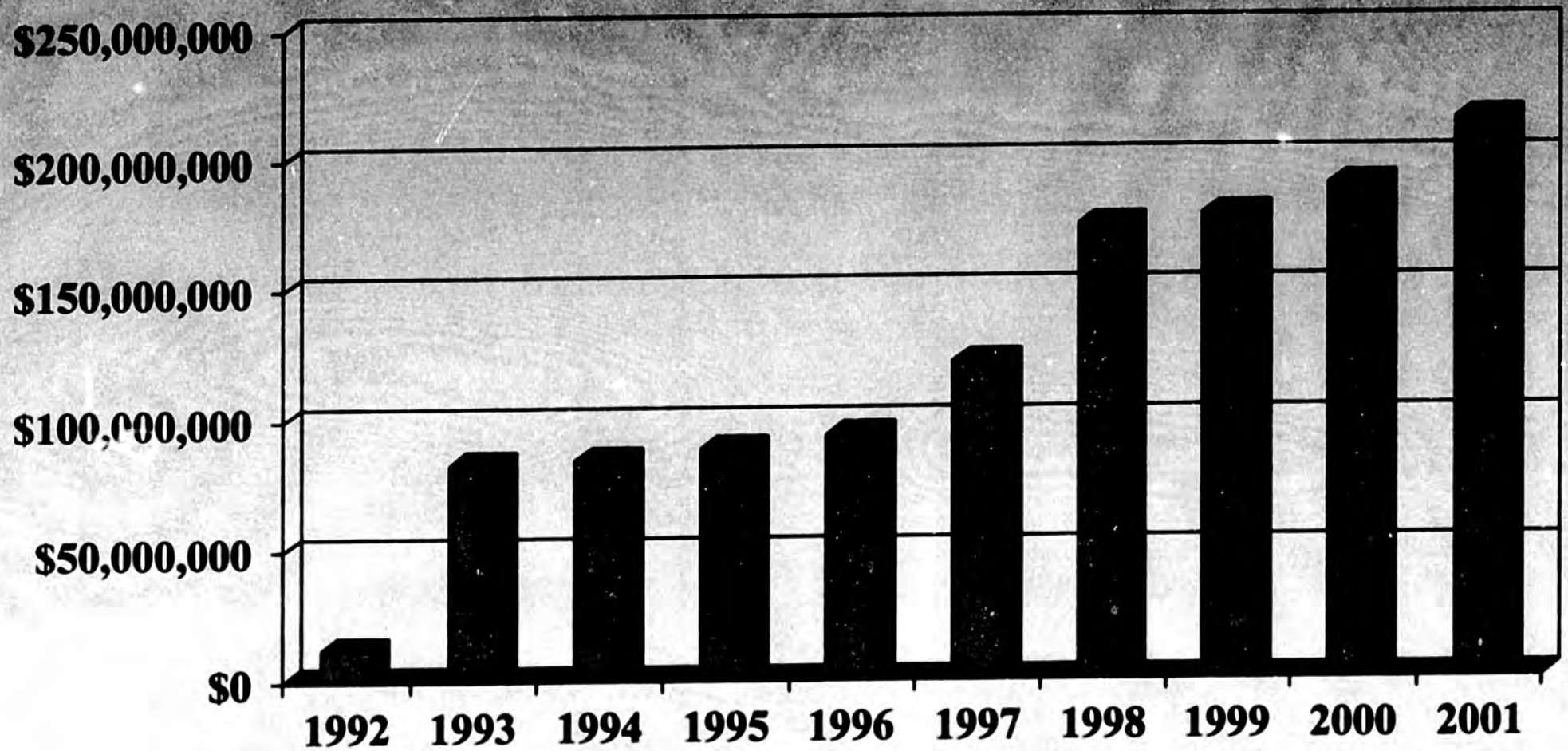
A = Sale Added to Schedule.
 C = Call for Comments:
 Request for New Information Made Available Since Last Finding.
 E = End of Comment Period.
 P = Preliminary Best Interest Finding /
 ACMP Consistency Analysis.

F = Final Finding and Notice of Sale and Terms.
 F_S = Supplement to Final Finding and/or Notice of Sale and Terms.
 S = Sale.

Public Process

Visit our Website at "www.dog.dnr.state.ak.us/oil"

Cumulative Bonus Bids



2001 Areawide Lease Sales

Total Acres Leased = 1.6 Million

Total Bonus Bids = \$24.5 Million

North Slope Foothills

- Area's First Lease Sale
- Largest State Sale Ever
- 8 Bidding Groups
- 978,560 Acres Leased
- \$10.7 Million in Bonus Bids

North Slope

- 16 Bidding Groups (Shell returns after 13 yrs)
- 469,760 Acres Leased
- \$7.4 Million in Bonus Bids

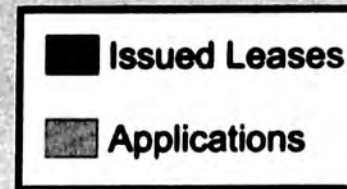
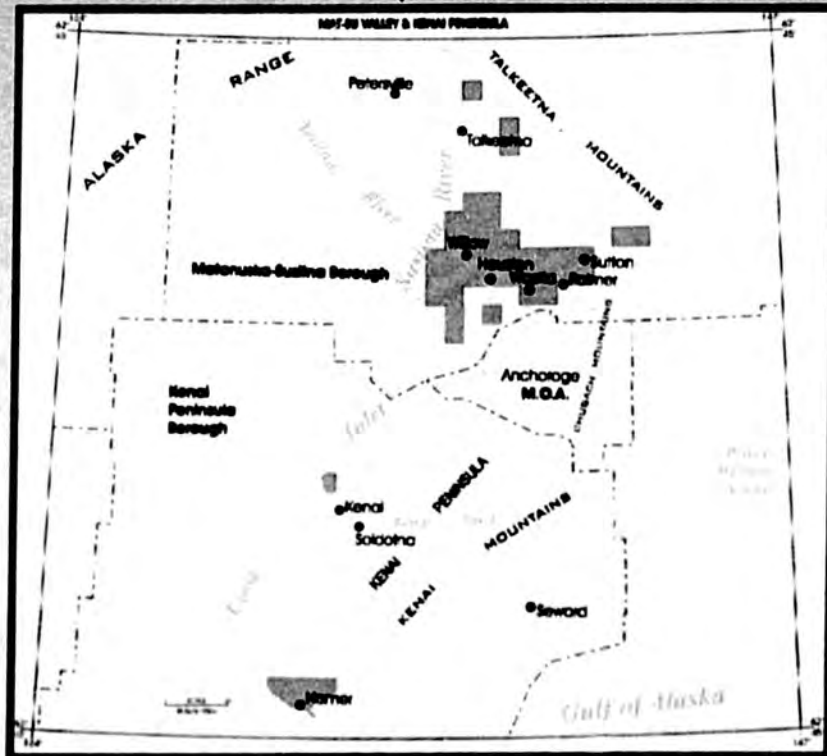
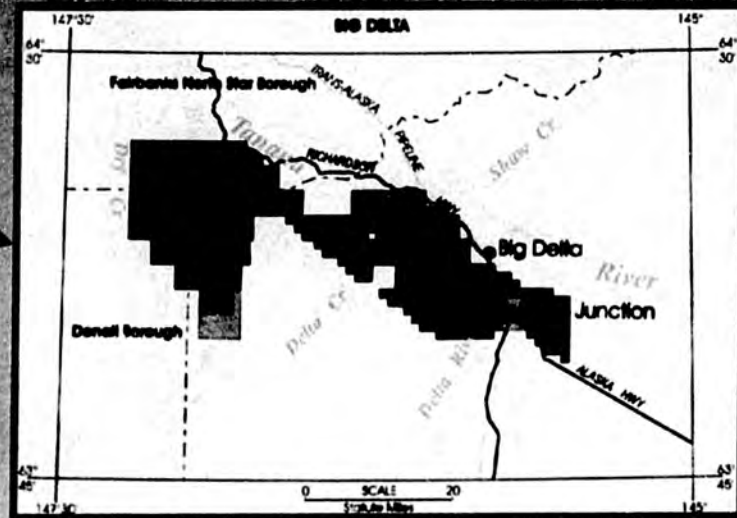
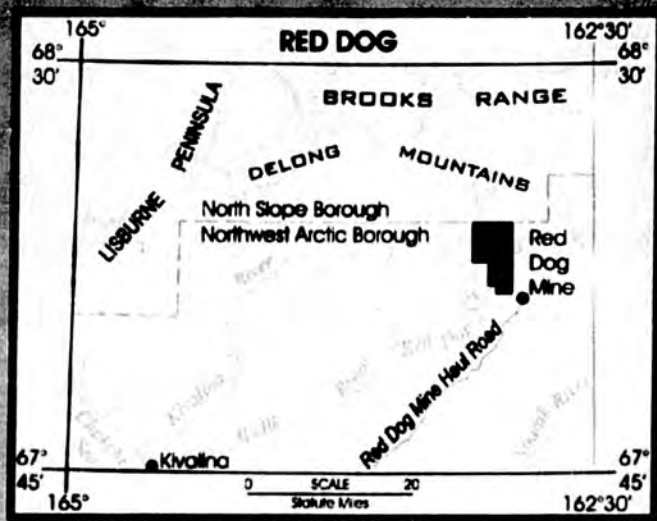
Cook Inlet*

- 6 Bidding Groups
- 102,523 Acres Leased
- \$928,085 in Bonus Bids

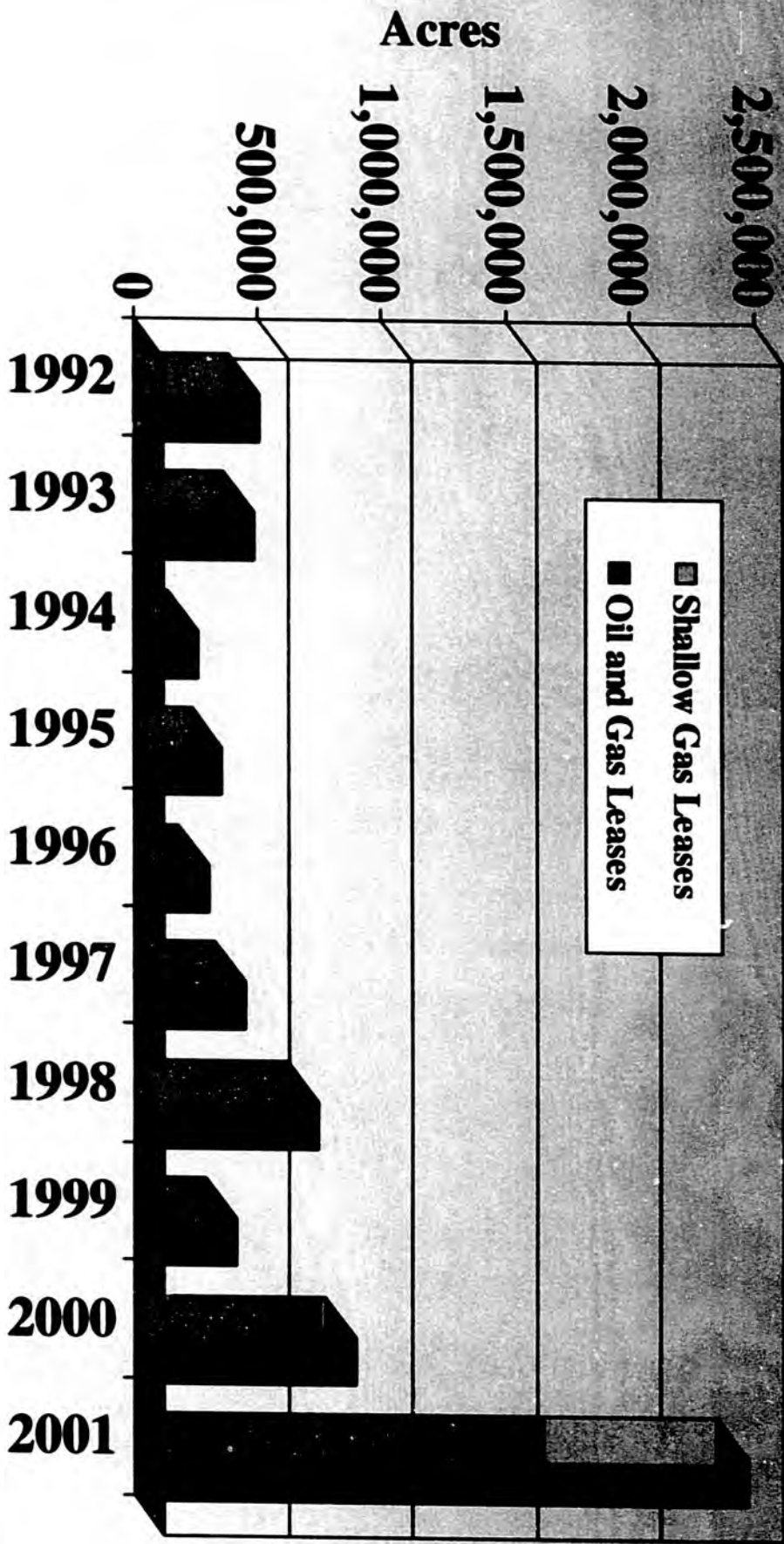
(* Final Results)

