

SCOMM

118:10

Alaska State Legislature

House Special Committee on Oil & Gas

State Capitol
Room 13
Juneau, AK. 99801-1182



Phone (907) 465-3004
Fax (907) 465-2070

COMMITTEE SCHEDULE

Tuesday, January 25, 2000

Capitol Room 17, 10:00 a.m.

10:00 a.m.

+City of Valdez "Vessel Tax"

Thursday, January 27, 2000

Capitol Room 519, 10:00 a.m.

****NOTE ROOM CHANGE ****

10:00 a.m.

***+HB290 Stranded Gas Pipeline Carriers**

11:00 a.m.

**+Presentation by Alaska Gasline Port Authority
North Slope Gas Commercialization**

(12:00 p.m. Recess for Lunch)

Reconvene: Capitol Room 124, 1:00 p.m.

****NOTE ROOM CHANGE****

1:00 p.m.

**+Presentation by "Peninsula Group"
North Slope Gas Commercialization**

***First Public Hearing
+Teleconferenced**

Chairman: Representative Jim Whitaker

Committee Members:

**Representatives Fred Dyson • Gail Phillips • Brian Porter • Joe Green • John Harris
• Allen Kemplen • Tom Brice • Harold Smalley**

ALASKA NORTH SLOPE LNG PROJECT

700 G Street, PO Box 100360, Anchorage, AK 99510-0360, Phone: (907) 265-6857, Fax: (907) 265-6838

January 20, 2000

Representative Jim Whitaker, Chair
Alaska State Legislature
House Special Committee on Oil & Gas
State Capitol, Room 13
Juneau, Alaska 99801-1182

Dear Mr. Chairman,

Thank you for the opportunity to meet with you and the members of the Alaska House Special Committee on Oil and Gas last Thursday, January 13th. I appreciated the interest expressed and questions raised by you and your committee regarding the ongoing efforts of the Alaska North Slope LNG Project toward commercializing North Slope gas.

In response to the question posed during that meeting by Representative Kempen concerning in-state gas demand. Based in large part on a previous study of Daniel H. Zorbrist* of anticipated in-state demand for Fairbanks, Glennallen, and Valdez and upon completion of estimated market penetration, total gas demand including power generation and space heating is roughly estimated to be about 25 Bcf/year (or ~0.07Bcf/day). Using an example North Slope gas pipeline throughput of 1.4 to 1.6 Bcf per day that would be around 4-5% of pipeline throughput. According to the U.S. Department of Energy**, gas demand for South Central Alaska could be as high as 260 Bcf/year (0.71 Bcf/day) with sufficient Cook Inlet gas resources to supply that need through at least 2009.

Much of South Central Alaska gas supplies are currently covered by long term, in-state gas contracts. While Fairbanks, Glennallen and Valdez volumes are not currently subject to existing gas supply contracts, they are subject to the development of a local distribution system and the fuel switching capabilities (physical and contractual) of the residential and power generation customers.

Finally, if I may, I'd like to take this opportunity to further clarify my response to Representative Green's question during my testimony relating to common carriage access to the system.

The question (paraphrased) was: If some company exploring for oil or gas in Alaska found a new huge gas field, 1) would they have to build their own pipeline, or 2) would our pipeline be a common carrier?

As further clarification regarding 1) building a separate pipeline, no, they wouldn't necessarily have to build their own pipeline. Our system would be expandable and we would be motivated to increase volumes for our system to help reduce the unit costs for all shippers on our system and would have an incentive to entice more gas through this system.

Regarding common carriage, 2) our system, at least for the export volumes would not be a common carrier. We would have common carriage for intrastate volumes, but the export volumes would be transported by contract carriage, under regulation by the Department of Energy. This would not limit access to our system, but would change the form by which others would gain access. Under the proposed contract carriage regime for exports, when we expanded our system, we would hold an open season for access to that increased capacity. This would satisfy the existing federal and state requirements for a non-discriminatory access process.

These questions and others can be more fully explored in testimony surrounding HB290 as the legislative process unfolds, but I wanted to further clarify my response of January 13, 2000.

Thank you again for the invitation to share our progress with you and your committee last week.

Sincerely,



Steve Alleman
Commercial Manager
907-265-6853

cc to Representatives:

Tom Brice
Fred Dyson
Joe Green
John Harris
Allen Kemplen
Gail Phillips
Brian Porter

* "The Potential In-State Demand for Alaska North Slope Gas", Daniel H. Zorbrist, Petroleum Economist, Division of Oil and Gas, Department of Natural Resources, October 1, 1997.

** DOE/HB Opinion and order no. 1473, April 2, 1999

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MEMORANDUM

January 25, 2000

SUBJECT: Municipal port authority (Work Order No. 21-LS1332)

TO: Representative Jim Whitaker

FROM: Tamara Brandt Cook
Director *TBC*

You have asked about the power of a borough to establish a port authority and the amount of extraterritorial jurisdiction the authority would have.

A port authority may be established under AS 29.35.600 - 29.35.730. It is the enabling ordinance by which a port authority is established that specifies the boundaries, powers, and limitations of the authority. (AS 29.35.605(e)) A port authority may only exercise eminent domain and declaration of taking within its physical boundaries and it may only regulate land use within its boundaries. (AS 29.35.620(14) and (15)) However, the boundaries of a port authority may be larger than the boundaries of a single municipality, since two or more municipalities may create a single port authority, and one or more municipalities may later join an authority that has been previously created. (AS 29.35.605(a)(2) and (b)) While not really a government jurisdiction issue, it is worth noting that an authority could be involved in the acquisition and financing of projects by entering into loan and other agreements. (AS 29.35.620(3) - (6), (8), (9) - (13))

A municipality that decides to organize a port authority is not required to do so under AS 29.35.600 - 29.35.730. It may organize the authority under general powers it already has or might acquire. (AS 29.35.605(g)) However, the municipality may grant the port authority no greater jurisdiction than the municipality itself has. In that regard, exercise of the powers of eminent domain and declaration of taking may be exercised only within municipal boundaries. (AS 29.35.030)

With respect to certain marine and other transportation facilities that a port authority might be involved with, it is worth noting that a municipality may provide these types of facilities outside of its boundaries and regulate their use. However, before the power may be exercised inside the boundaries of another municipality or of a village, the other municipality or village must approve. (AS 29.35.020)

TBC:jdr
00-033.jdr

Cook Inlet Pipeline Terminus Group

Board Members:

Dale Bagley, Kenai Peninsula Borough Mayor
John J. Williams, Mayor of Kenai
Ken Lancaster, Mayor of Soldotna
Mike Navarre, Former Legislator and Mayor of KPB
Bill Popp, KPB Assembly President
Jack Brown, KPB Assembly Member
Jeff Sinz, KPB Finance Director
Jim Elson, Director of Economic Development District
Jim Carter, Executive Director of Cook Inlet RCAC

