

SB

247

**SENATE COMMITTEE REPORT
First Committee of Referral**

DATE: 1/12/04

FURTHER: Finance

Date of 5-Day Notice: _____
(in accordance with Uniform Rule 23)

DATE TURNED
IN TO OFFICE: 3-18-04

Resources Committee considered SENATE BILL NO. 247

SB 247 AK NATURAL GAS DEV. AUTHORITY INITIATIVE

"An Act amending the definition of 'project' in the Act establishing the Alaska Natural Gas Development Authority; and providing for an effective date."

and recommends:

- be replaced with _____ CS _____ (_____)
- adopt previous _____ CS _____ (_____)
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to _____ Committee

Senate Bill:	
<input checked="" type="checkbox"/>	Same Title
<input type="checkbox"/>	New Title
House Bill:	
<input type="checkbox"/>	Same Title
<input type="checkbox"/>	Technical Title Change
<input type="checkbox"/>	New Title w/ SCR # _____

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#
REV	7/1/04		✓		

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
<i>Joseph Delella</i>	✓			
<i>Ben ...</i>	✓			
<i>...</i>	✓			
CHAIR: <i>Scott ...</i>			✓	

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: SB 247
 () Publish Date: _____

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 Senator Wagoner
 Requester Senate Resources 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						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES	****	****	****	****	****	****
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CHANGE IN REVENUES ()						
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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)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

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 3/11/04 11:12 AM
 Approved by: Steve Porter, Deputy Commissioner Date 3/11/2004
 Agency Department of Revenue

ALASKA STATE LEGISLATURE



Official Business

SENATOR THOMAS H. WAGONER

- Co-Chair, Senate Transportation Committee
- Vice-Chair, Senate Resources Committee
- Vice-Chair, Community & Regional Affairs
- Member, Legislative Council

Session: January – May

State Capitol, #427

Juneau, AK 99801

Phone: 907-465-2828 Fax: 907-465-4779

Interim: May – December

145 Main Street Loop; Suite 226

Kenai, AK 99611

Phone: 907-283-7996 Fax 907-283-8127

DATE: January 15, 2004

TO: Senator Ogan, Chair
Senate Resources Committee

FROM: Senator Tom Wagoner *Tom*

RE: Hearing Request – SB 247: ANGDA amendment

I would appreciate your hearing SB 247 – amending the definition of “project” in ANGDA.

I expect to have letters of support by early next week and will provide you with all the information necessary for the committee packet.

Thank you for your time and consideration.



Official Business

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SB 247 – Alaska Natural Gas Development Authority Initiative

Sponsor Statement

The Alaska Natural Gas Development Authority (ANGDA) board is mandated to build a natural gas pipeline from Prudhoe Bay to tidewater at Prince William Sound with a spur line to Cook Inlet. That route was on the ballot that was approved by the voters when establishing the ANGDA in November of 2002.

SB 247 amends the project description to provide an additional route for consideration – from Prudhoe Bay to tidewater at Cook Inlet.

Consideration of an alternative route for an Alaska gas line is an issue recently brought to light by discussions with the Mitsubishi Corporation (MC) in October of 2003. According to the Governor's office, a Memorandum of Understanding (MOU) is under consideration between ANGDA and MC. SB 247 provides an alternative that clarifies the authority of ANGDA to pursue an MOU to Cook Inlet.

Adding this second alternative to the ANGDA provides further assurance to the voters of Alaska that the most economical project is brought forward. It is in the interests of all Alaskans to make certain that the final work product by ANGDA is one that has received scrutiny from all perspectives.

Finally, the sponsor believes that this amendment is not against the will of voters; but rather it is a protection of the voters' interests by expanding the project description to determine the most economical project. The primary interest of the voters was to provide an Alaskan natural gas pipeline project and they have expectations that their interests will be protected by appropriate agencies in reviewing routes, projects costs, and so on, and then determining the preferred route.

The final preferred route should be the one that maximizes job benefits for Alaskans, provides revenues for the State of Alaska, and provides Alaskan's access to natural gas.



Official Business

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SB 247 – Alaska Natural Gas Development Authority Initiative

Sectional Analysis

Section 1: Amends the current project description for the Alaska Natural Gas Development Authority by adding another route for consideration - a route from Prudhoe Bay to tidewater at Cook Inlet.

Section 2: Provision for an immediate effective date for the bill.