Beaufort Sea

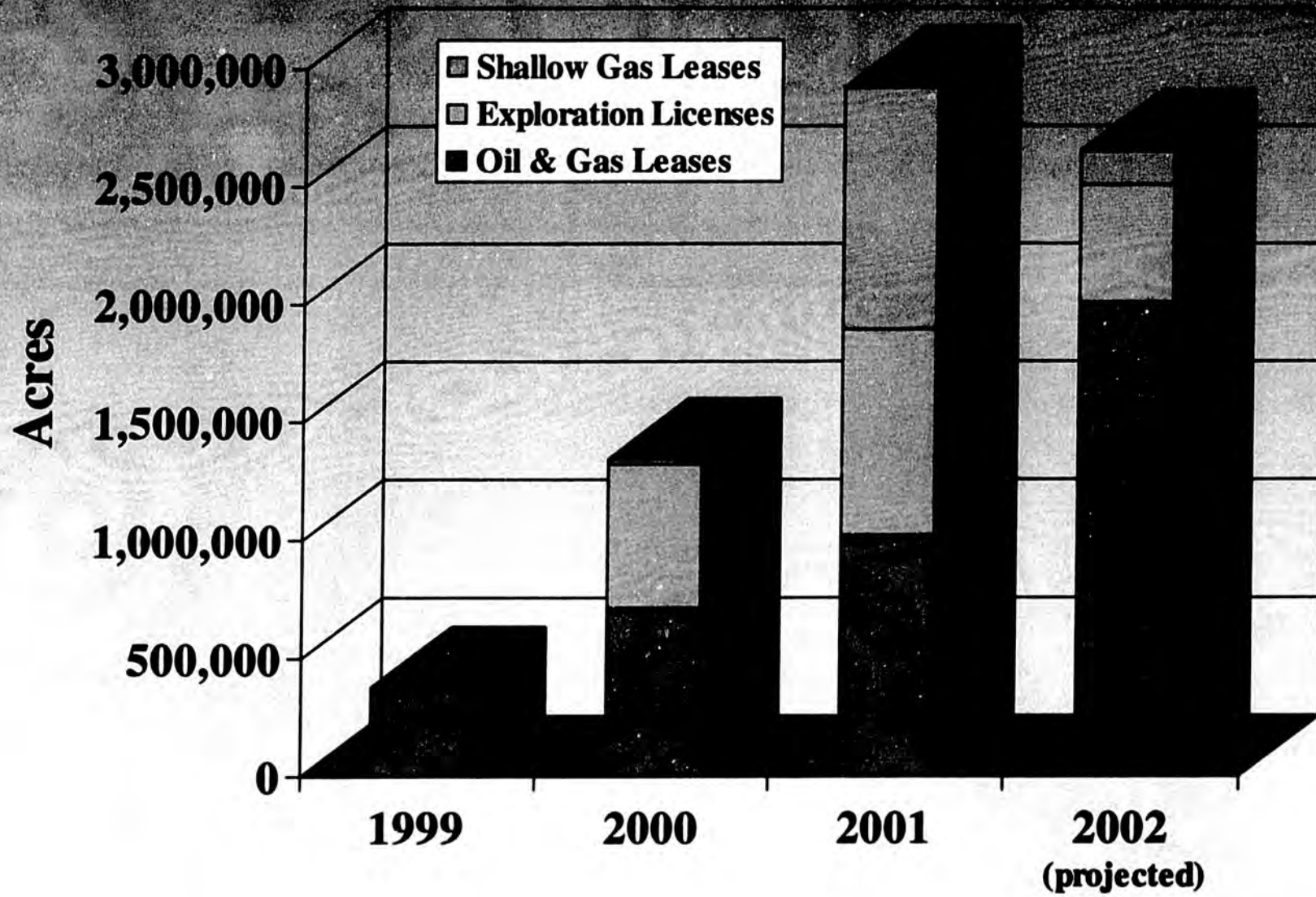
- 7 Bidding Groups
- 60,800 Acres Leased
- \$5.4 Million in Bonus Bids

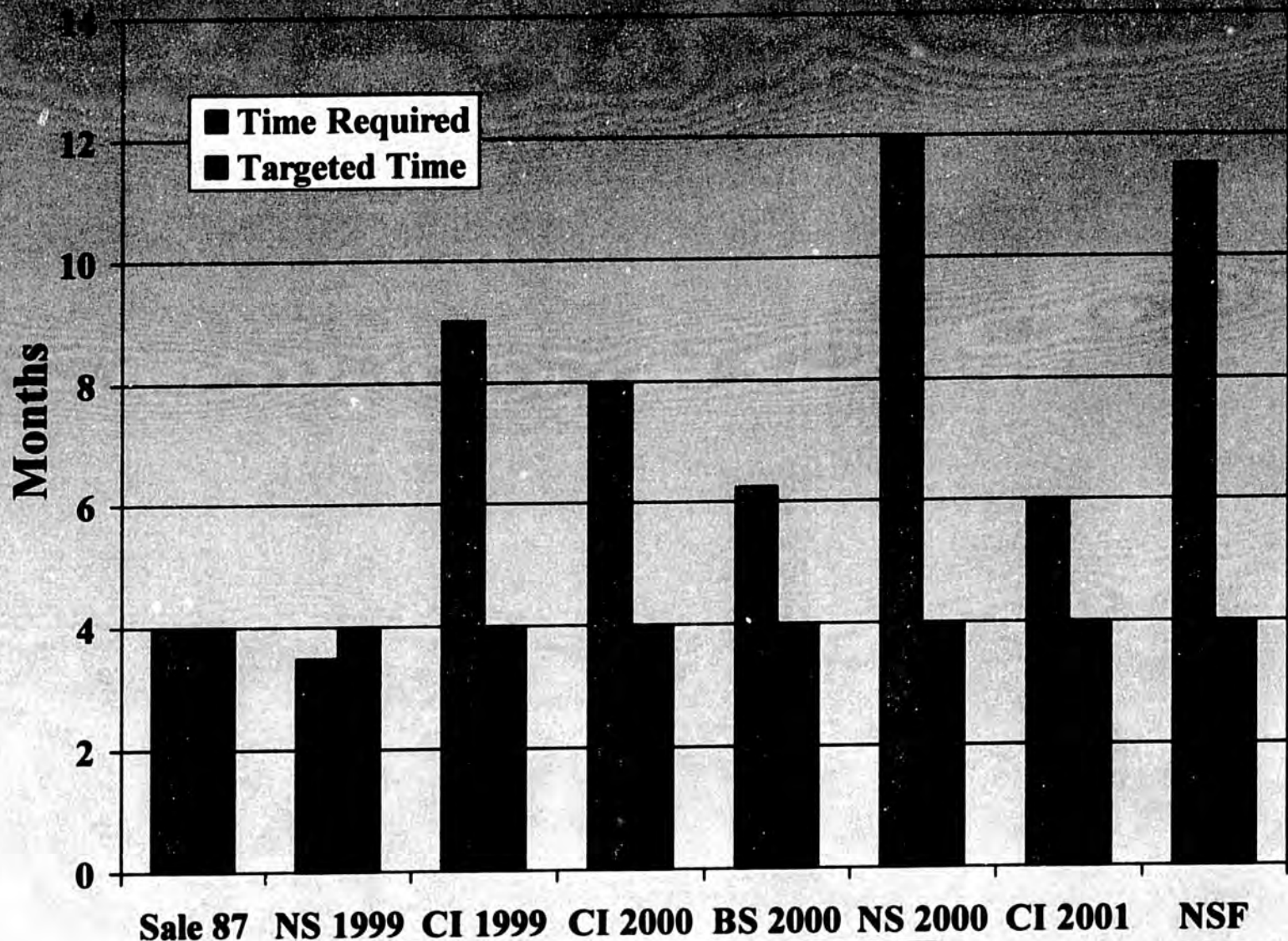


Acreage Leased



Title Work





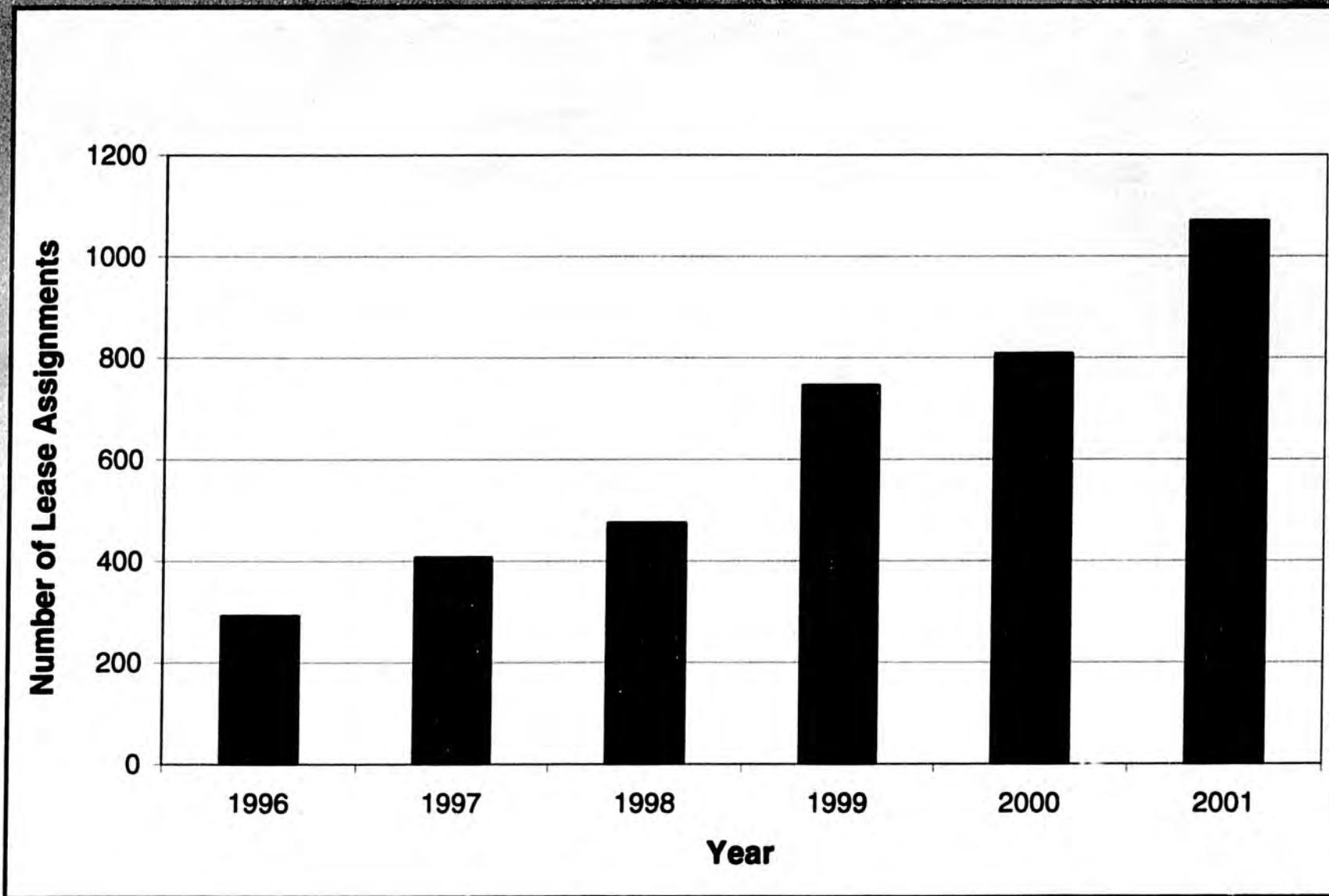
Sale Legend
 BS - Beaufort Sea CI - Cook Inlet
 NS - North Slope NSF - North Slope Foothills

(Projected)