Betsy Arbelovsky is the Staff person

Cook Inlet Pipeline Terminus Group
Post Office Box 3029
Kenai, Alaska 99611

Phone 283-6451
Fax 283-3913
barbelovsky@borough.kenai.ak.us

The Web site will be www.alaskagasline.org

Cook Inlet Pipeline Terminus Group

Alaska Natural Gas Pipeline

Cook Inlet Works for Alaska A Nikiski Terminus:

- ✓ **Can Serve Alaskan Residential Natural Gas Consumers**
- ✓ **Protects Existing Alaskan Jobs & Industries**
- ✓ **Will Encourage New Business & Industrial Growth**
- ✓ **Supports New & Existing Value Added Industries**
- ✓ **Will Continue History of Safe & On Time Production of LNG**
- ✓ **Will Continue the 31 Year LNG Transportation Safety Record**

Cook Inlet Works for Alaska

- 1. 70 % of potential Natural Gas consumers in Alaska reside on the proposed Nikiski Route. If the Nikiski Route is chosen, these Alaskan consumers can be served. Other Routes require a costly spur line to connect Alaskan consumers with Alaskan Natural Gas.**
- 2. South Central Alaska's need for Natural Gas is increasing. Residential, commercial and industrial needs keep growing, and will continue to grow. Rural and Bush consumers could benefit from the availability of compressed Natural Gas. New industries need additional supplies of Natural Gas, and they need them along the Nikiski Route.**
- 3. The Nikiski Route will protect existing Alaskan Jobs. In Cook Inlet, thousands of Alaskan residents work for industries that are dependent upon a continuing supply of Natural Gas. One South Central Industry, Alaskan Agricultural Products pays Alaska Residents over \$ 30 Million per year in wages. To protect these and other jobs, additional supplies of Natural Gas are needed in South Central Alaska.**
- 4. Alaska's Economy needs value added industries to expand opportunities, to create quality jobs, to increase the tax base and to build healthy economic development. The Nikiski Route supports value added industrial growth.**
- 5. Value added industries need room for facilities, storage, housing and support industries. Nikiski has room to grow.**

Cook Inlet Terminus Group

Box 3029

Kenai, Alaska 99611

283-6451

fax 283-3913

via e-mail @

barbelovsky@borough.kenai.ak.us

ok Inlet

eline Terminus

Corp

**Alaska Natural
Gas Pipeline**

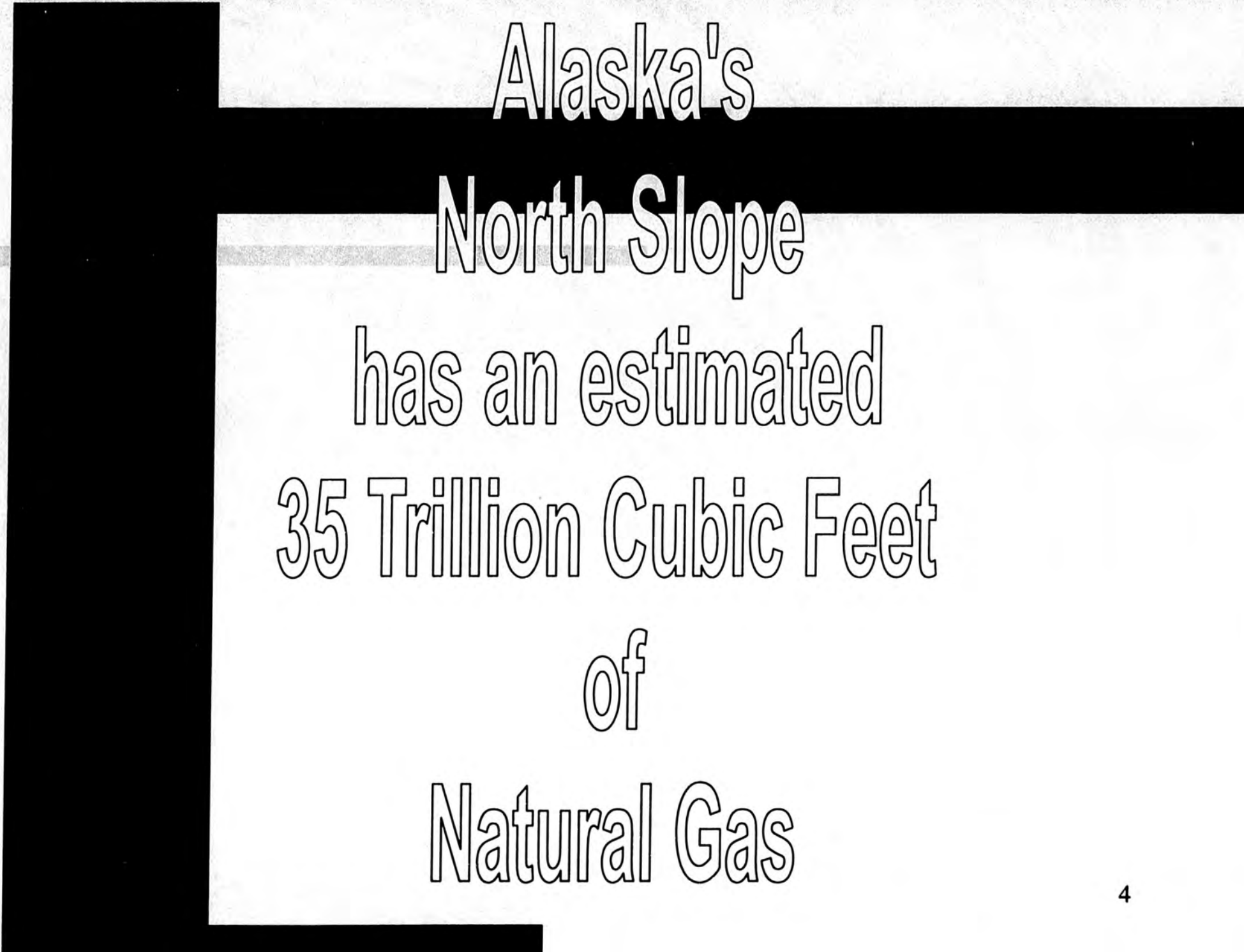
Case for locating the

Nikiski
on
Cook Inlet

**Port Authority Group is working
a Valdez Terminal**

**Alaska North Slope LNG Project
ponsor Group is looking at a Cook
Inlet Terminal at Nikiski or at
Prudhoe Bay near Valdez**

**West Pipeline through Canada
to Liquids Technology**



Alaska's
North Slope
has an estimated
35 Trillion Cubic Feet
of
Natural Gas

**G Production and
Transport**

s to Liquids Production

Midwest Gas Pipeline

through Canada

**Maintain Existing
Industries**

Develop New Industries

for All Alaskan Consumers

**for Compressed Natural Gas
Rural and Bush use**

Alaska North Slope LNG Project

ARCO Alaska

Boothills Pipe Lines, Ltd.