THE
FOLLOWING
DOCUMENT(S)
ARE
POOR
ORIGINAL
COPIES

Introduced by:	Mayor
Date:	01/20/04
Action:	Adopted
Vote:	9 Yes, 0 No

**KENAI PENINSULA BOROUGH
RESOLUTION 2004-008**

**A RESOLUTION SUPPORTING THE PASSAGE OF SENATE BILL 247, WHICH
AMENDS THE NATURAL GAS DEVELOPMENT AUTHORITY ACT OF 2002**

- WHEREAS,** 70 percent of Alaska's population resides within the Railbelt region that extends from southern regions of the Kenai Peninsula Borough to Fairbanks North Star Borough; and
- WHEREAS,** the economics and communities of the Kenai Peninsula Borough, the Cook Inlet Basin, and the Railbelt region rely on plentiful supplies of natural gas to provide reasonably priced heat and electricity for home and business use; and
- WHEREAS,** current proven reserves of natural gas are insufficient to address long-term supply requirements for the Railbelt region; and
- WHEREAS,** Proposition 3 was passed in the 2002 general election that established the Alaska Natural Gas Development Authority (ANGDA) to evaluate and attempt to develop an "all-Alaska" LNG pipeline project from the North Slope to Valdez, with provisions to develop a spur pipeline from Glennallen to the Cook Inlet Basin; and
- WHEREAS,** the underlying premise of Proposition 3 that established ANGDA is that an "all-Alaska" LNG project will "maximize jobs for Alaskans, revenues for the Alaskan treasury, and access to gas for Alaskans"; and
- WHEREAS,** the Kenai Peninsula Borough believes that under this premise, the best route for the ANGDA LNG project follows the disturbed rights-of-way of the Railbelt from Fairbanks to tidewater in Cook Inlet; and
- WHEREAS,** a Railbelt route would help to preserve existing utility and industrial infrastructure, and would promote new development in rural areas and communities along the Railbelt route by providing access to new supplies of low cost power, heat and raw materials necessary to new value-added industries; and
- WHEREAS,** it is the position of the Kenai Peninsula Borough that economics will decide the success or failure of this project; and
- WHEREAS,** to give the LNG project its best chance for success, ANGDA should base its decisions on sound project economics, which should include a detailed comparative analysis of the Railbelt route option from Fairbanks to tidewater in the Cook Inlet Basin versus the Valdez route; and

WHEREAS, Senate Bill 247 has been introduced in the Alaska State Legislature that, upon passage, would require that both the Valdez route and the Railbelt route to tidewater in Cook Inlet undergo a full design and cost evaluation before a final route is chosen:

NOW, THEREFORE, BE IT RESOLVED BY THE ASSEMBLY OF THE KENAI PENINSULA BOROUGH:

SECTION 1. That the Kenai Peninsula Borough Assembly supports and endorses the passage of Senate Bill 247.

SECTION 2. That copies of this resolution shall be forwarded all members of the Alaska State Legislature, the Honorable Governor Frank Murkowski and the Alaska Natural Gas Development Authority.

SECTION 3. That this resolution shall become effective immediately upon adoption.

ADOPTED BY THE ASSEMBLY OF THE KENAI PENINSULA BOROUGH THIS 20TH DAY OF JANUARY 2004.



Pete Sprague, Assembly President

ATTEST:



Linda S. Murphy, Borough Clerk



Suggested by: City Council

CITY OF KENAI

RESOLUTION NO. 2004-08

A RESOLUTION OF THE COUNCIL OF THE CITY OF KENAI, ALASKA, SUPPORTING THE PASSAGE OF SENATE BILL 247 TO AMEND THE NATURAL GAS DEVELOPMENT AUTHORITY ACT OF 2002.

WHEREAS, 70 percent of Alaska's population resides within the Railbelt region that extends from southern regions of the Kenai Peninsula Borough to Fairbanks North Star Borough; and,

WHEREAS, the economies and communities of the Kenai Peninsula Borough, the Cook Inlet basin, and the Railbelt region rely on plentiful supplies of natural gas to provide reasonably priced heat and electricity for home and business use; and,

WHEREAS, current proven reserves of natural gas are insufficient to address long-term supply requirements for the Railbelt region; and,

WHEREAS, Proposition 3 was passed in the 2002 general election and established the Alaska Natural Gas Development Authority (ANGDA) to evaluate and attempt to develop an "all-Alaska" LNG pipeline project from the North Slope to Valdez, with provisions to develop a spur pipeline from Glennallen to the Cook Inlet basin; and,

WHEREAS, the underlying premise of Proposition 3 that established ANGDA is an "all-Alaska" LNG project will "maximize jobs for Alaskans, revenues for the Alaskan treasury, and access to gas for Alaskans"; and,

WHEREAS, the City of Kenai believes, under this premise, the best route for the ANGDA LNG project follows the disturbed rights-of-way of the Railbelt from Fairbanks to tidewater in the Cook Inlet; and,