Delays in Time = Delays in \$

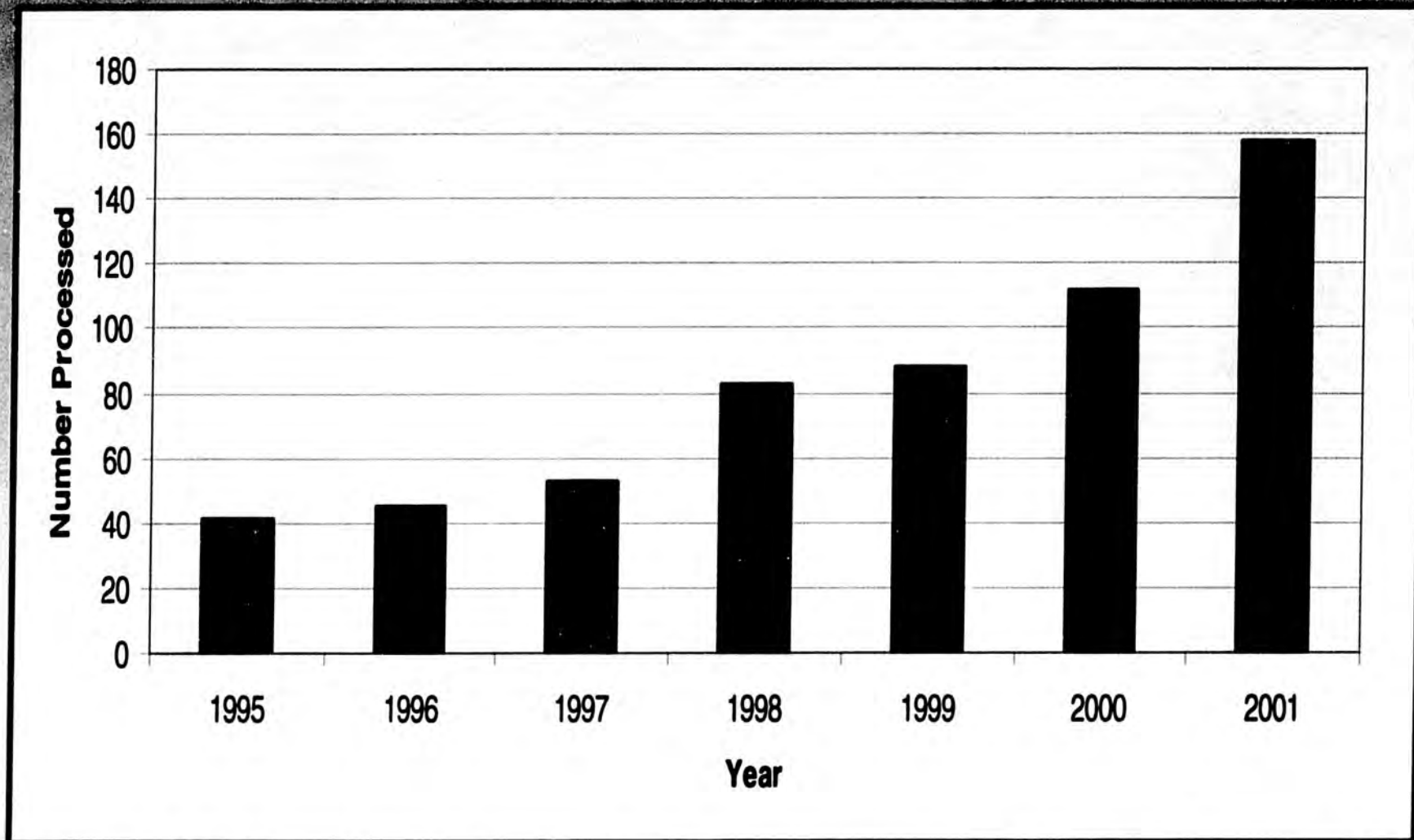
- **It Takes up to 1 Year to Issue Leases**
- **FY 01 Revenue Delayed to FY 02**
 - Balance on Bonus Bids = \$8.9 Million**
 - 1st Yr Lease Rentals = \$1.3 Million**

Lease Assignments in Alaska



jbh 1/02

Unit Actions



Actions include Units and Participating Areas formed, expanded, contracted, and terminated; Unit decisions appealed; Unit Plans of Exploration and Development reviewed and approved.

cdl 01/02

PBU Mechanisms

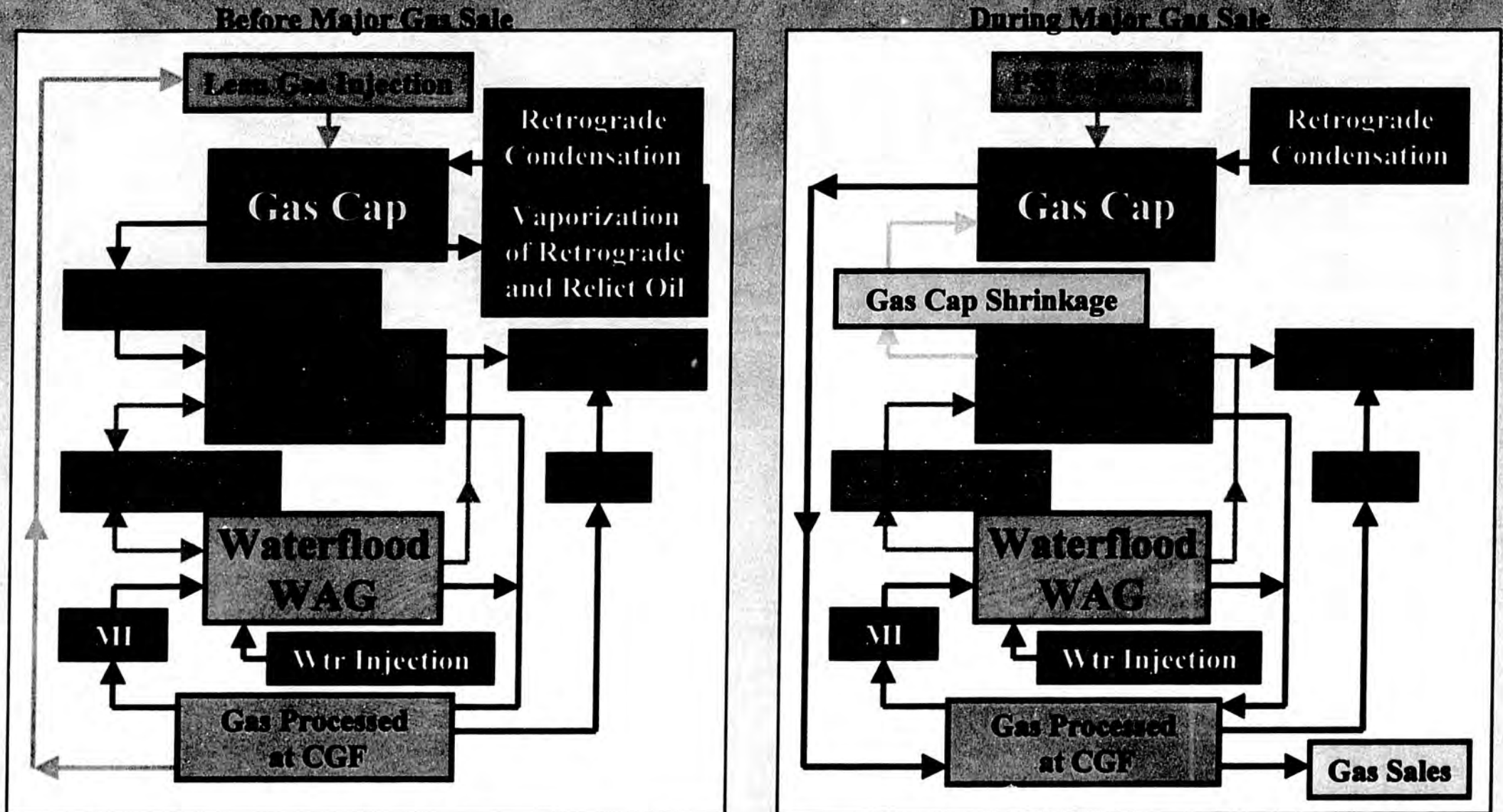
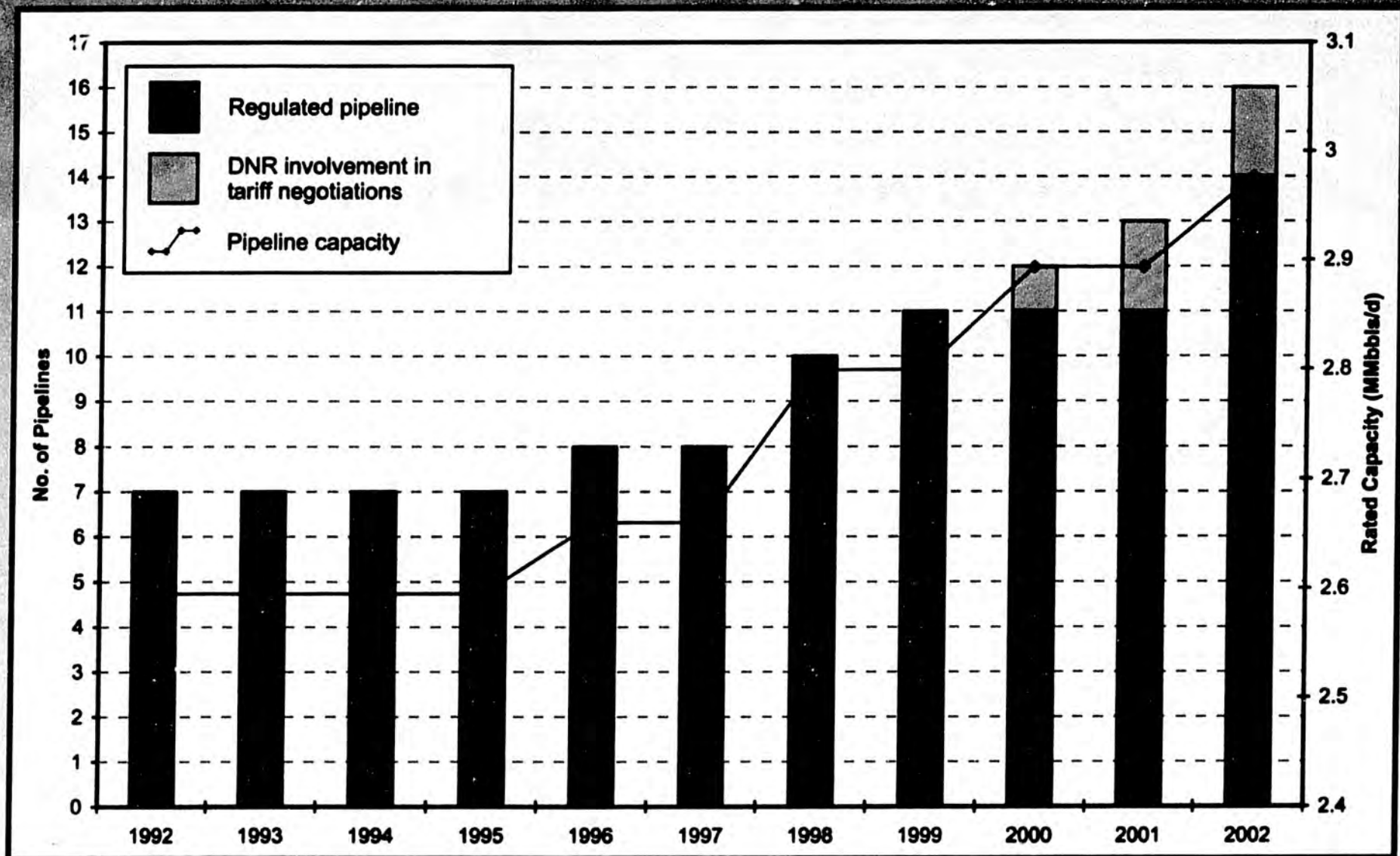