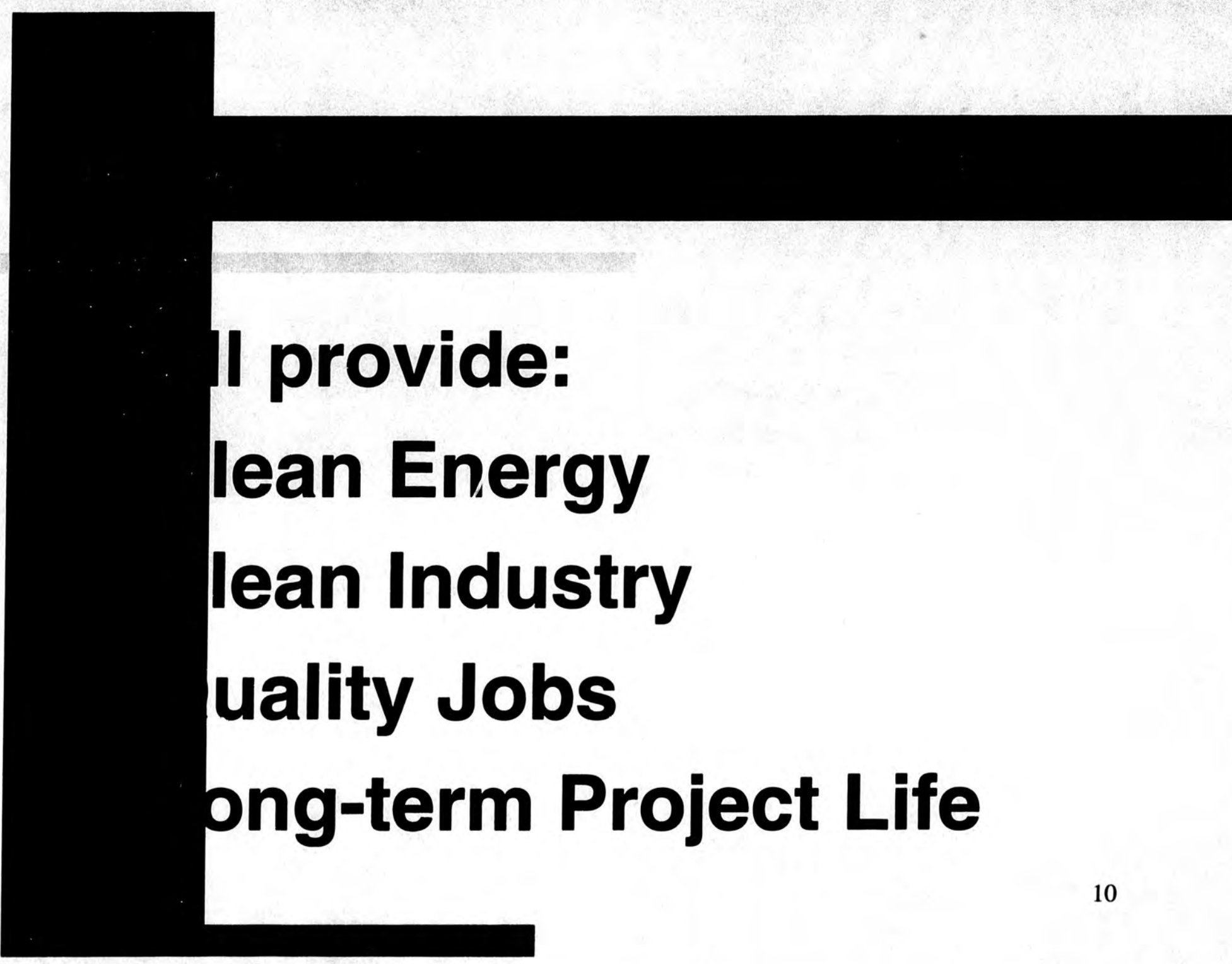
Chukarubeni Corporation

Phillips Petroleum Company

PP Exploration Inc.

