

SB

271

## SENATE COMMITTEE REPORT First Committee of Referral

DATE: 1/21/04

FURTHER: Finance

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

DATE TURNED  
IN TO OFFICE: 2-17-04

Resources Committee considered      SENATE BILL NO. 271

### SB 271 NATURAL GAS DEVEL AUTHORITY PROJECTS

"An Act amending the purpose of the Alaska Natural Gas Development Authority to include planning, developing, constructing, managing, or operating an economically viable gas pipeline project from the North Slope of Alaska by a route that parallels the Trans Alaska Pipeline System or the Alaska Highway; authorizing evaluation of opportunities for private sector involvement in the project; amending requirements related to the Authority's preparation of a development plan; 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:**

- Same Title
- New Title

**House Bill:**

- Same Title
- Technical Title Change
- New Title w/ SCR # \_\_\_\_\_

**NEW FISCAL NOTE(S):**

Department	Date	Fiscal	Indet.	Zero	FN#
Rev	7/16/04		✓		1

**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>Stephen Seelins</i>	✓			
<i>Thomas N. Wagoner</i>	✓			
<i>James H. ...</i>			✓	
<i>...</i>			✓	
<i>...</i>	✓			
CHAIR: <i>Scott Eger</i>	✓			

# FISCAL NOTE

STATE OF ALASKA  
2004 LEGISLATIVE SESSION

Fiscal Note Number: 1  
Bill Version: SB 271  
( ) Publish Date: \_\_\_\_\_

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue  
Title Natural Gas Dev Auth Projects RDU AK Natural Gas Dev Authority  
Component AK Natural Gas Dev Authority  
Sponsor Senator Ogan  
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						
<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>

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)						
<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 expands the responsibility of the Alaska Natural Gas Development Authority to include the review of the economic viability of a gas pipeline by a route that parallels the Trans Alaska Pipeline System or the Alaska Highway to the Canadian border. The legislation also extends the deadline to January 1, 2005 for ANGDA to complete a development plan.

The State of Alaska is currently reviewing the economics of a gas pipeline to the Lower - 48 through Canada. To reduce duplication the State will coordinate research on all gas pipeline options and provide ANGDA with any research it develops that may assist ANDGA in the fulfillment of its obligations. There may also be research that is appropriate for ANGDA to conduct and to provide that information to the State of Alaska.

Prepared by: Steve Porter, Deputy Commissioner Phone (907) 465-2365  
Division Department of Revenue Date/Time 2/16/04 9:58 AM  
Approved by: Steve Porter, Deputy Commissioner Date 2/16/2004  
Agency Department of Revenue



**Senate District H** Lazy Mountain \* Butte \* Chugiak \* Peters Creek \* Fairview Loop

Knik-Goose Bay \* Big Lake \* Houston \* Willow \* Talkeetna \* Trapper Creek

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Senator\_Scott\_Ogan@legis.state.ak.us

Http://www.akrepublicans.org/ogan

### **SPONSOR STATEMENT**

#### **SB 271 Natural Gas Development Authority Projects**

**SB 271** was introduced to expand the scope of the Alaska Natural Gas Development Authority (ANGDA) to include planning, developing, constructing, managing or operating an economically viable gas pipeline project from the North Slope to the Canadian Boarder. This approach also asks ANGDA to evaluate opportunities for private sector involvement in the project. With the recent announcement of applications by independent and producer pipeline operators under The Stranded Gas Act, **SB 271** could be a key component to a link with existing infrastructure in Canada.

As one of the legislators that introduced the original legislation eventually passed by a voter initiative, I feel it was an omission to not allow for more private sector risk when considering this project. Under this bill, a private sector investor, constructor and or operator could build and operate the pipeline either to tidewater, the Canadian border or both. State ownership would give the advantage of tax-free status but the private sector would shoulder the risk in areas that the state traditionally should not undertake. Tax-free ownership dramatically changes the economics of a project.

**SB 271** is project sponsor neutral, as all parties interested in bringing Alaska's North Slope Gas to market, could utilize this process. I think this makes LNG to tidewater a more viable project if the LNG line could piggyback off of the preplanned infrastructure of a route that parallels the Trans Alaska Pipeline System or the Alaska Highway.

# LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES  
LEGISLATIVE AFFAIRS AGENCY  
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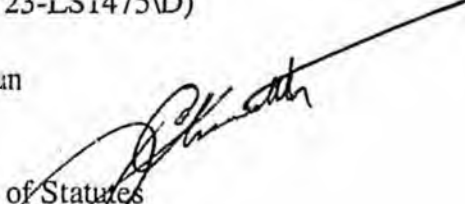
## MEMORANDUM

January 22, 2004

**SUBJECT:** Senate Bill 271, amending material added by the Alaska Natural Gas Development Authority initiative -- sectional analysis (Work Order No. 23-LS1475D)

**TO:** Senator Scott Ogan

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



Linda Hay has requested a sectional analysis of the above-captioned bill. The measure addresses material added by the Alaska Natural Gas Development Authority initiative. The authority was established by initiative approved at the November 2002 general election to build a gas pipeline to tidewater and to market North Slope natural gas.

**Bill section 3:** The amendment made to AS 41.41.990(3) is the measure's principal substantive change. It amends the definition used in the Alaska Natural Gas Development Authority chapter to define the "project" to add the alternative of a route that parallels the TransAlaska Pipeline System or the Alaska Highway to the Canadian border, at which point the pipeline would interconnect with a TransCanada line. The amendment makes a conforming change by eliminating a specific reference to completion of a spur line from a point of origin in Glennallen to service the Southcentral gas distribution grid; while the inclusion of reference to a spur line remains part of the definition of the project, the spur line could originate at any appropriate point.

**Bill section 1** adds a series of findings supportive of the changes proposed in the legislation.

**Bill section 2**, amending AS 41.41.010(d), makes a conforming change by eliminating reference to a delivery to tidewater for onward shipment; subsection (d) otherwise retains reference to the authority's ability to acquire North Slope natural gas for delivery to market as "an essential government function of the state."

**Bill section 4:** The 2002 Alaska Natural Gas Development Authority initiative included an interim provision directing the Authority's board to prepare a development plan within one year (or at a point later in this calendar year). The changes made in the bill section (1) delay the deadline to meet that requirement to January 1, 2005, so that the Authority's directors may respond to the new duties assigned in the bill, (2) direct the development of separate plans, and (3) add, as a further requirement, an evaluation of private sector

Senator Scott Ogan  
January 22, 2004  
Page 2

opportunities associated with planning, development, construction, management, and operation of the pipeline projects.

**Bill section 5** gives these changes an immediate effective date.

JBC:med  
04-070.med

Senate Bill 271 by Sen Ogan

AMENDING the purpose of ANGDA to include AlCan Highway route

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 271 would expand the definition of the "project" to be studied to include the addition of a gas pipeline linking Prudhoe Bay to the US on a route following the Alcan Highway. The timeline to complete the work on the development plans is extended by 6 months to 1/1/05 and a specific plan element evaluating private sector involvement is added. 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 financing structure) there are significant new work elements that would be uniquely added to evaluate the feasibility of the Alcan highway routing (ie, hydraulic design of combining projects to Delta and gas markets in the Lower-48).

Expanded Work Scope Under Business Contractors	\$200,000.
Expanded Work Scope Under Project Contractors	\$150,000.
Additional Gas Pipeline Design (emphasis on combined flow)	\$500,000.
Assessment of pricing, timeline & competition in Mid-West	\$150,000.
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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, market & synergy).

The cost of evaluating this alternative project might be lowered if engineering design details were made available to ANGDA by either or both of the Stranded Gas Act applicants.

H Heinze 1/26/04

Alaska Natural Gas Development Authority  
2004 Legislation  
Status Report

Bill Number	Short Title	Changes	Fiscal Note	Status
HB 279 Governor	Natural Gas Pipeline Development	Amends the definition of project to include a pipeline that parallels the Alaska Highway. Requires a work plan instead of a development plan.	Yes, 04/21/03 \$150 K	(H) O&G
HB 296 Croft	Approp: Natural Gas Dev Authority	Appropriates \$2.15 million to the authority	No	(H)O&G
HB 386 Croft	Natural Gas Dev Authority Contract	Exempts the Authority from the Procurement Code	No	(H)L&C
SB 193 Governor	Natural Gas Pipeline Development	Amends the definition of project to include a pipeline that parallels the Alaska Highway. Requires a work plan instead of a development plan.	Yes 04/21/03 \$150 K	(S) RES
SB 241 Therriault	Approp: Natural Gas Dev Authority	Appropriates \$2,15 million to the authority	No	(S)RES
SB 247 Wagoner	Natural Gas Dev Auth Initiative	Amends the definition of project to include a pipeline to tidewater at a point on Cook Inlet	No	(S)RES
SB 253 Therriault	Natural Gas Dev Authority Contract	Exempts the Authority from the Procurement Code	No	(S)STA
SB 271 Ogan	Natural Gas Dev Authority Projects	Amends the definition of project to include a pipeline that parallels the Alaska Highway	No	(S) RES 01/26/04 3:30 PM