Figure 10

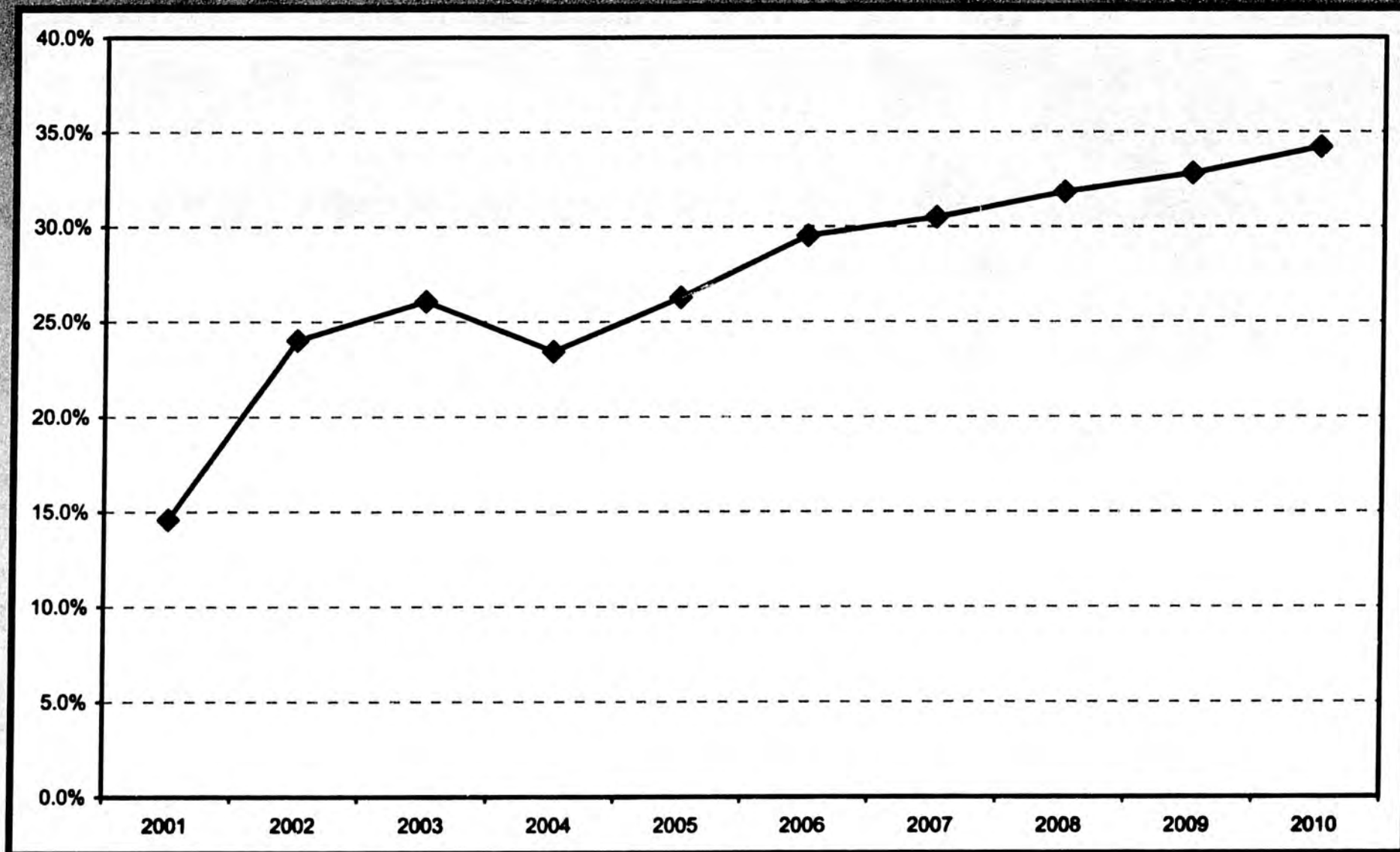
Alaska Regulated Pipelines



Source: Division of Oil and Gas, January 2002

krb 1/02

Programs Applied for



Source: DOR, Revenue Sources Book, Fall 2001

krb 1/02

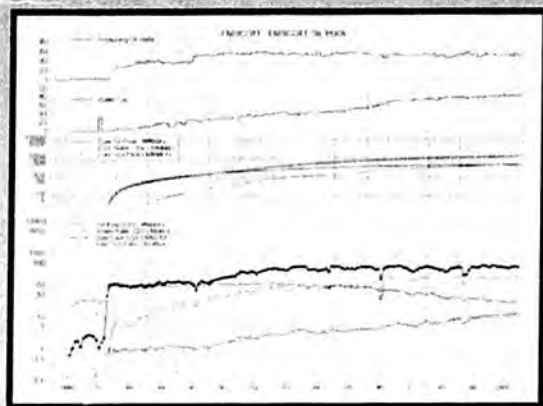
create 3-D pictures of oil fields and royalty share



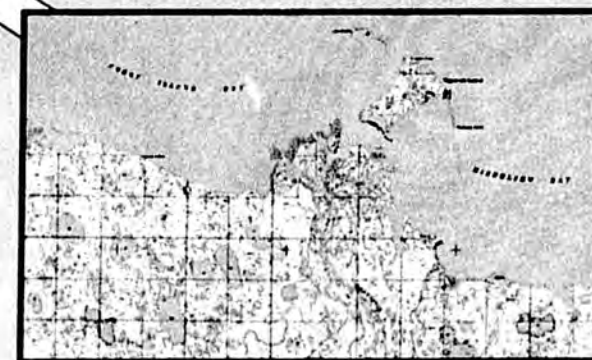
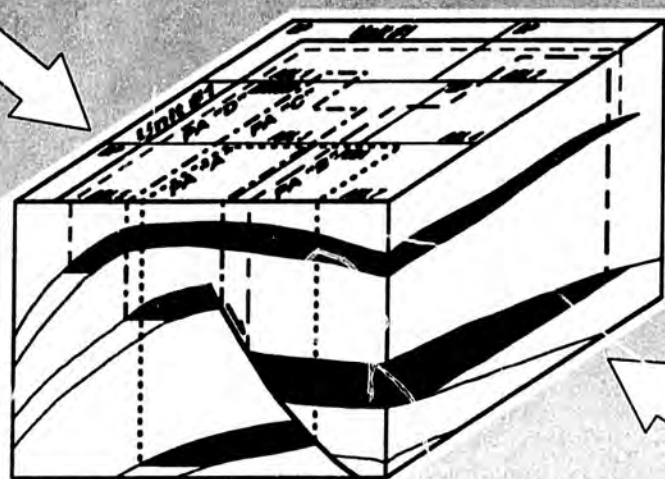
Geologic Data
(Well logs, Directional Surveys, Geochemistry, Paleontology, & Formation data)

Niskuk Western PA		Niskuk Eastern PA	
34026 ARAC, EXCHN 12.0% 1007	34026 ARAC, EXCHN 12.0% 1007	312027 ARAC, EXCHN 12.0% 1007	34026 ARAC, EXCHN 12.0% 1007
34026 ARAC, EXCHN 12.0% 1007	34026 ARAC, EXCHN 12.0% 1007	34026 ARAC, EXCHN 12.0% 1007	34026 ARAC, EXCHN 12.0% 1007

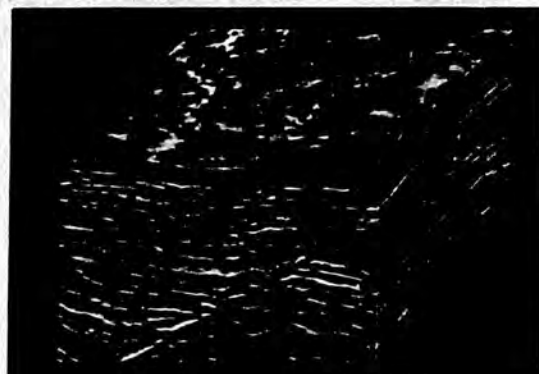
Royalty, Lease, Unit/Participating Areas, Ownership & Economic Data



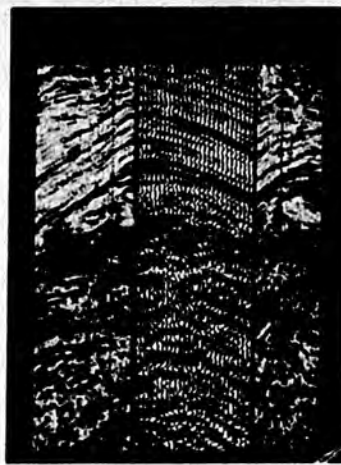
Engineering & Production Data



**Geographic Information;
Cultural & Physical Data
Aerial & Satellite Imagery**



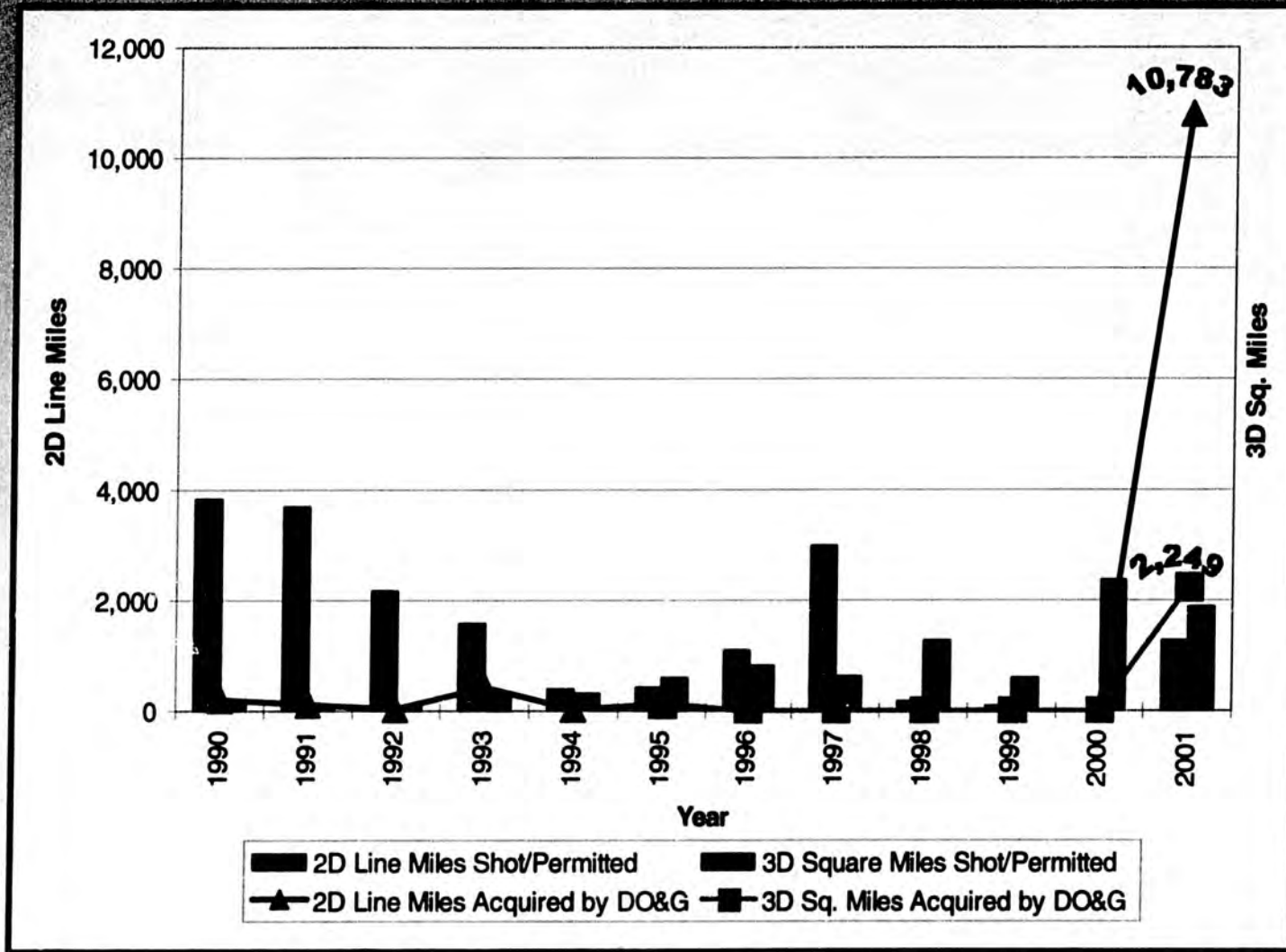
3-D Seismic



2-D Seismic

Geophysical Data
(Seismic, Gravity, Magnetic, Velocity, & Shothole data)

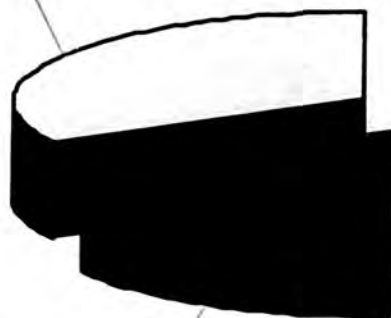
Seismic Data Status 1990 - 2001



jrc 01/02

FY02 Seismic Acquisition Expenditures

\$42,106
Seismic Hardware
and associated
software



\$64,125
Seismic
Processing and
Interpretive
Software

\$22,130
Acquisition of
4,387 miles of
seismic data
backlog

Exploration Licensing

Proposed – Susitna Valley

- **Forest Oil Corp. submitted two proposals**
- **873,600 Total Acres, located west of Susitna R.**
- **Total Exploration Commitment over \$5 Million**
- **Final Finding and Decision – February 2002**

Proposed – Nenana Basin

- **Andex Resources submitted only proposal**
- **499,800 Acres, located north and west of Nenana**
- **Exploration Commitment = \$2.5 Million**
- **Preliminary Finding – February 2002**
- **Final Finding and Decision – Late Summer 2002**

Alaska Natural Gas In-State Demand Study

Prepared on Behalf of the Alaska Department of Natural Resources

David E. Dismukes, Ph.D.

With Contributions from:

Dmitry V. Mesyanzhinov, Ph.D.

Elizabeth A. Downer

Stephen Chriss

Jeffrey M. Burke

Report Prepared by the Collaboration of:

Econ One Research, Inc.

