

HB

417

REPRESENTATIVE  
MIKE CHENAULT

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# STATE OF ALASKA



HOUSE OF REPRESENTATIVES

Official Business

Session:  
Capitol Building, Room 432  
Juneau, Alaska 99801-1182  
(907) 465-3779  
Toll Free: (800) 469-3779  
Fax: (907) 465-2833

## House Bill 417

### An Act Amending the definition of project in the Act establishing the Alaska Natural Gas Development Authority

House Bill 417 amends the definition of project to include all options for a terminus of the Alaska Natural Gas Pipeline. This specifically identifies Cook Inlet as a possibility for a terminus.

Revised 02/10/04

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February 26, 2004

TO: House Resources  
Rep. Dahlstrom Co Chair  
Rep. Masek Co Chair

FROM: Rep. Mike Chenault

RE: House Bill 417 "An act amending the definition of 'Project' in act establishing the ANGDA and providing an effective date."

Please consider this a request to schedule House Bill 417 for a hearing before the House Resources Committee. As I will be excused until March 2, please put it on the schedule as soon as possible after that date.

# FISCAL NOTE

**STATE OF ALASKA**  
**2004 LEGISLATIVE SESSION**

Fiscal Note Number: 1  
 Bill Version: HB 417  
 (H) Publish Date: 2/23/04

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue  
 Title Natural Gas Dev Auth Initiative RDU AK Natural Gas Dev Authority  
 Component AK Natural Gas Dev Authority  
 Sponsor Representative Chenault  
 Requester House Oil & Gas Committee Component No. 2708

**Expenditures/Revenues** (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>	****	****	****	****	****	****
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<b>CHANGE IN REVENUES ( )</b>						
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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--Do not abbreviate)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2004) cost: 0.0  
 Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)  
 \*\*\*\* This legislation would change the responsibility of the Alaska Natural Gas Development Authority from reviewing the economic viability of a gas pipeline from Prudhoe Bay to Valdez and a spur from Glennallen to the Southcentral gas distribution grid to including the review of the economic viability of a gas line to tidewater at a point on Cook Inlet.  
  
 Since the Alaska Natural Gas Development Authority is already reviewing the economic viability of a spur to the Southcentral gas distribution grid, it is uncertain if additional funds will be necessary to expand that review to include to tidewater at a point on Cook Inlet.

Prepared by: Steve Porter, Deputy Commissioner Phone (907) 465-2365  
 Division Department of Revenue Date/Time 2/15/04 8:18 PM  
 Approved by: Steve Porter, Deputy Commissioner Date 2/15/2004  
 Agency Department of Revenue

# LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES  
LEGISLATIVE AFFAIRS AGENCY  
STATE OF ALASKA

(907) 465-3867 or 465-2450  
FAX (907) 465-2029  
Mail Stop 3101

State Capitol  
Juneau, Alaska 99801-1182  
Deliveries to: 129 6th St., Rm. 329

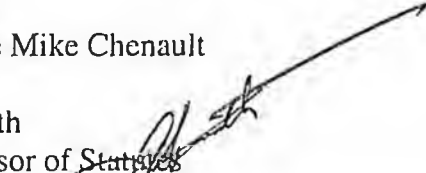
## MEMORANDUM

February 3, 2004

**SUBJECT:** House Bill 417, amending the definition of "project" in the Act establishing the Alaska Natural Gas Development Authority -- sectional analysis (Work Order No. 23-LS1424\A)

**TO:** Representative Mike Chenault

**FROM:** Jack Chenoweth  
Assistant Revisor of Statistics



Chris Koski has asked for preparation of a sectional analysis for this bill.

The 2002 initiative that establishes the Alaska Natural Gas Development Authority and defines its powers and duties directs the Authority to evaluate and develop a North Slope natural gas pipeline project. The initiative supplies a definition of the term "project" to include delivery of the gas to a point on tidewater on Prince William Sound. **Bill section 1** amends that definition to add the alternative of delivery to tidewater at a point on Cook Inlet.