WHEREAS, a Railbelt route would help to preserve existing utility and industrial infrastructure and would promote new development in rural areas and communities along the Railbelt route by providing access to new supplies of low cost power, heat and raw materials necessary to new value-added industries; and,

WHEREAS, it is the position of the City of Kenai that economics will decide the success or failure of this project; and,

WHEREAS, to give the LNG project its best chance for success, ANGDA should base its decisions on sound project economics, which should include a detailed comparative analysis of the Railbelt route option from Fairbanks to tidewater in the Cook Inlet Basin versus the Valdez route; and,

WHEREAS, Senate Bill 247 has been introduced in the Alaska State Legislature and, upon passage, would require both the Valdez route and the Railbelt route to tidewater in the Cook Inlet undergo a full design and cost evaluation before a final route is chosen.

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF KENAI,
ALASKA:

Section 1: The Kenai City Council supports and endorses the passage of
Senate Bill 247; and,

Section 2: Copies of this resolution shall be forwarded to all members of the
Alaska State Legislature, the Honorable Governor Frank Murkowski and the Alaska
Natural Gas Development Authority.

PASSED BY THE COUNCIL OF THE CITY OF KENAI, ALASKA, this fourth day of
February, 2004.

ATTEST:

Carol L. Freas
Carol L. Freas, City Clerk

John J. Williams
JOHN J. WILLIAMS, MAYOR



CITY OF KENAI

" Oil Capital of Alaska "

210 FIDALGO AVE., SUITE 200 KENAI, ALASKA 99611-7794
TELEPHONE 907-283-7535
FAX 907-283-3014



February 9, 2004

Governor Frank Murkowski
State of Alaska
P.O. Box 110001
Juneau, Alaska 99811-0001

RE: **SENATE BILL 247 -- RESOLUTION OF SUPPORT**
City of Kenai

Dear Governor Murkowski:

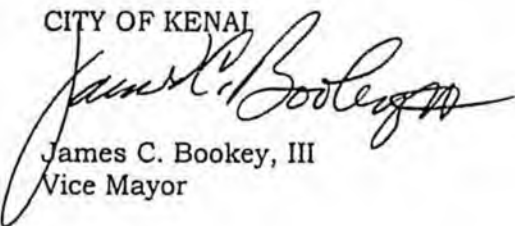
At their regular meeting of February 4, 2004, the Kenai City Council unanimously passed their Resolution No. 2004-08, supporting the passage of Senate Bill 247 to amend the Natural Gas Development Authority Act of 2002.

As expressed in the body of the resolution, which is enclosed for your information, the Alaska Natural Gas Development Authority (ANGDA) was established to evaluate and attempt to develop an "all-Alaska" LNG project to "maximize jobs for Alaskans, revenues for the Alaskan treasury, and access to gas for Alaskans." With this mission, the City of Kenai believes the best route for the ANGDA LNG project follows the disturbed rights-of-way of the Railbelt from Fairbanks to tidewater in the Cook Inlet.

Additionally, economics will decide the success or failure of this project and giving the LNG project its best chance for success, the ANGDA should base its decisions on sound project economics, which should include a detailed comparative analysis of the Railbelt route option from Fairbanks to tidewater in the Cook Inlet Basin versus the Valdez route.

Thanking you in advance for your consideration.

CITY OF KENAI


James C. Bookey, III
Vice Mayor

clf

Enclosure

cc: Members of the Alaska Legislature
Alaska Natural Gas Development Authority

Subject: Re: Senate Resources Committee Testimony....Scott Heyworth..SB 247

Date: Mon, 26 Jan 2004 10:35:25 -0900

From: Scott Heyworth <heyworth@gci.net>

To: Linda Hay <Linda_Hay@Legis.state.ak.us>

CC: Leonard_Herzog@law.state.ak.us, Harold Heinze <HHeinze@jpo.doi.gov>, Andy Warwick <warwick@gci.net>

Linda:

This is submitted from my notes and is my best estimation of what I said.

I was reading from a variety of notes and writings of mine.

I certainly ad-libbed along the way.

Full disclosure.

I hope it is acceptable and my memory is fairly accurate. This is my intent.

Scott

TESTIMONY:

Subject: Re: Senate Resources Committee Testimony....Scott Heyworth..SB 247

> Good late afternoon Senators:

>

> If Senator Wagoner's SB 247 Bill to ammend ANGDA law passed, ANGDA would be
> burdened with an impossible situation.

> And all of this diversion is going against the law voters passed approving
> the Valdez route. Not to Kenai.