The Sponsor
Group is in the
final months of
a \$20 Million Dollar
Phase I

**\$ 6 to \$ 7 billion dollar
construction project
to bring Alaska's
natural gas to an
Alaskan port**

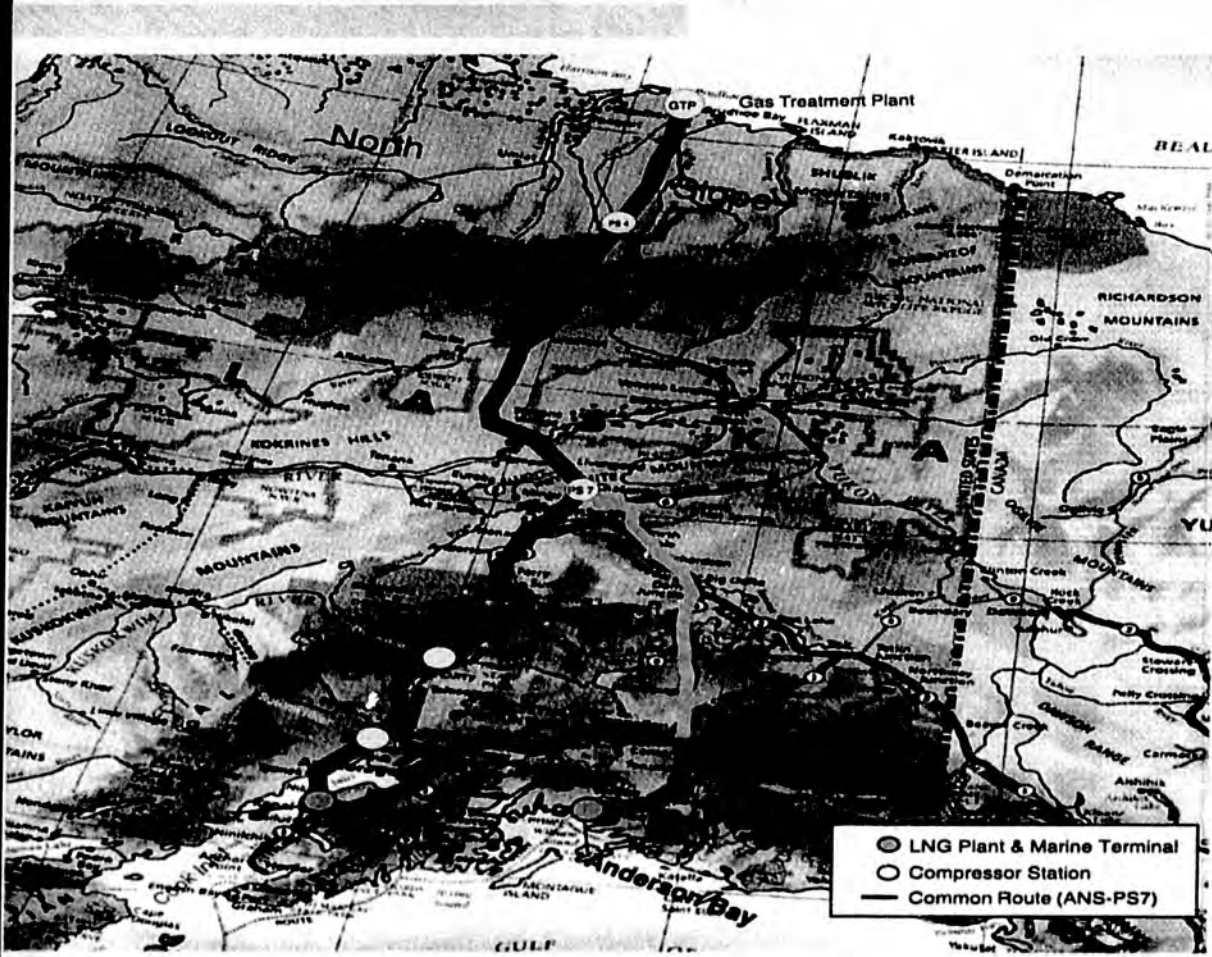


Will provide:
Clean Energy
Clean Industry
Quality Jobs
Long-term Project Life

Will provide jobs for Alaskans

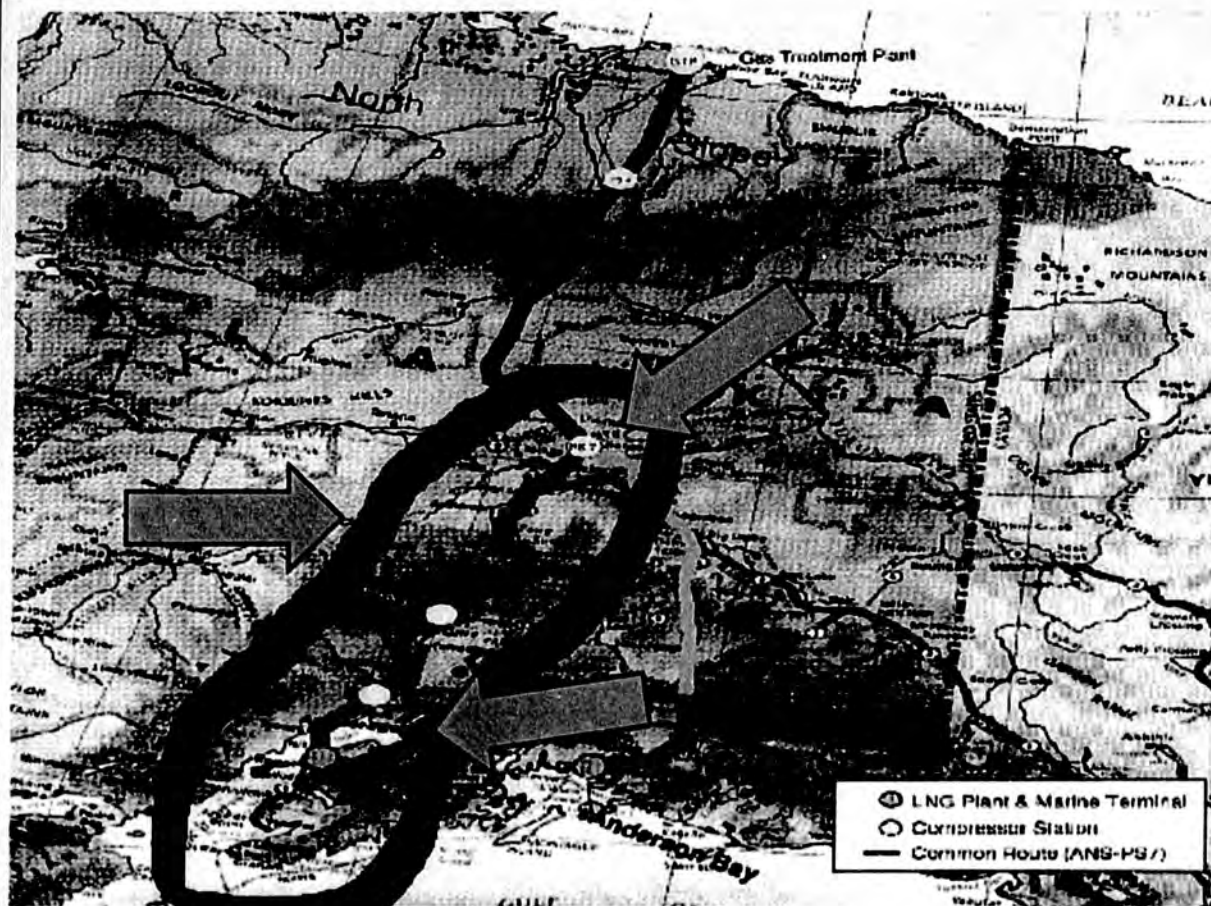
The Sponsor Group

is considering a
Terminus at Nikiski
On Cook Inlet or
Anderson Bay near
Valdez



Why Cook Inlet?