**Bill section 2** gives the measure an immediate effective date.

JBC:med  
04-129.med

## Cook Inlet Gas Supplies & Prices

- Current Cook Inlet gas prices have been low because the large gas reserves found over 30 years ago were “stranded”
- Cook Inlet gas reserves need to and can be replenished, but exploration for today’s \$2.50 gas will not attract at-risk investors
- Over the next several years all local gas consumers will see the average gas price double as contracts indexed to higher L-48 gas markets dominate newly found on-going gas supplies

### Potential Cook Inlet Gas Pricing with North Slope Spur Line



Gas Price in Chicago	\$4.00 / Mbtu
Tariff from North Slope	-\$3.00
	-----
Net-Back Gas Price on North Slope	\$1.00
Tariff to Cook Inlet	+\$1.50
	-----
Gas Price in Cook Inlet	<b>\$2.50 / Mbtu</b>

- Cook Inlet price of North Slope gas will be approximately \$1.50 less than the gas price in the Mid-West (the difference in the tariff down the AICan highway vs the tariff to Cook Inlet)
- State can consider legislating additional discounts on royalty gas for Alaskan households and/or businesses

# ANGDA Business Model

- Achieve lowest cost of service for NS gas transportation using unique bonding and tax status
- Assure maximum benefits to all Alaskans
- Borrow commercially in market & avoid State funding mistake
- Work cooperatively and supportively with other public or commercial entities to get Alaska gas to market

## New ANGDA Base Case Investment (Notional)

	Old Base	New Base	Basis	
<b>Treatment Plant</b>	\$2 B	\$1.0 B	$(\$2.3B) * (2/4.5)$	Prod
<b>Pipeline</b>	\$4 B	\$3.5 B	$(\$4.4B) * (800/740) * (36/52)$	Prod
<b>Liquefaction Plant</b>	\$4 B	\$3.0 B	$(15 \text{ Mtons}) * (\$150/\text{ton}) * (1.3)$	BP
<b>LNG Tankers</b>	\$2 B	\$2.25 B	$(9) * (\$150M) + (3) * (\$300M)$	Less US
<b>Spur Line</b>	-	\$0.25 B	$(20") * (125\text{miles}) * (\$100k/"\text{mile})$	
<b>WC Regas</b>	-	\$0.3 B	0.5 BSCFPD WC facility	
<b>NGL Plant</b>	-	\$0.2 B	$(\$0.4B) * (2/4.5)$	Prod
<b>TOTAL</b>	<b>\$12 B</b>	<b>\$10.5 B</b>	Net of $-\$2.25B$ & $+\$0.75B$	

# ANGDA Financing & Tax Alternatives

<b><u>CASES</u></b>	Debt to Equity Ratio	Return on Equity	Debt Interest Rate	Taxable Status ?	<b>Cost of Service</b>
<b>High Return Business</b>	70 / 30 %	15 %	8 %	YES	<b>2.83</b>
<b>Attractive Investment</b>	70 / 30 %	12 %	8 %	YES	<b>2.51</b>
<b>Low Interest Debt</b>	80 / 20 %	12 %	5 %	YES	<b>1.94</b>
<b>No Return &amp; Highway Bonds</b>	All Debt	Zero	3.5 %	NO	<b>1.36</b>

Wellhead Value NOT Included in Cost of Service (\$/million BTU)