>

> Yukon Pacific Corporation started with the Kenai route. It was rejected.

>

> A Kenai routing can never be permitted. And it would only delay us forever.

> That is why I certainly did not put it in the ballot Initiative language.

>

>

> **Expert Analysis:**

>

> I had an expert, maybe one of the best in Alaska, even the USA do a complete
> review of the YPC S.E.I.S.

>

> The SEIS is bullet proof, impossible to overturn, from 5-10 years to even
> get to a new EIS ruling, but you can not possibly get past the Congressional
> approval part. Then and only then can you start the permitting process.

> Another 10 years. Total of a 20 year delay. Plus the Environmental lawsuits.

>

> **Two main reasons it will never fly:**

>

> 1. It is physically impossible to use the Railroad R.O.W. for a gas pipeline

> because of the physical limitations of avalanches, geo-technical, and

> sloping problems.

> For instance.....the RR is just cut right into the sloped banks of

> hillsides in places.....leaving no room on either side for siteing of a

> line.

>

> 2. To date, since 1980, no one has even tried to get a ROW through the
> ANILCA, Title 11 statute/law. No one even knows how you go about it.

>

> And if you can't use the ARRC ROW, which you can't, you MUST get a
> Congressional vote to go through Denali Park in some new ROW alignment.

>

> Which Congress will never ever allow. Per the existing EIS law. Congress
> would never approve it. We can't get ANWR through and folks want Congress to put a gas line through
> Denali Park into Kenai?

>

> Reading directly from the SEIS:

>

> "All three Cook Inlet alternatives are considered to be highly unfavorable
> due to the project time delays that would be involved in any attempt to
> secure congressional approval when the proposed route to Anderson Bay would
> avoid the Denali National Park and Preserve entirely," the EIS said.

>

The Denali segment was deemed "the most problematic" insofar as permit
> acquisition was concerned, but the EIS also noted probable permit
> difficulties in Minto Flats and Susitna Flats State Wildlife Refuge.

Another major problem:

> The other big problem that Kenai has is you can not get one major permit.

>It is impossible. That is the export permit to move gas from the North Slope out of Kenai. The permits to do this
have already been given

>to the Highway project and to the YPC project to Valdez. It has to do with quantity available for the projects.

Kenai gets gas quickly:

Kenai gets gas quickly with the existing infrastructure of Enstar.

>

> The Spur line from Glenallen comes after the main line is built.....made
> economical by the huge revenues from the main line exporting LNG from
> Valdez.
> Economies of scale.

>

> The spur line then hooks into the existing Enstar infrastructure that goes
> right to Kenai today. Using the 2 twin gas lines (12" and 16" existing
> under Cook Inlet now) ANGDA can push gas right into Kenai using the Enstar
> system by simply reversing the flow direction. Enstar has confirmed this is
> easily done and they will help us do it.

> Our studies show potential cheap new
> gas under \$3.00. Delivered.

> New Cook Inlet gas is coming into the basket today at over \$4.00 (Tony Izzo,
> ENSTAR).

> Kenai will have all the cheapest, plentiful gas it wants. To help LNG at Nikiski and Agrium.

>

> And all of SouthCentral gets very cheap gas forever with ANGDA.
> And soon...not 20 more years of delay!

>

> Thank you.

>

Scott Heyworth

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	\$2.50 / Mbtu

- 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

AMENDING the definition of "project" in the ANGDA Act

Ballot Measure 3 specifies that a "project plan" be developed by June 15, 2004 for a gas pipeline linking Prudhoe Bay to Valdez and a spur line from Glennallen to the Cook Inlet area. That work is underway and has received \$350,000. funding. A request for an additional \$2,150,000. in FY04 to complete that effort is under legislative consideration.

SB 247 would expand the definition of the "project" to be studied to include the alternative of a gas pipeline linking Prudhoe Bay directly to the Cook Inlet area only. While a great deal of the work associated with a total ANGDA funding of \$2,500,000. would apply to either project (ie., tax advice and market insight) there are significant new work elements that would be uniquely added to evaluate the feasibility of the new alternative routing direct to Cook Inlet (ie, route selection and environmental permitting).

Expanded Work Scope Under Business Contractors	\$100,000.
Expanded Work Scope Under Project Contractors	\$150,000.
Additional Gas Pipeline Design (emphasis on alignment)	\$500,000.
Assessment of right-of-way and permitting requirements	\$250,000.

Total Additional FY04 Funding	\$1,000,000.

This additional contractor work would allow a comparison of the alternative projects at a feasibility study level (ie., cost, benefits, timing).