Los Angeles, California

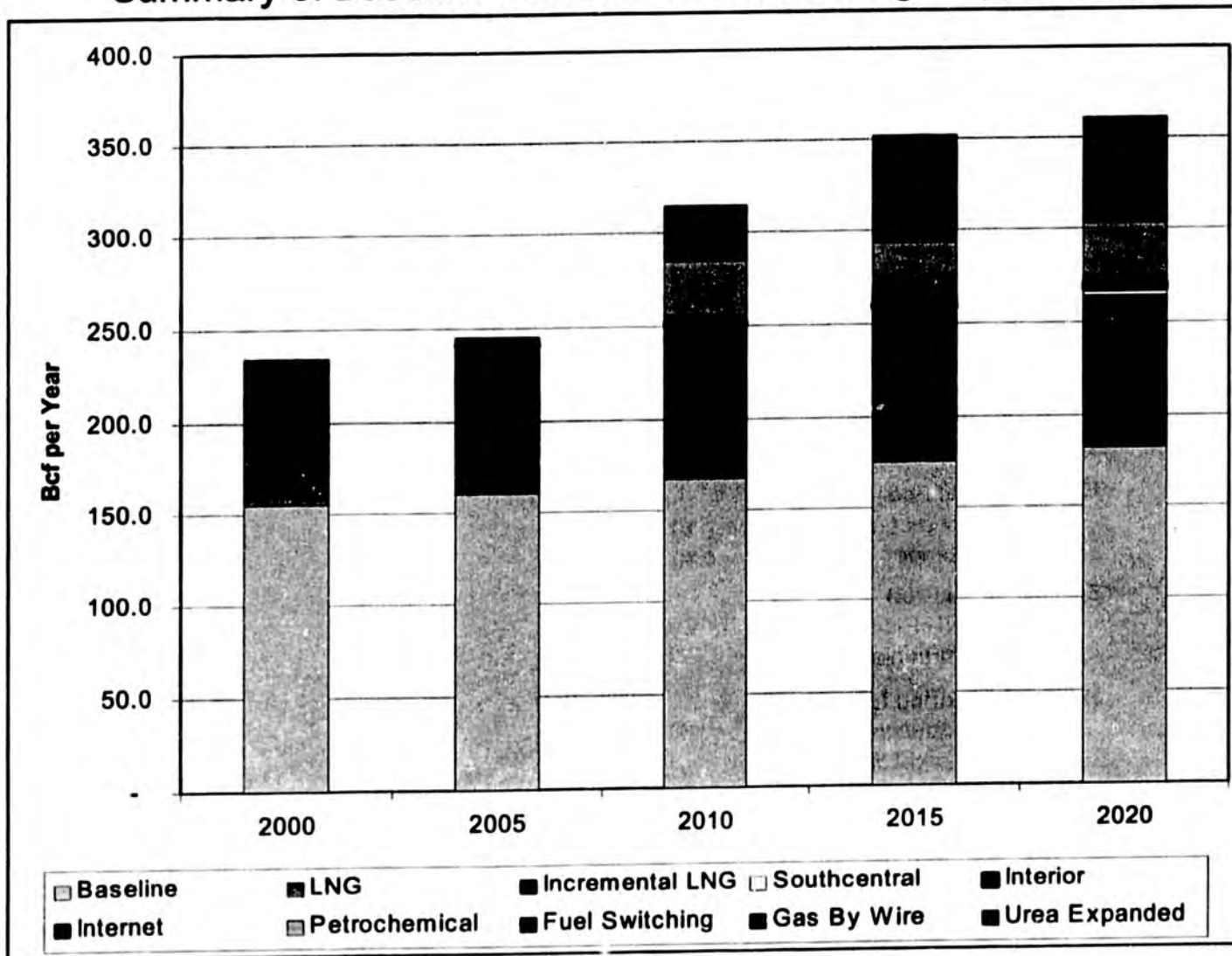
and

Acadian Consulting Group

Baton Rouge, Louisiana

January 23, 2002

Summary of Baseline Forecast and New Usage Opportunities



Alaska DNR

Summary of Baseline In-State Natural Gas Demand and Potential for Growth (Bcf per Year)

Instate Baseline in 2000

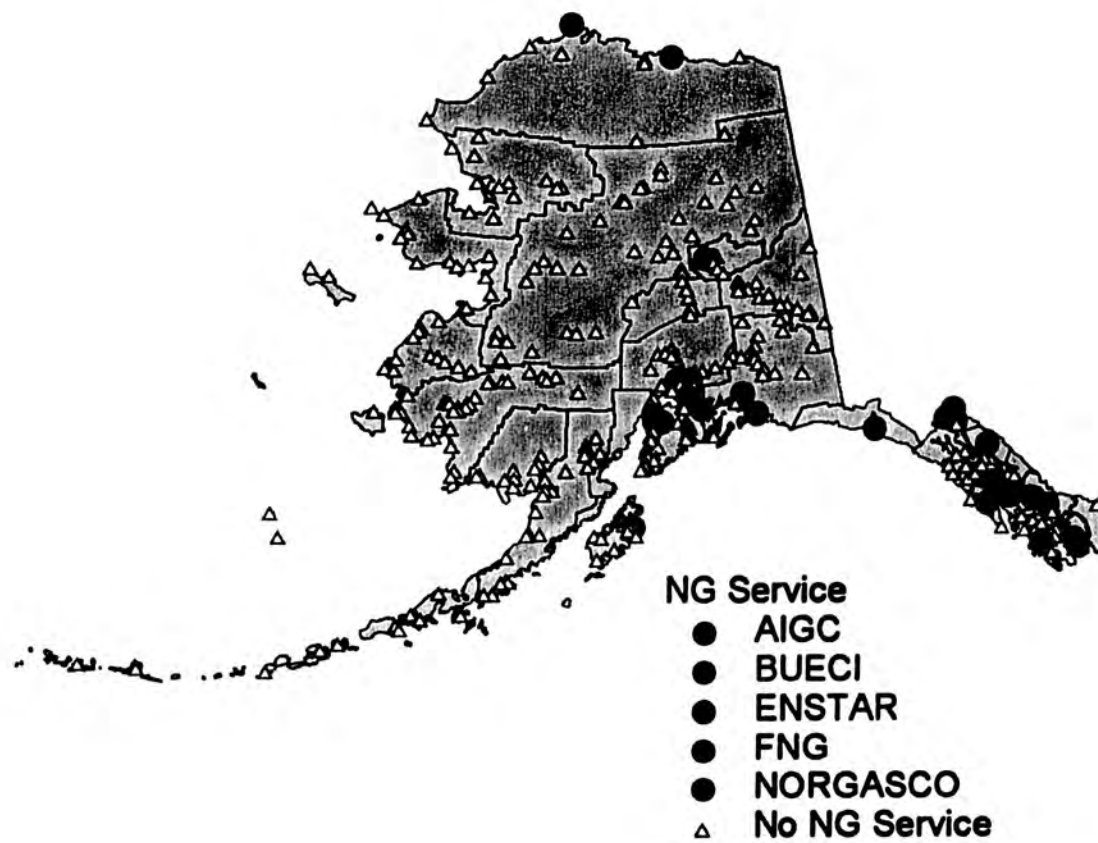
	Residential	Commercial	Industrial	Electric Power	Total
	(Bcf per Year)				
Southcentral	16.70	18.57	151.24	35.04	221.54
Interior	0.07				0.07
North Slope	0.75	10.00		0.62	11.37
	<u>17.52</u>	<u>28.57</u>	<u>151.24</u>	<u>35.66</u>	<u>232.98</u>
	7.5%	12.3%	64.9%	15.3%	100.0%

Potential for Growth in 2020

Baseline	7.9	6.3	8.0	5.1	27.3
Expanded Service					
Southcentral	2.20				2.20
Interior	4.30				4.30
Existing Industrial					
LNG Plant			2.80		2.80
Ammonia-Urea Plant			7.20		7.20
New or Expanded Industry					
Ammonia-Urea Plant			30.00		30.00
Internet Server			4.30		4.30
Petchem			27.00		27.00
Fuel Switching for Power					
Interior (only)				15.00	15.00
Gas by Wire (central station)					
Interior (only)				12.50	12.50
					<u>365.53</u>
TOTAL in 2020, All Sectors:					

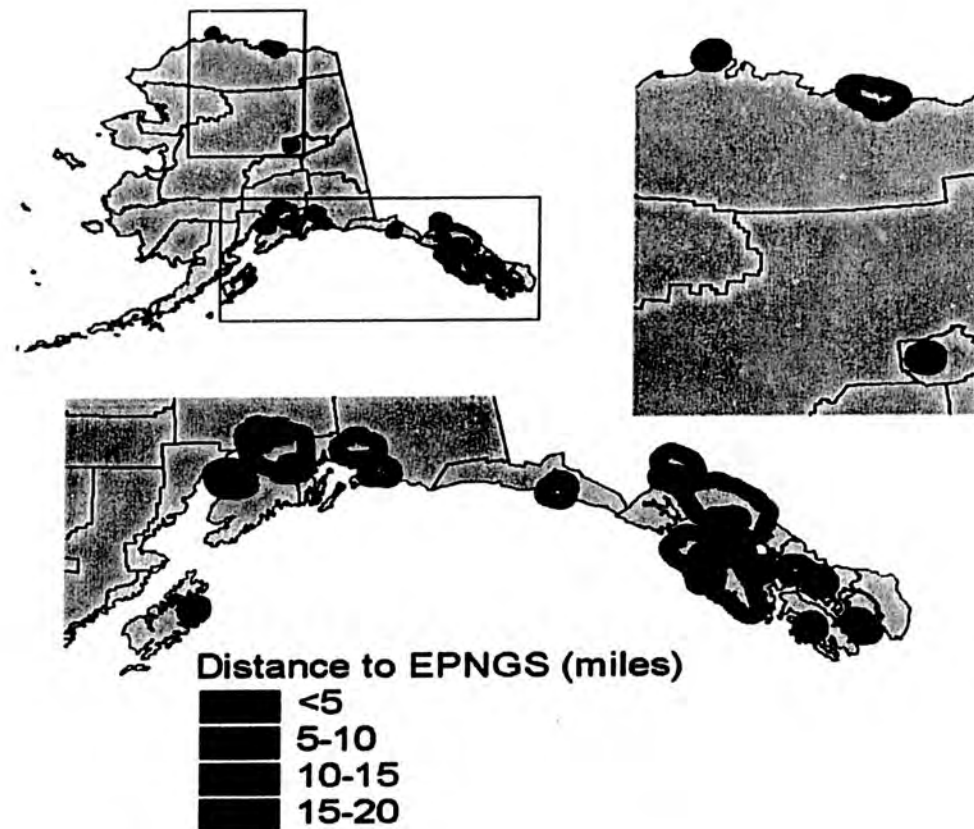
Alaska DNR

Geographic Distribution of Natural Gas Service in Alaska
Figure 6.2

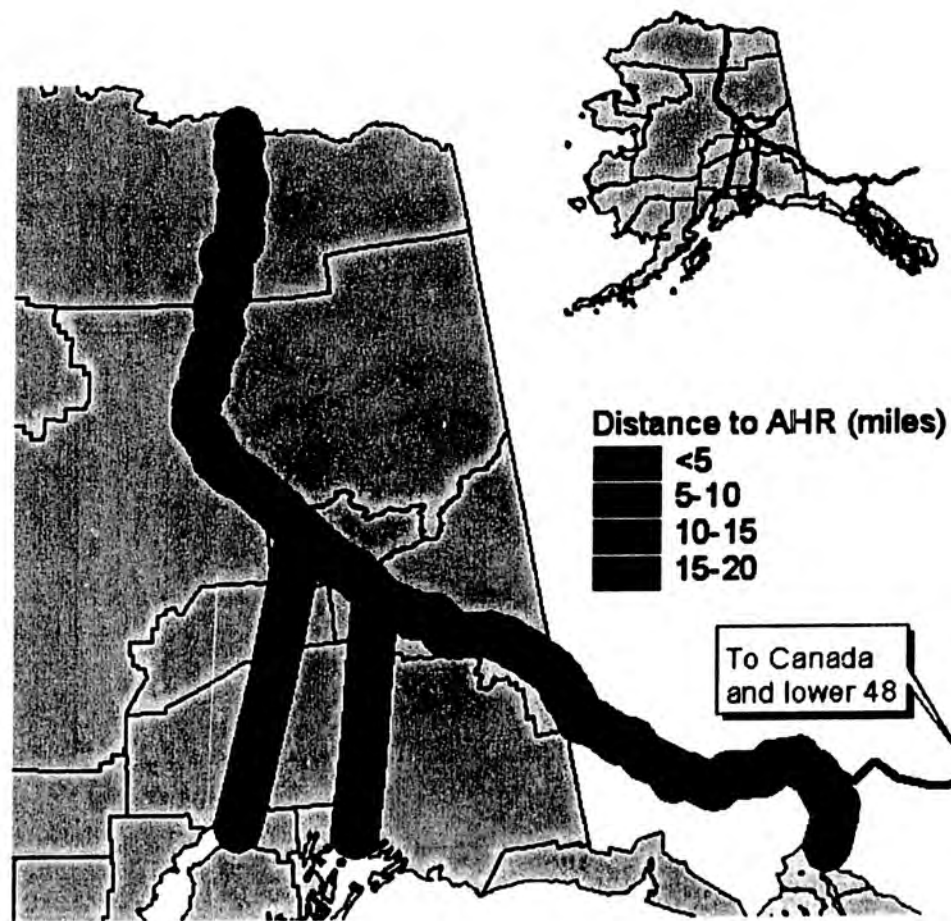


Proximity Zones around Existing and Proposed Natural Gas Systems (EPNGS)