6 of Potential Alaskan



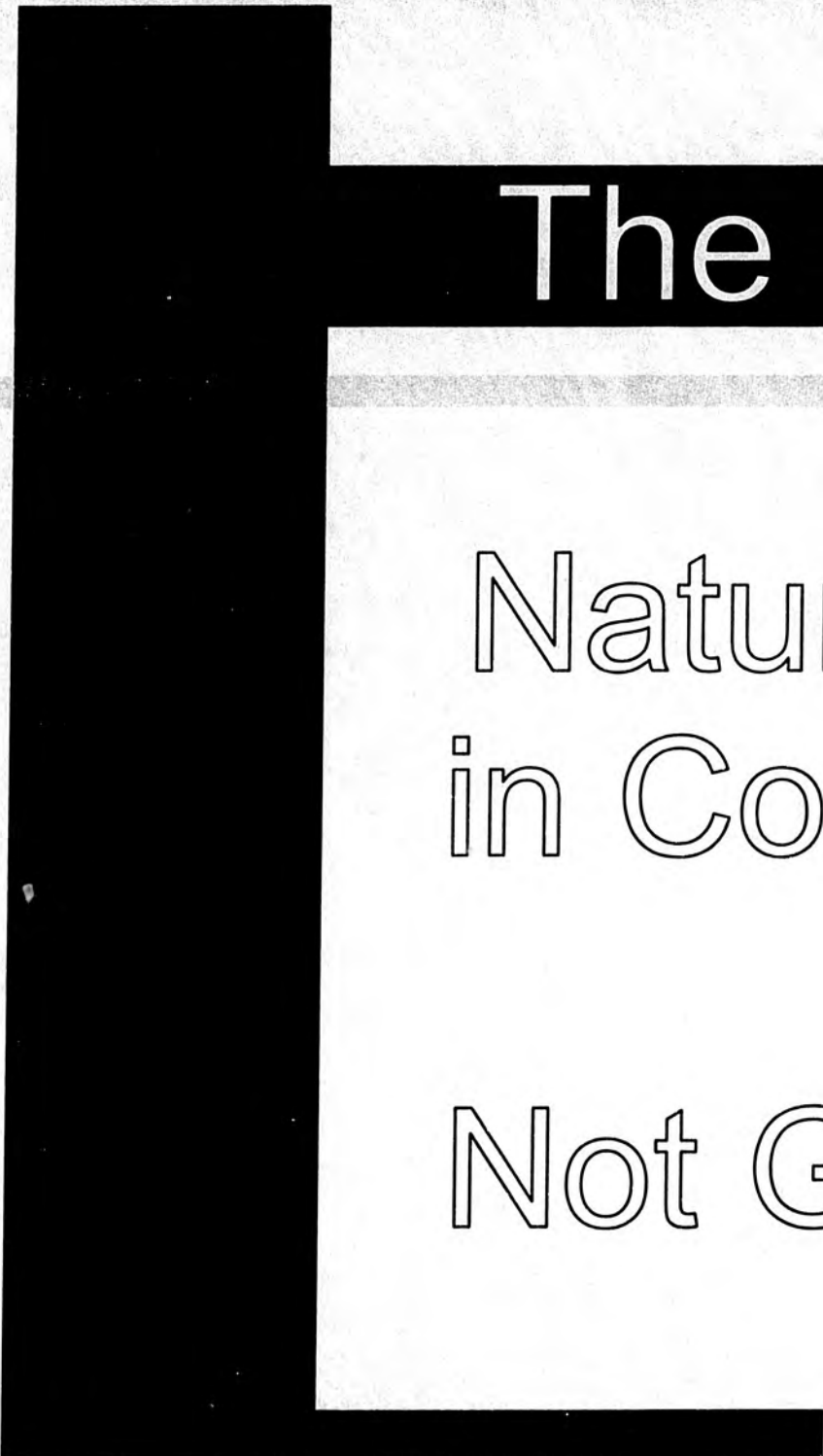
with Central Natural

Residential

Consumer Needs

Commercial Needs

Industrial Needs

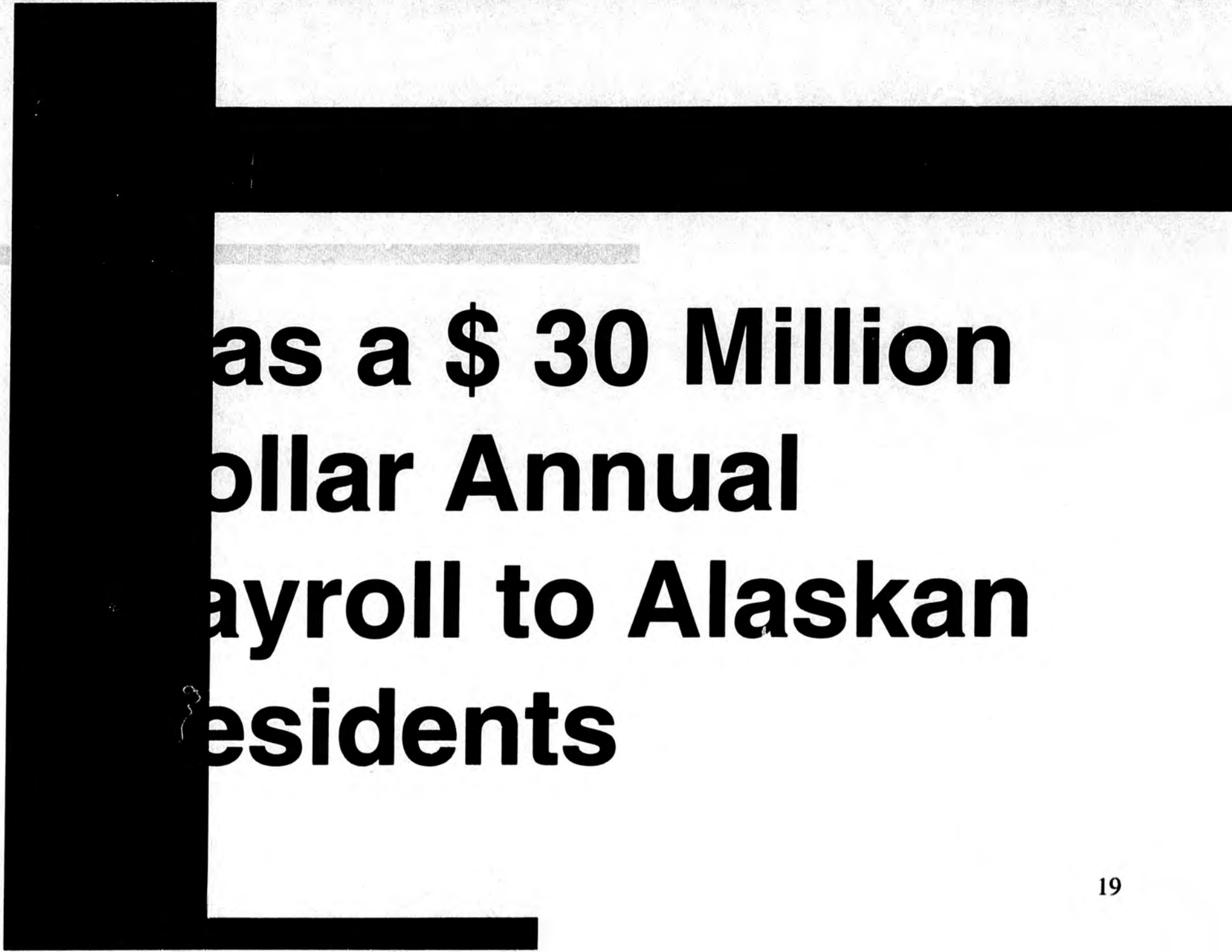


The Supply of Natural Gas in Cook Inlet is Not Growing

atural Gas can Create &



**Alaska Nitrogen Products
Nikiski on Cook Inlet**



**as a \$ 30 Million
ollar Annual
ayroll to Alaskan
esidents**

**Needs New
ources of
atural Gas**

ing Value to Our

Expands Opportunities

Creates Jobs

Increases Tax Base

**Buils Economic
Development**

...can be added to our

...natural gas in Cook Inlet

**Thousands of Alaskan residents
work for value added industries
pendant on Natural Gas in
Cook Inlet**