# Comparison of Projects

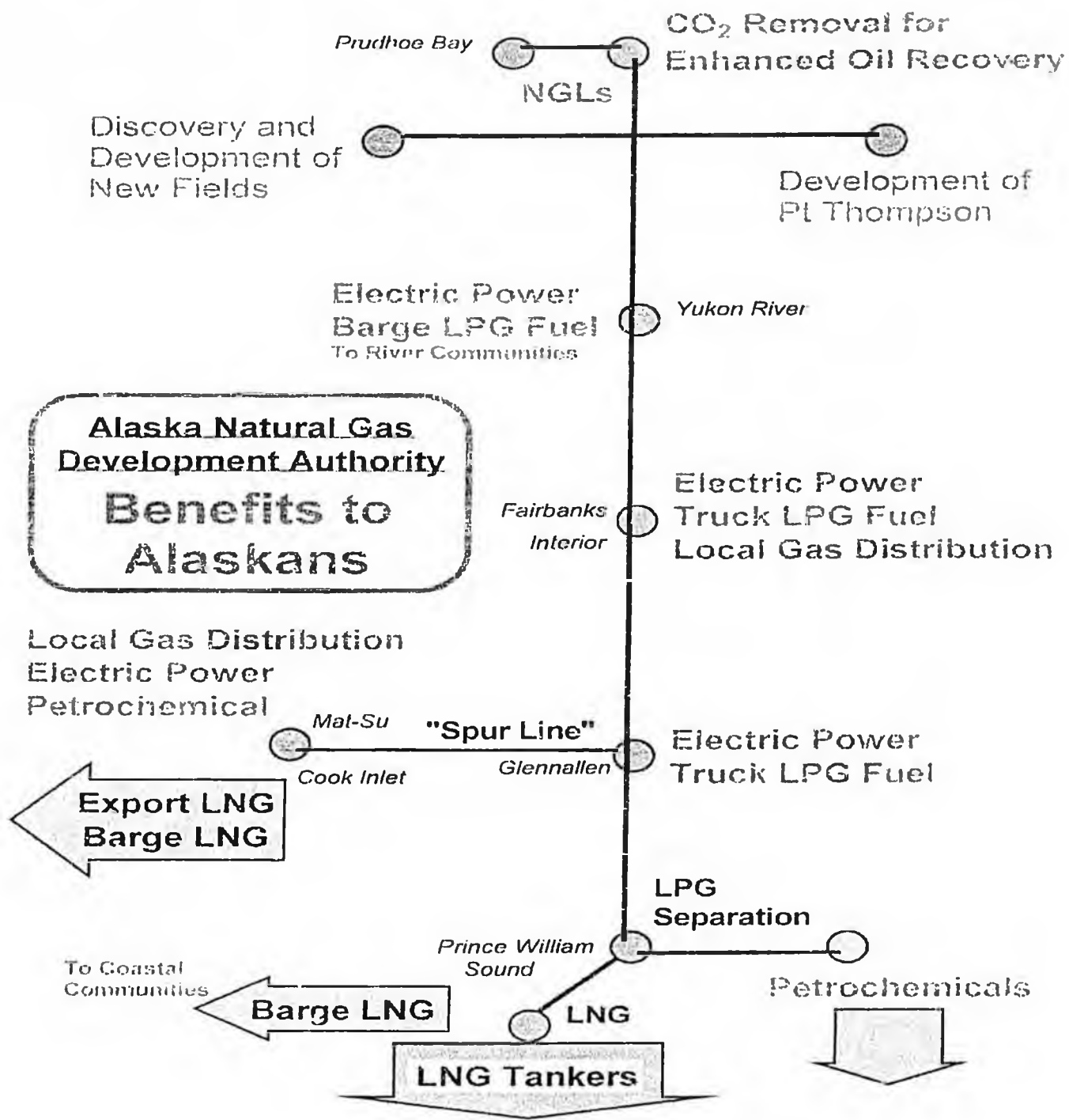
## Notional Cost of Service (\$/Mbtu)

	ANGDA LNG	AlCan Highway
Attractive Investment	2.51	2.27
Low Interest Debt	1.94	1.79
THROUGHPUT	2 BSCFPD	4.5 BSCFPD
CAPITAL COST	\$10.5 B	\$19 B

Wellhead Value NOT Included in Cost of Service

## Observations on All-American LNG Project

- LNG export key to achieving economy of scale with in-state use
- Gas at tidewater opens up a wide variety of options (i.e., petrochemicals & CNG)
- Cost of service drops over a \$1/mmbtu using ANGDA financing & tax leverage
- Alaskan LNG can compete in \$3 gas world
- LNG customers will share in market price risk / reward