The cost of evaluating this alternative project might be lowered by purchasing portions of an existing multi-million dollar study done by Conoco-Phillips and others. This study is a few years old, looked at a gasline direct to Cook Inlet, and only broad summary information has been made public.

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

ANGDA Financing & Tax Alternatives

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

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

Comparison of Projects

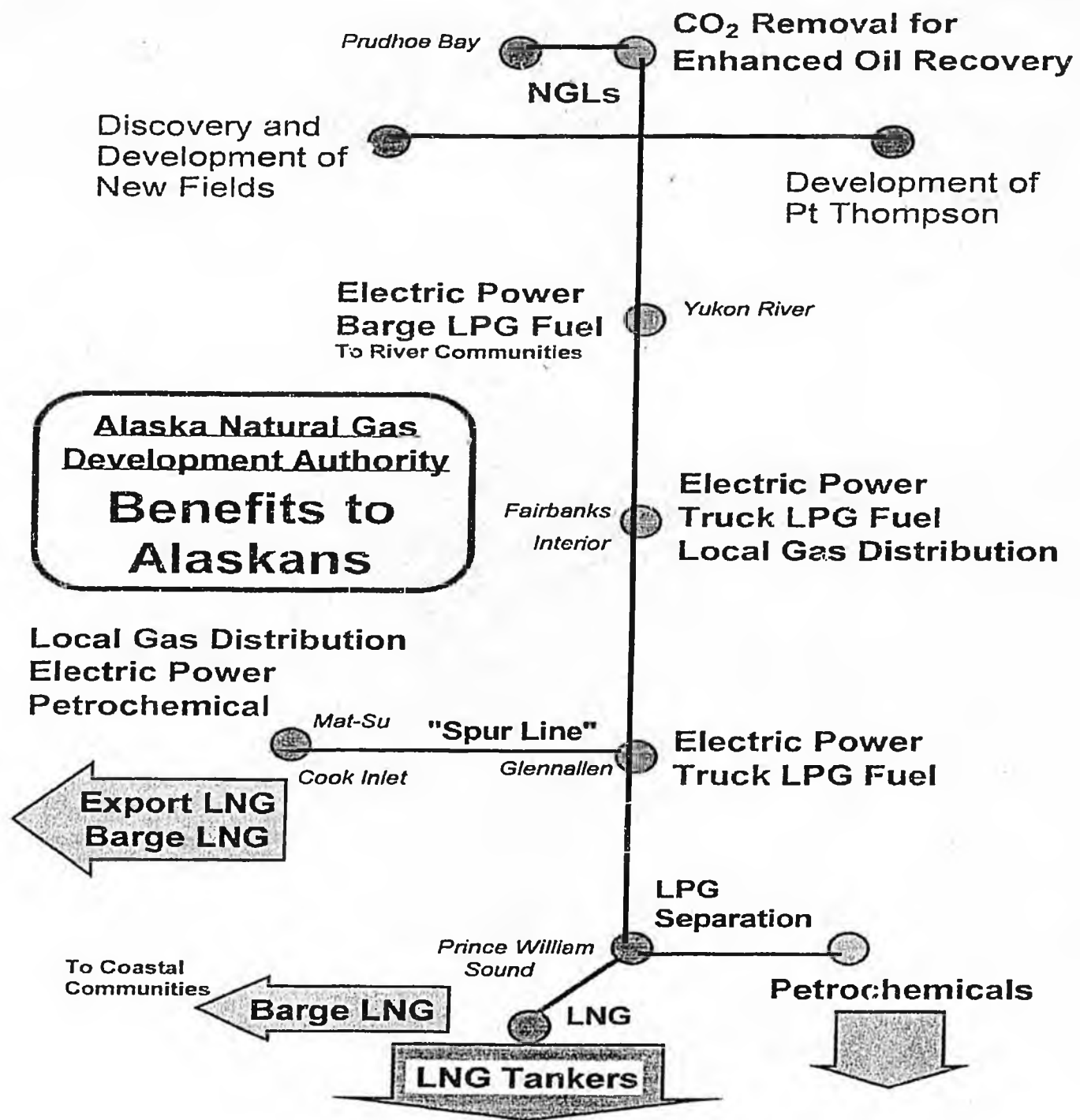
Notional Cost of Service (\$/Mbtu)

	ANGDA LNG	AICan 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
TOTAL	220 Bcf/yr
• New Public Services (?)	100 - 150

Future Cook Inlet Gas Price

North Slope Gas Delivered via 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	\$2.50 / Mbtu

Alaska Natural Gas Development Authority

Homepage is: <http://146.63.35.79/>

Harold Heinze

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