**Cook Inlet Gas Pipeline
minus can provide for new
manufacturing and new
production industries**

ka's economy needs more

add good quality jobs

economic growth

increase tax revenues

fund state government

replace funding to

municipalities

reduce the budget deficit

Value Added
Industries
Need Space
for Facilities, Storage
& Housing

to Added Industries

Space

Cook Inlet
has the
Space to Grow

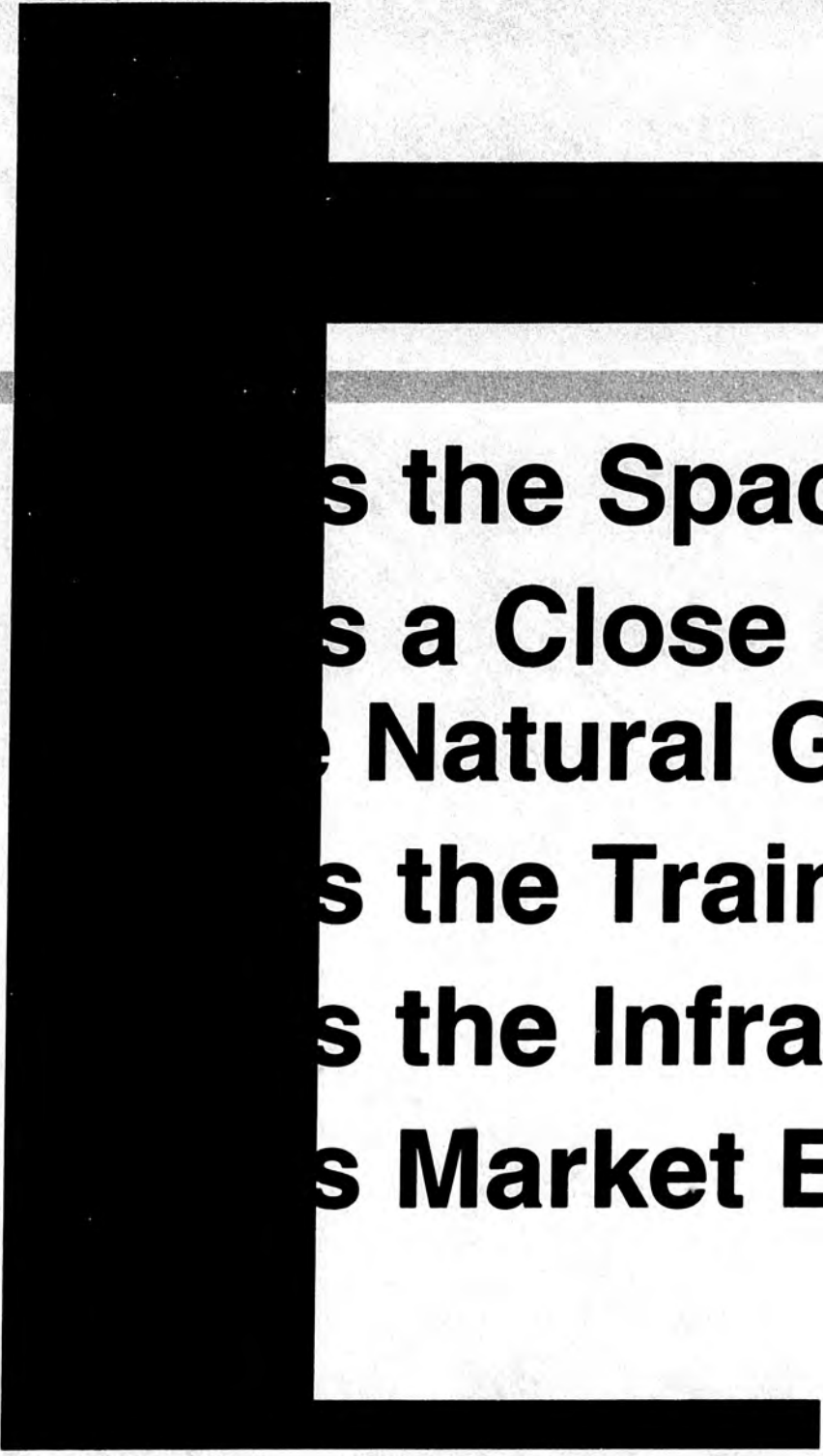
**Black Inlet has a close
relationship to the Natural
Gas Industry**

- **31 Years
of Safe,
Profitable
Production
and Transport
of Liquid
Natural Gas**





ps Petroleum-Marathon Oil
years of Safety and Reliability
years of LNG Production
years of on time Shipping
years of Marketing LNG