Figure 6.6

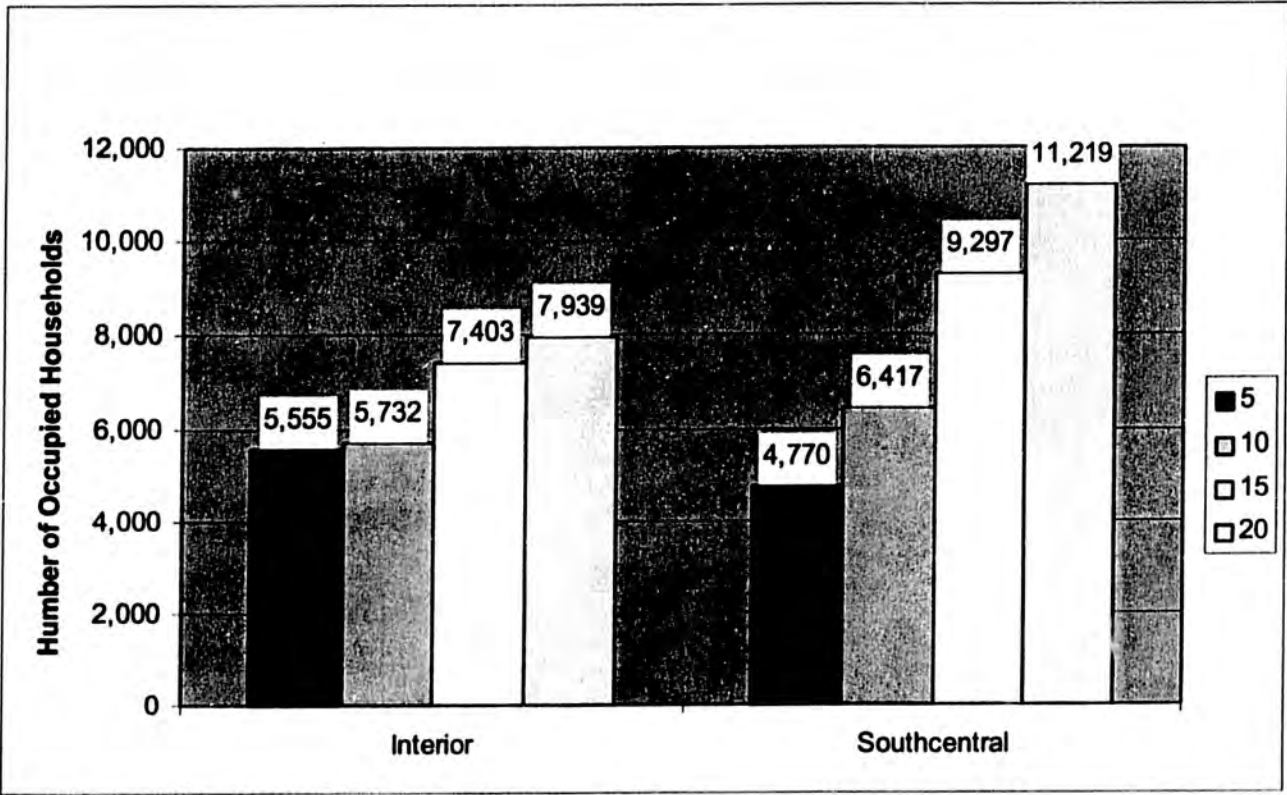


Proximity Zones Areas Around the Proposed Alaska Highway Route (AHR)
Figure 6.7

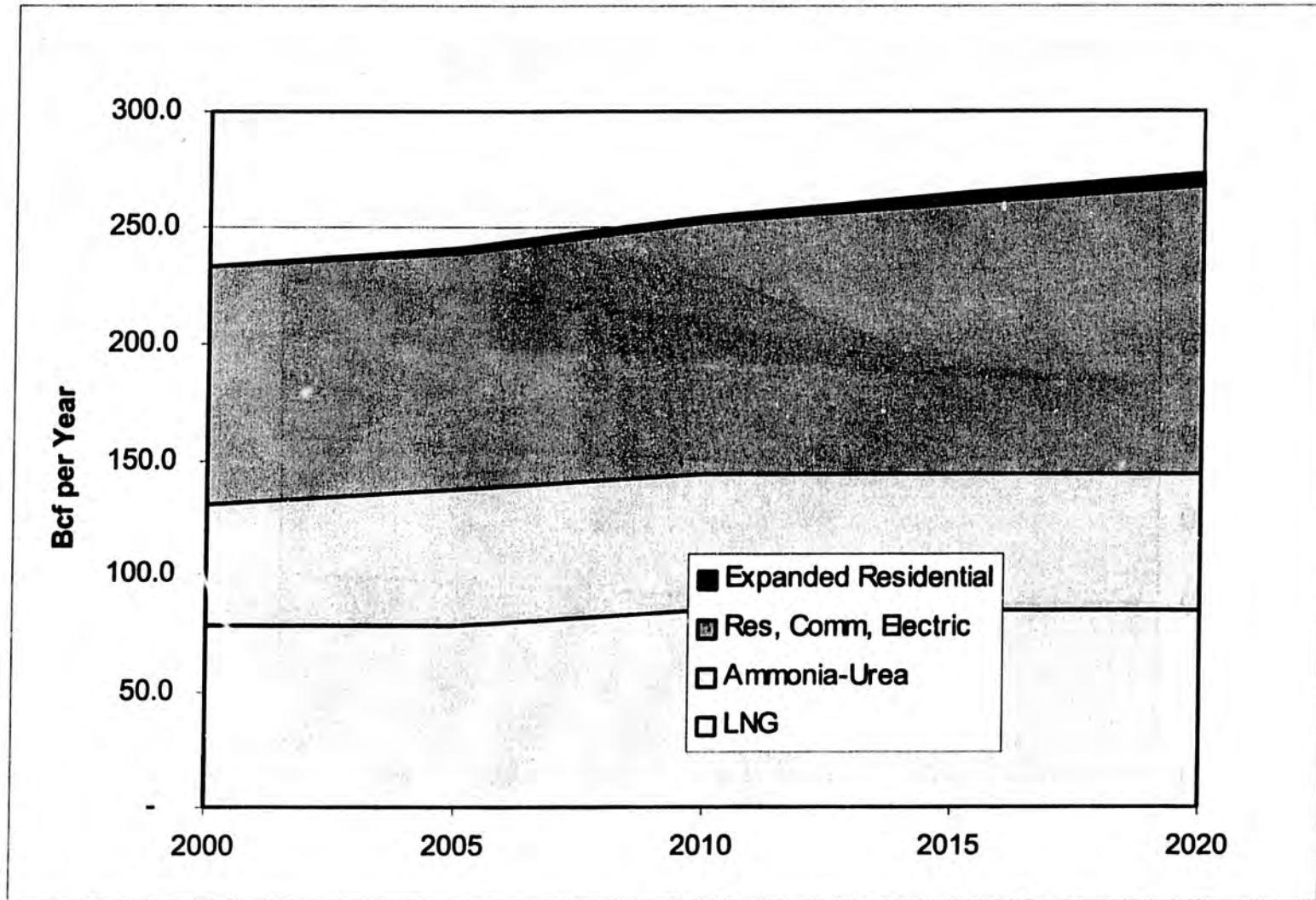


Alaska DNR

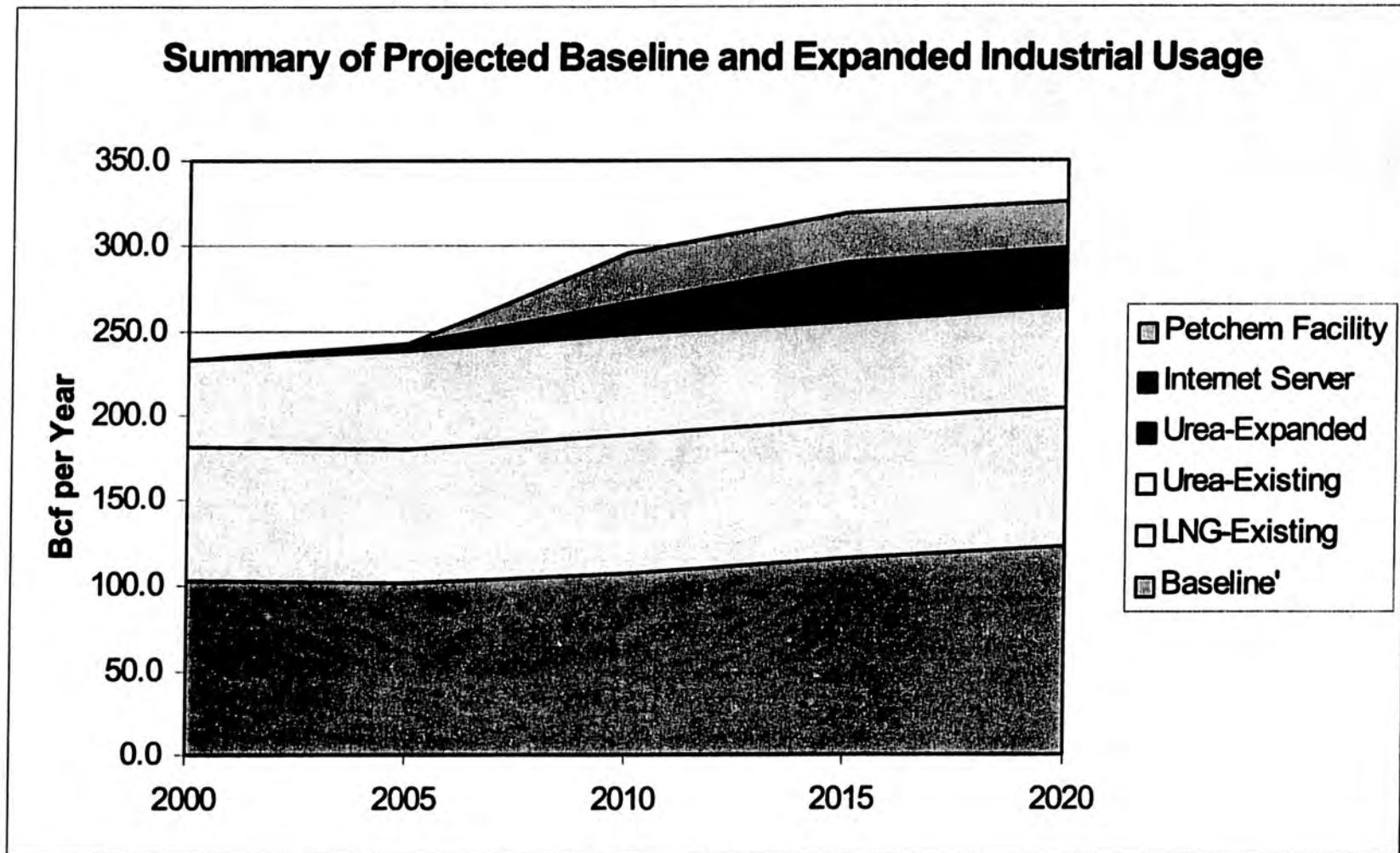
**Distribution of Interior and Southcentral Households
Without Existing or Proposed Access to Natural Gas Service
by Proximity to Natural Gas Service and AHR**