**Alaska Natural Gas  
Development Authority  
Benefits to  
Alaskans**

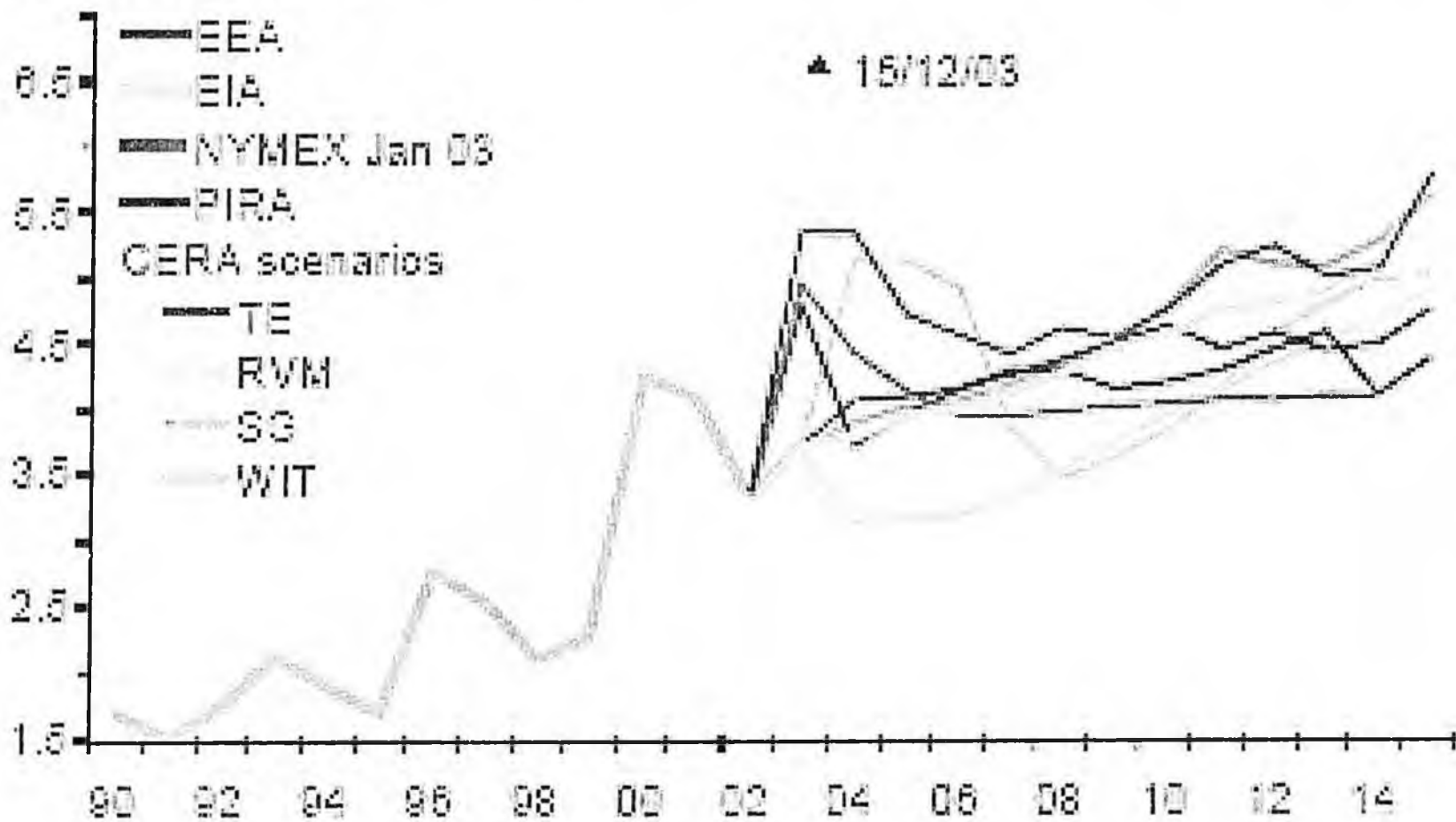
# Natural Gas Consumption in Alaska (BCF per year)

• Residential	15
• Commercial	20
• Electrical	35
• Agrium Plant	50
• Kenai LNG Plant	100
<b>TOTAL</b>	<b>220 Bcf/yr</b>
• New Public Services (?)	100 - 150

2

# Henry Hub price forecasts 2002-15

\$/million BTU



# Future Cook Inlet Gas Price

## North Slope Gas Delivered via Spur Line



Gas Price in Chicago	<b>\$4.00 / Mbtu</b>
Tariff from North Slope	-\$3.00 -----
Net-Back Gas Price on North Slope	\$1.00
Tariff to Cook Inlet	+\$1.50 -----
<b>Gas Price in Cook Inlet</b>	<b>\$2.50 / Mbtu</b>

# **Alaska Natural Gas Development Authority**

Homepage is: <http://146.63.35.79/>

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