s the Space

**s a Close Relationship with
the Natural Gas Industry**

s the Trained Workforce

s the Infrastructure

s Market Experience

All of Alaska

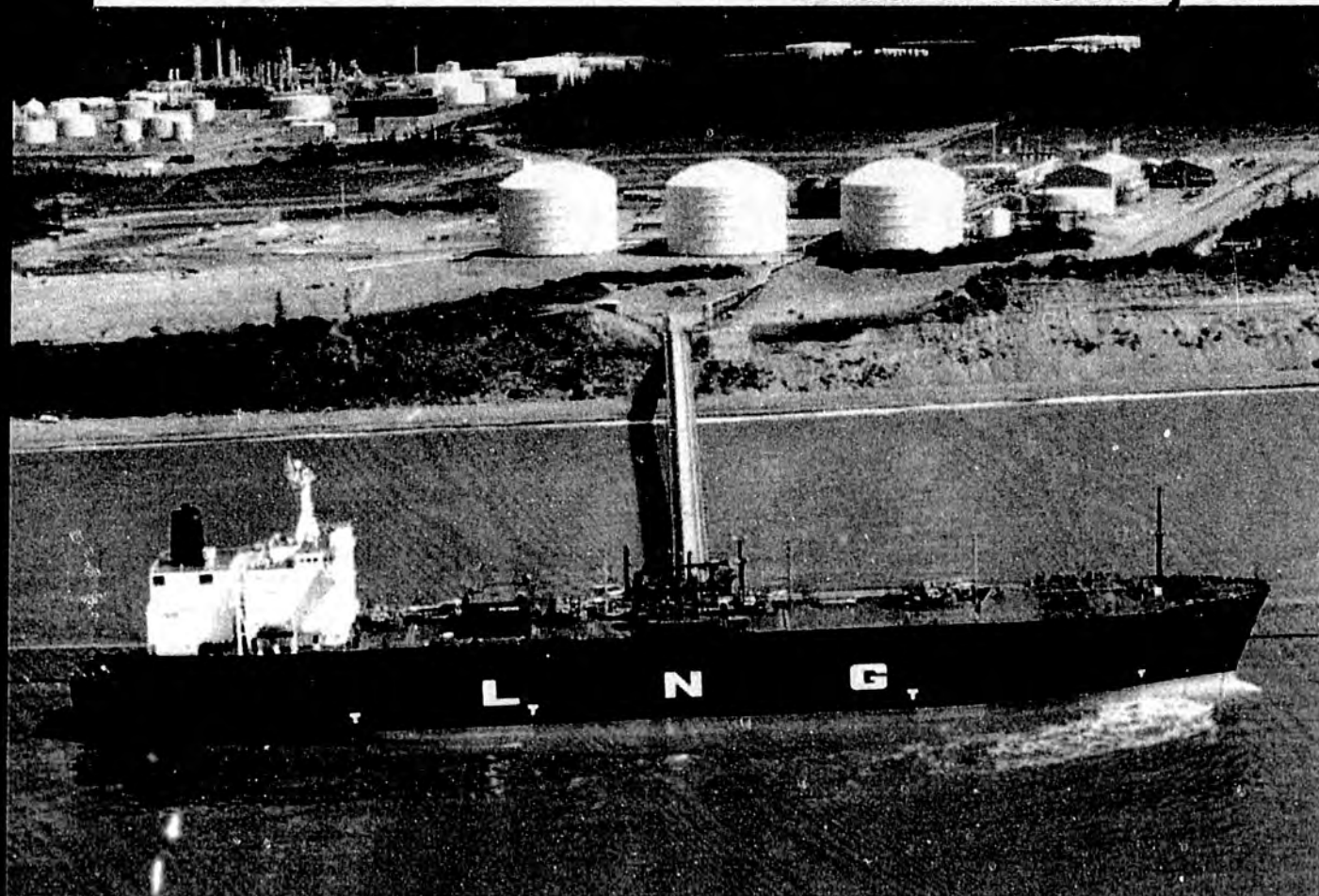
will benefit

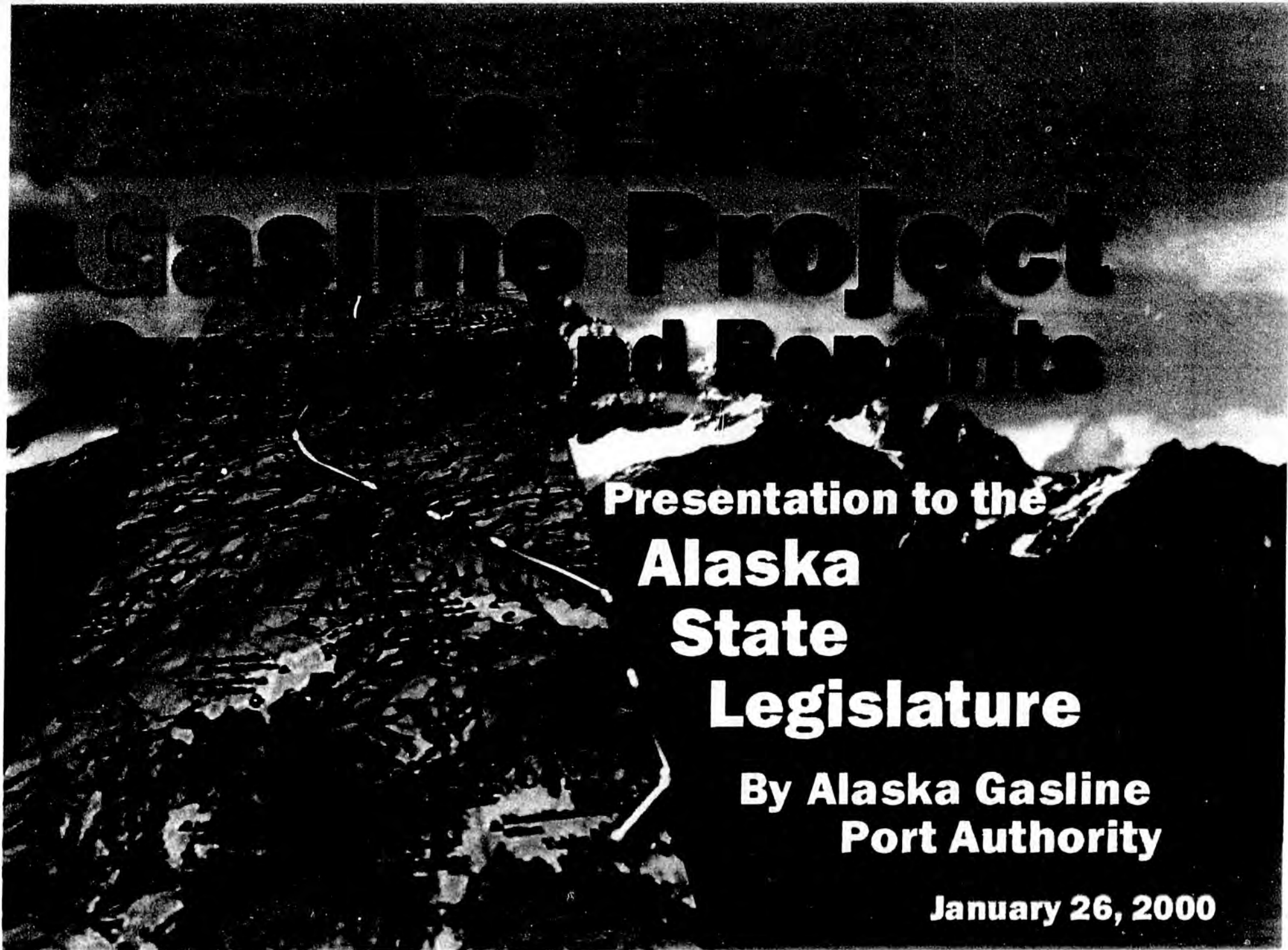
from a

Cook Inlet

Terminus

Alaska LNG Project





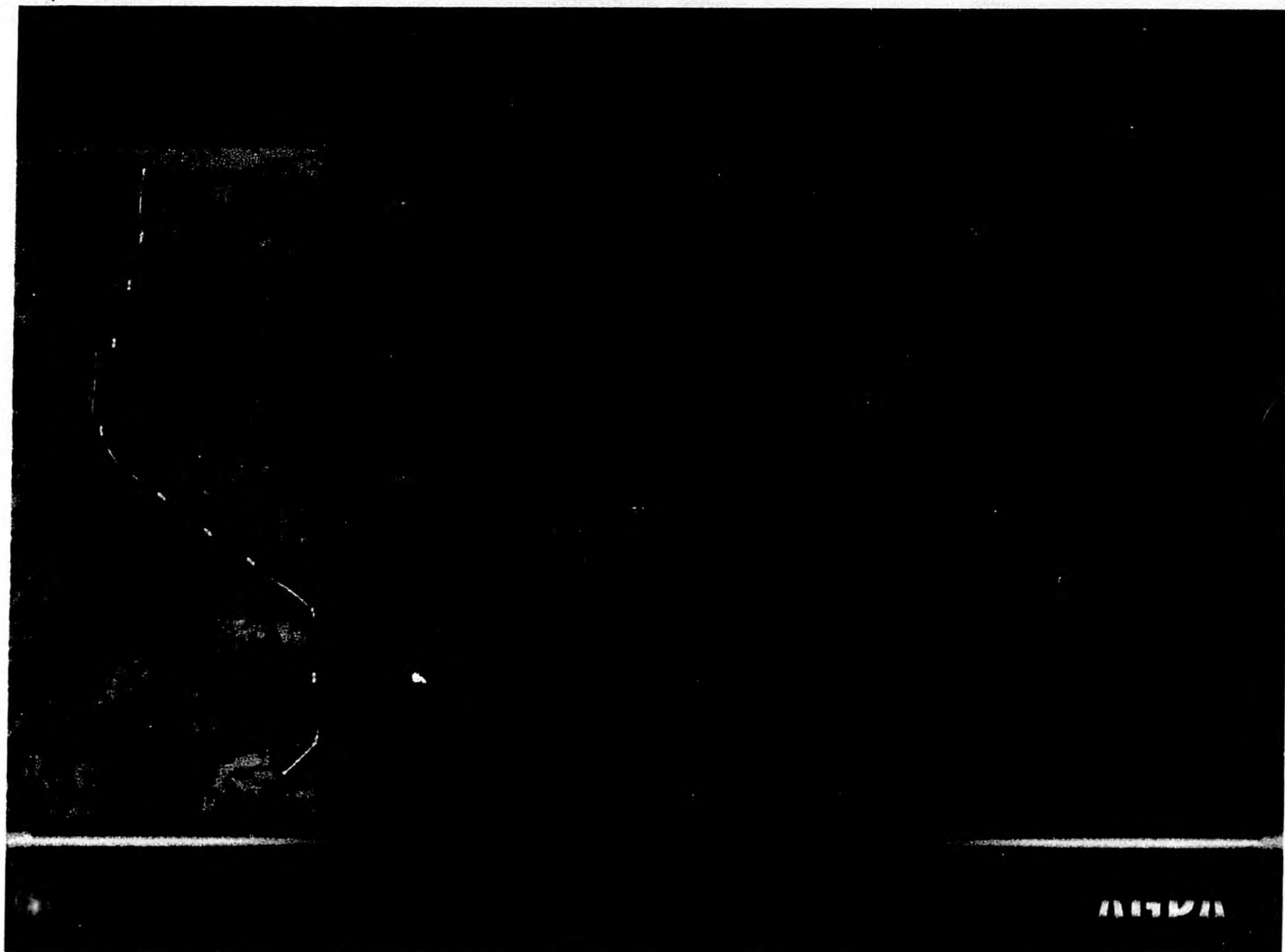
Gasline Project and Benefits

**Presentation to the
Alaska
State
Legislature**

**By Alaska Gasline
Port Authority**

January 26, 2000

**THE
FOLLOWING
DOCUMENT(S)
ARE
POOR
ORIGINAL
COPIES**



The Development Team

Sponsoring Organization: The Alaska Gasline Port Authority.
(AGPA)

Board members include:

North Slope
Borough

Mayor George Ahmaogak¹

Richard Glenn

Thomas Napageak

Fairbanks North Star
Borough

Mayor Hank Hove²

Charlie Cole

Barbara Schuhmann

City of Valdez

Mayor Dave Cobb³

Dave Dengel⁴

John Kelsey

The Development Team

AGPA

Bechtel (Technical and Development Support)

Yukon Pacific Corporation

Taylor DeJongh/Merrill Lynch (Finance)

O'Melveny & Myers (Development Counsel)

Walker, Walker, Wendlandt & Osowski, LLC (General Counsel)

In Discussions with:

Williams Companies (Pipeline Operations)

Other partners to be determined

Project Overview

Treatment and transport of Natural Gas via pipeline from Prudhoe Bay to Valdez essentially paralleling TAPS

Conversion to Liquid Natural Gas (LNG) at a site near Valdez

Shipment of Liquid Natural Gas to Far East markets

Facility Overview

**Gas conditioning plant at Prudhoe Bay:
To remove moisture and CO₂**

**800 mile pipeline: with diameter up to
48" with future capacity for
transporting up to 4 billion cubic feet of
gas per day**

**LNG Plant at Valdez: To chill the gas to
a liquid**