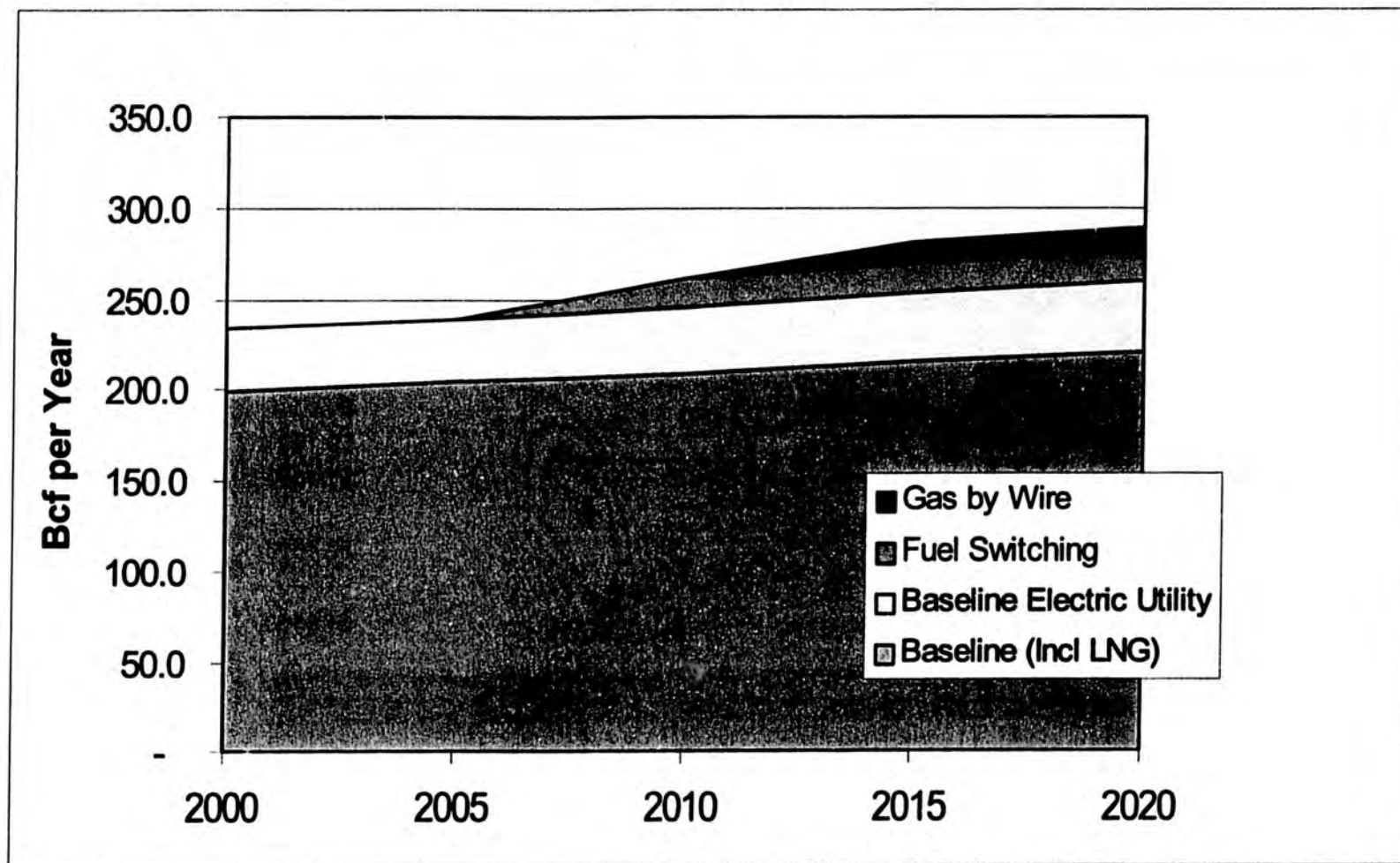
Summary of Expanded Residential and Commercial Gas Usage (Chapter 6)



Summary of Projected Baseline and Potential Industrial Usage
Chapter 7



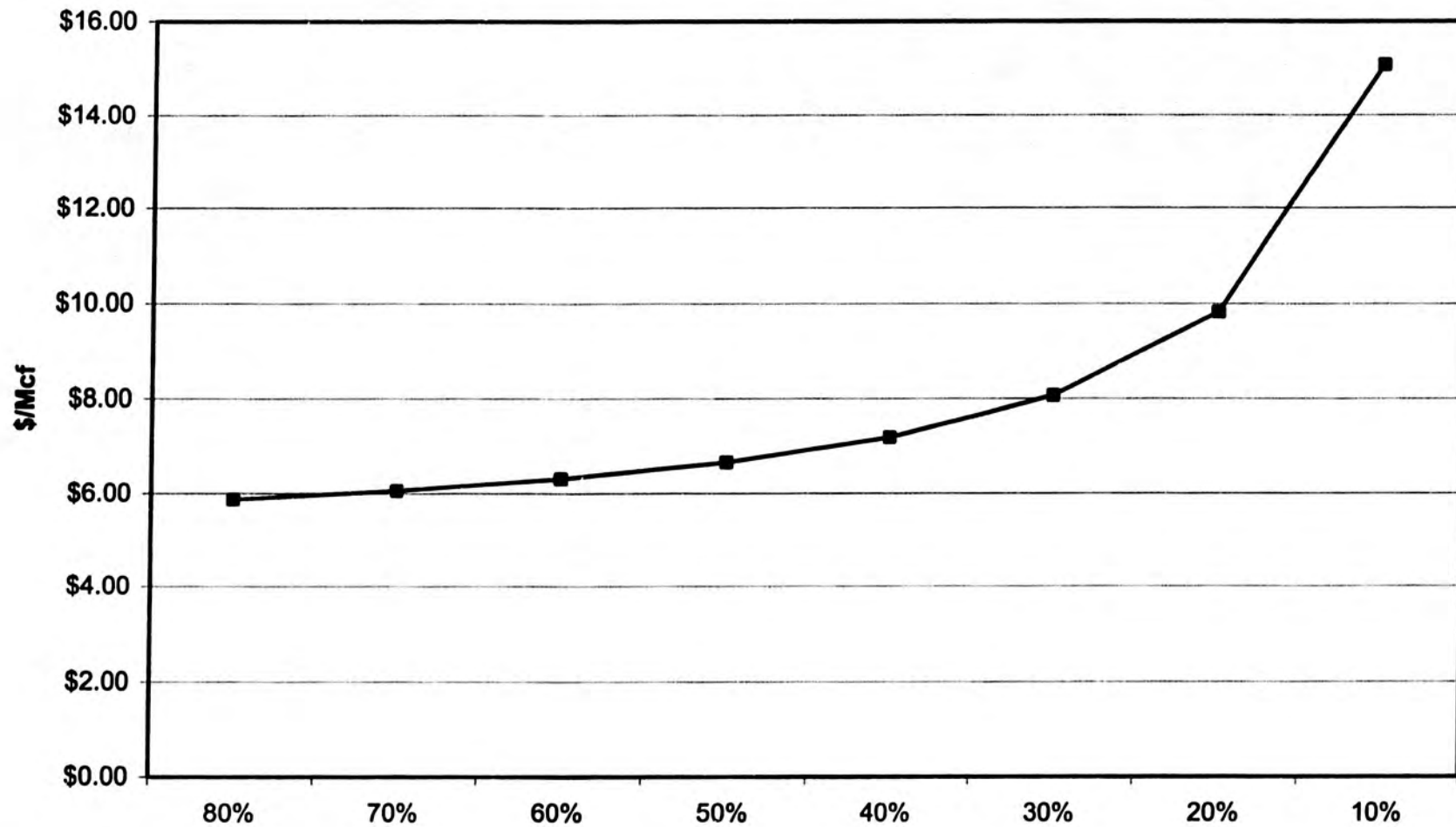
Projected Baseline and Expanded Electric Power Gas Usage:
Fuel Switching and Gas by Wire in the Interior Region
Chapter 8



**Estimated System Delivered Cost for the Interior (Fairbanks) Region
Table 9.1**

Fairbanks System Cost per Mcf	
Transportation -- ANS Conditioning Plant to Fairbanks Meter Station	\$1.0000
Levelized Meter/Step-Down Capital Cost	\$0.0307
Levelized Transportation Cost	\$0.0307
Levelized Distribution Costs	\$1.2538
Transportation Meter Station O&M	\$0.0545
Transportation O&M	\$0.1091
Distribution O&M	\$1.4857
Total T&D Cost	\$3.9646
Commodity Cost	\$1.9100
Total Delivered Cost (Average Retail Rate)	\$5.8746

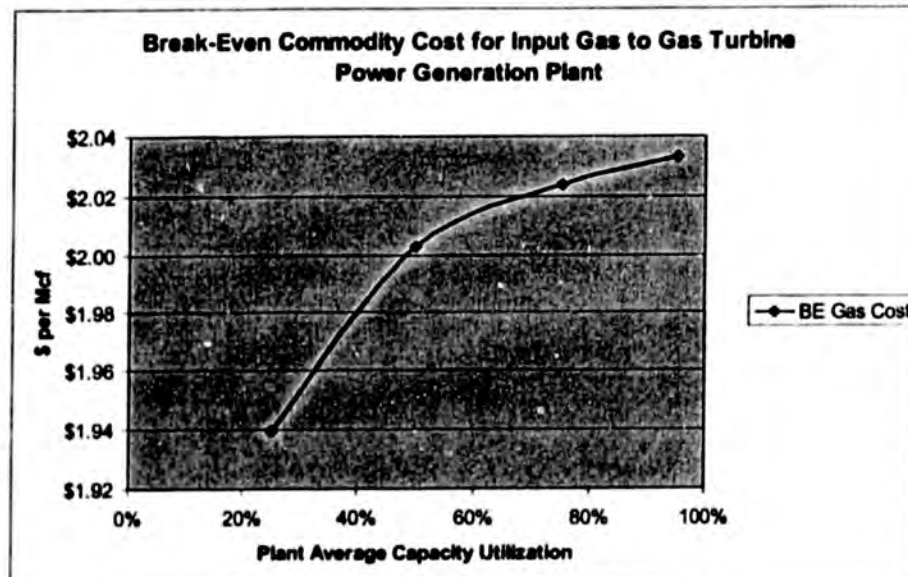
Estimated Delivered Cost (Average Retail Rates) versus Penetration Rates – Interior Region



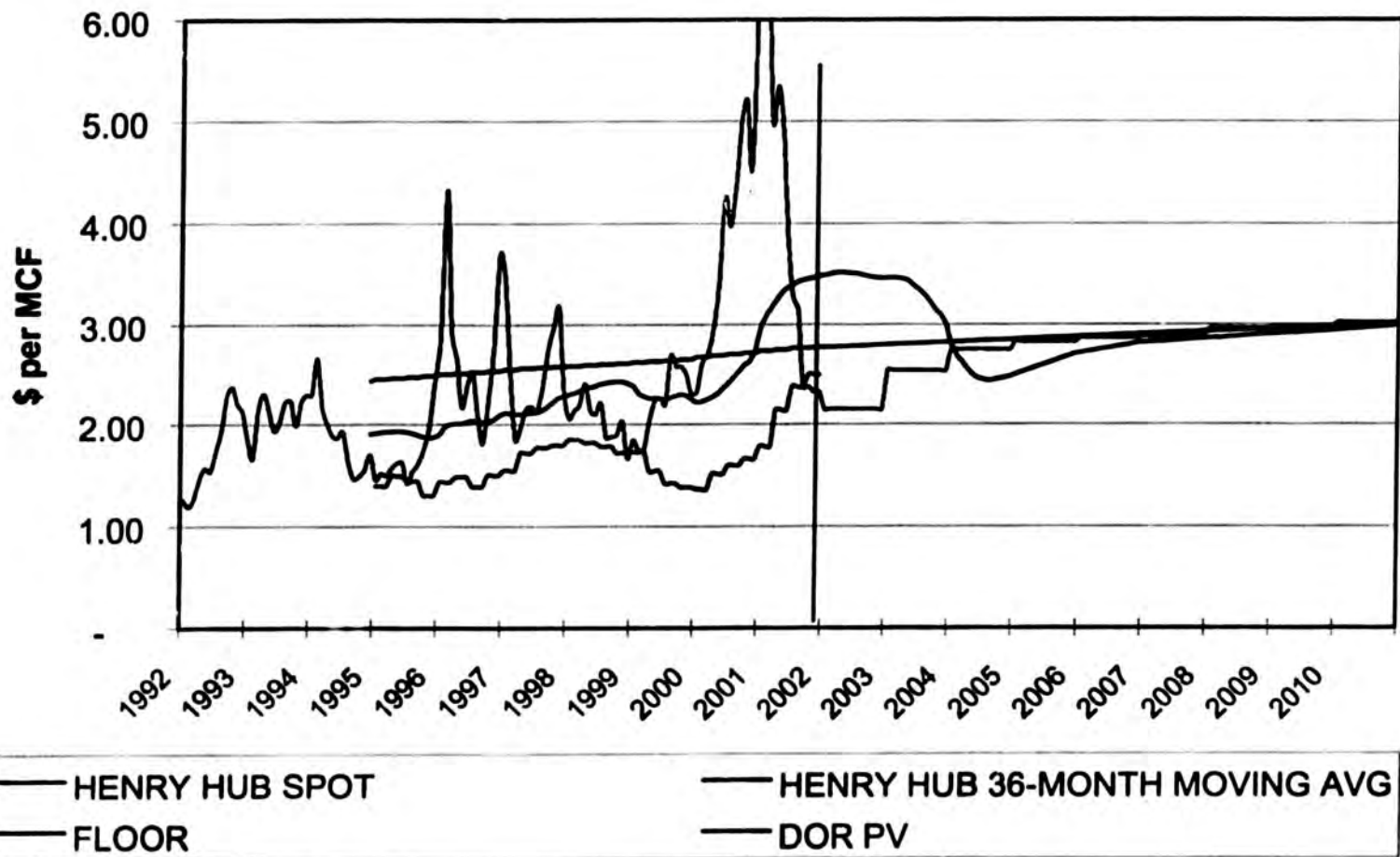
Alaska DNR

Cost Savings from Fuel Switching Under Different Average Capacity Assumptions Table 9.6