## SB 271 & SB 241

ANGDA work plan & supplementary funding request (\$2.15 million)

*(Heinze on 2/16/04)*

Covers major work areas related to:

- business structure for the lowest cost-of-service
- integrated analysis of the benefits to Alaska and Alaskans
- verification of key project design, cost, and schedule elements

Addresses all eleven elements listed in Ballot Measure 3 that must be included in the development plan

Interacts with State's consideration of the Stranded Gas applications:

- Help with the work (ie, benefits analysis)
- Provide a lower cost-of-service business alternative that help gas marketability
- Augment sponsors ability to provide gas and benefits to Alaskans
- Provides an alternative project for comparison (fall-back)

ANGDA is working with the Administration team to define and contract for most important ANGDA and Stranded Gas work efforts. Total funding requirement seems consistent with several alternative work emphasis scenarios. Timeline may slip depending on involvement with SGA applicants

Resolution of the ANGDA Board passed unanimously on Feb 9, 2004 in support of the Administration's proposal to combine efforts of State resources working on North Slope gas issues.

"The Board of the Alaska Natural Gas Development Authority supports the appropriation of \$3,000,000. in the remainder of FY 04 to the Department of Revenue for work related to bringing North Slope gas to market."

**NO UNFUNDED MANDATES**

THE  
FOLLOWING  
DOCUMENT(S)  
ARE  
POOR  
ORIGINAL  
COPIES

February 13, 2004

**To:**

Mr. Joe Marushack  
 Vice President  
 ANS Gas Development  
 ConocoPhillips Alaska

Mr. Ken Konrad  
 Sr. Vice President  
 Alaska Gas  
 BP Exploration Alaska

Mr. R. D. Schilhab  
 Vice President  
 ExxonMobil Alaska  
 Production

Dear Sirs:

The Board of Directors of the Alaska Natural Gas Development Authority (ANGDA) takes note of your recent application to the State of Alaska under the Stranded Gas Act.

As a public corporation of the State, ANGDA's interest is in the timely delivery of Alaska gas to the market in a way that provides the maximum benefits to Alaska and Alaskans. ANGDA was created by public initiative and directed to pursue a gasline to Valdez, LNG export, and a spur line from Glennallen to the Cook Inlet area. Obviously this project has a number of common aspects to one of your proposed gasline route alternatives following the AICan highway and we would welcome the opportunity to work with you in a mutually beneficial way. Your Beaufort Sea alternative route might become possible if North Slope gas was available to Alaskans as provided for in our project and we would also welcome the opportunity to discuss your co-operation towards that objective.

Additionally, ANGDA has undertaken several work projects (i.e., a "benefits analysis" model) that may be of interest in your project definition and discussions with the State. We also are currently defining our business structure to assure that the leverage of being an Alaskan public agency contributes to the lowest cost-of-service possible in North Slope gas transportation.

In all of these areas we are anxious to contribute positively towards your determination of an economic project and we would welcome the earliest opportunity to interact directly at a Board level.

Harold Heinze  
 CEO, Alaska Natural Gas Development Authority

February 12, 2004

Mr. David L. Sokol  
Chairman and Chief Executive Officer  
MidAmerican Energy Holdings Company  
P. O. Box 657  
Des Moines, IA 50303-0657

Dear Mr. Sokol:

The Board of Directors of the Alaska Natural Gas Development Authority (ANGDA) and I welcome you and your company to Alaska and your sponsor group interest in bringing North Slope gas to market. As a public corporation of the State, ANGDA's interest is in the timely delivery of Alaska gas to the market in a way that provides the maximum benefits to Alaska and Alaskans.

ANGDA was created by public initiative and directed to pursue a gasline to Valdez, LNG export, and a spur line from Glennallen to the Cook Inlet area. Obviously this project has a number of common aspects to your proposed AICan highway gas project and we would welcome the opportunity to work with you in a mutually beneficial way.

Additionally, ANGDA has undertaken several work projects (i.e., a "benefits analysis" model) that may be of interest in your project definition and discussions with the State. We also are currently defining our business structure to assure that the leverage of being an Alaskan public agency contributes to the lowest cost-of-service possible in North Slope gas transportation.

In all of these areas we are anxious to contribute to your project's success and would welcome the earliest opportunity to interact directly in Alaska or at your headquarters.

Harold Heinze  
CEO, Alaska Natural Gas Development Authority

Copied To: Mr. Robert Sluder, MEHC Alaska Gas Transmission Company, LLC  
Mr. Ken Thompson, Pacific Star Energy  
Mr. Carl Marrs, CIRI