Capacity Factor	Gas Usage (Mcf)	Savings Per kWh		Total Savings
		Low	High	
95%	30,284,049	0.00360	0.00870	8,875,417
75%	23,908,460	0.00350	0.00850	6,794,093
50%	15,938,973	0.00310	0.00820	4,192,437
25%	7,969,487	0.02000	0.00700	1,590,781

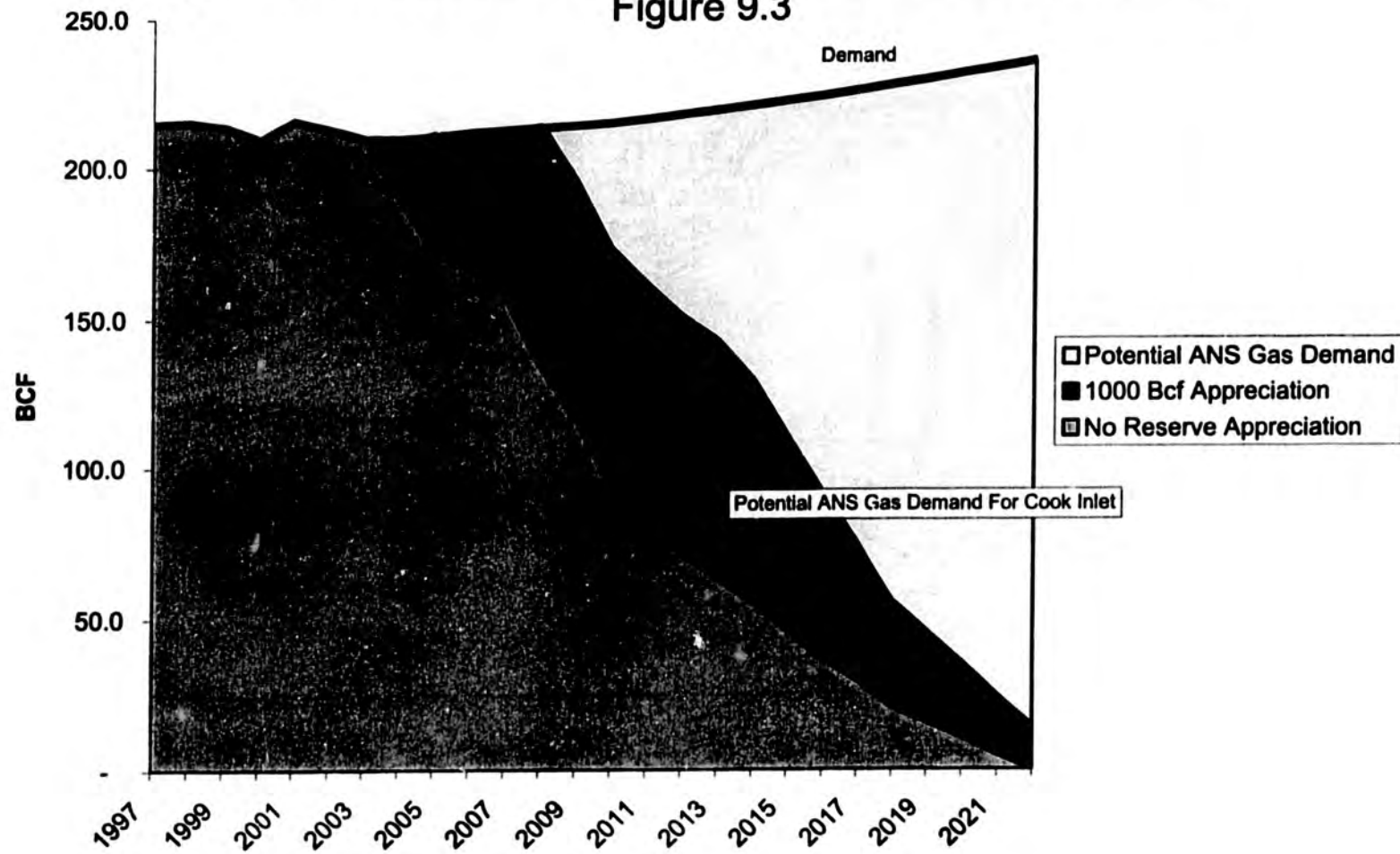


Henry Hub 36-Month Moving Average with UNOCAL-ENSTAR Price Floor
 Henry Hub Spot Price and DOR Prevailing Value
 Figure 9.2

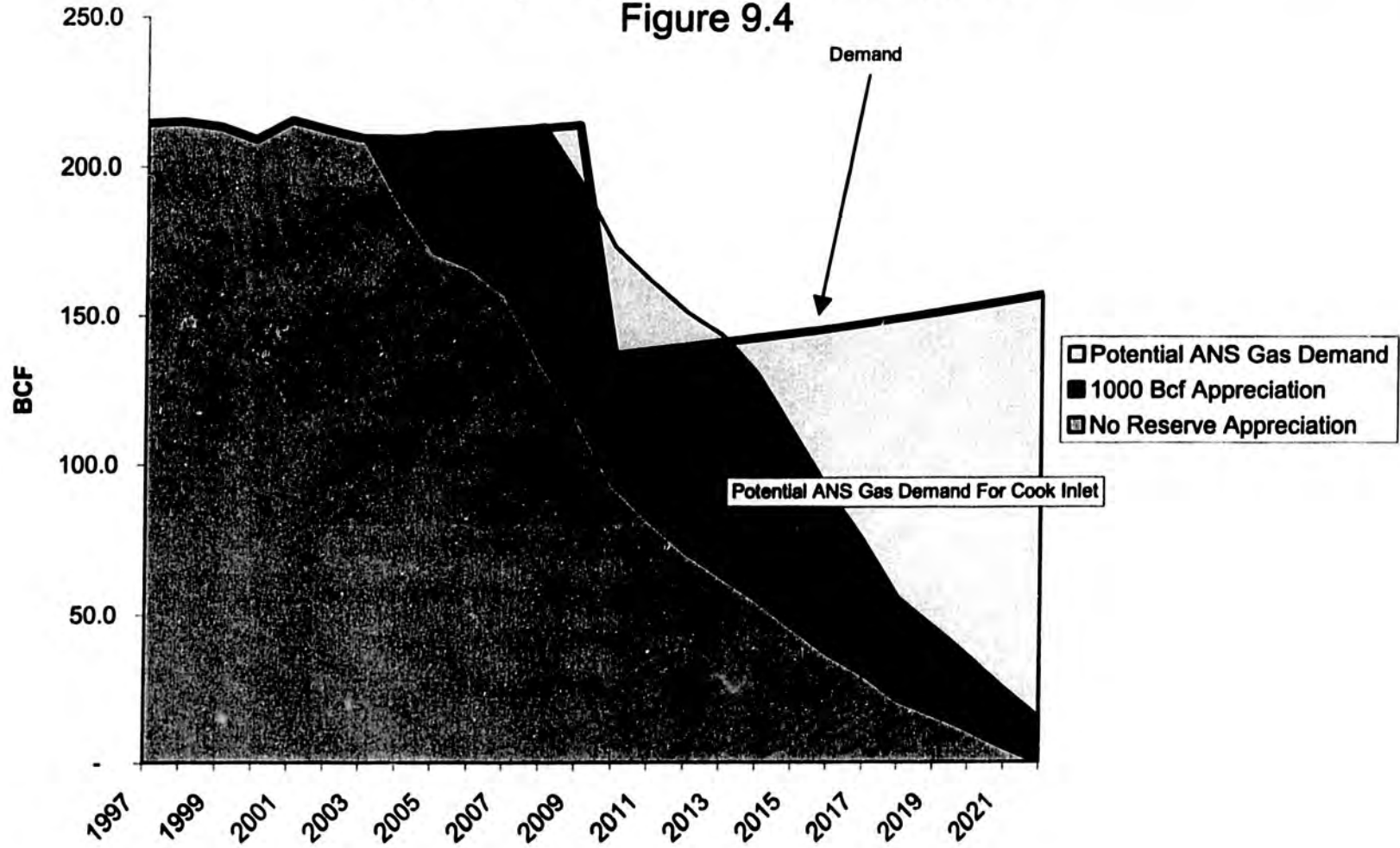


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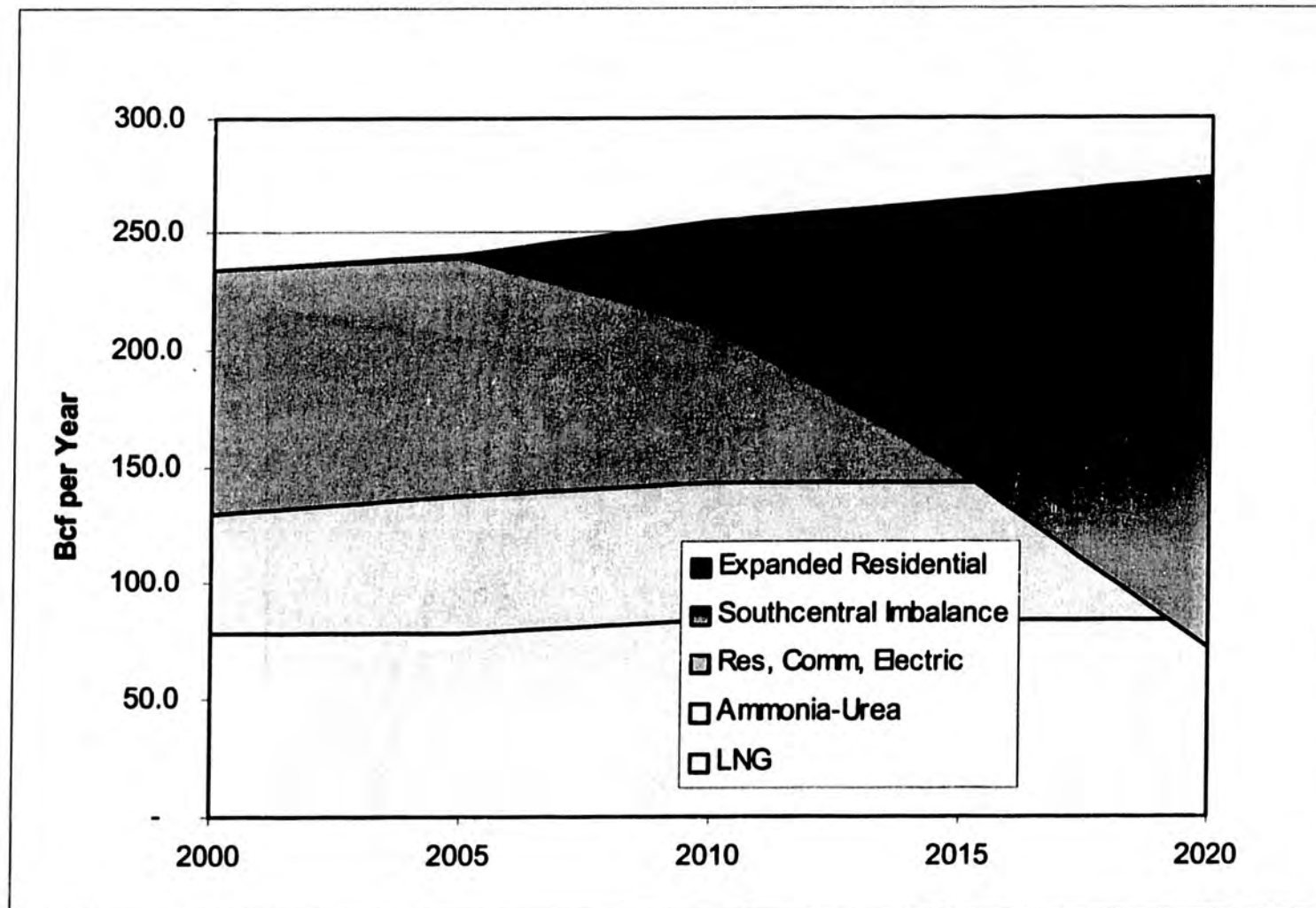
Projected Cook Inlet Supply and Demand
 Typical Production Scenario with 1 Tcf Reserve Appreciation
 Figure 9.3



Projected Cook Inlet Supply and Demand
 LNG Export License Renewal Denied
 Figure 9.4



Southcentral Gas Demand-Supply Imbalance



Estimate Pipeline Transportation Costs Under Different Volumetric Assumptions
Figure 9.5