The Technical and Environmental Challenges

Construction and operation in one of nature's harshest cold weather environments, in continuous and discontinuous permafrost regions

High pressure (>2000 psi) and chilled ($<32^{\circ}\text{F}$) gas in a long distance pipeline

The preservation of sensitive habitats of wildlife and migratory herds/birds, and streams and rivers containing native fisheries.

Minimizing impact on the ongoing operation of TAPS due to construction and operation of the new gasline.

Minimizing impact on the existing Prudhoe Bay operation due to construction and operation of the new gas conditioning facilities.

The Implementation Challenges

Numerous studies over past 20 years to define a project, and design, market, and fund it.

Project viability and schedule driven by energy supply and market conditions.

Minimal financial benefits for pure private sector solutions, creating a need for innovative public/private initiatives.

Why is Our Project Different?

**Substantial fiscal advantage of the
Alaska Gasline Port Authority**

Single project focus

Regulatory efficiency

**Cost effective technology (Phillips
LNG)**

Project economies

Schedule and speed of development

Benefits to Alaskans

Gas for Alaska's communities to lower power and heating costs

New energy supplies to stimulate business development statewide

Potential spur line to Cook Inlet

Expanded gas supply for consumers

Gas-intensive industrial development

Assurance of long term gas availability

Benefits to Alaskans

Over 10,000 construction jobs

**Direct contribution to the Alaskan
economy: \$2-3 Billion (local purchases of
goods & services and support to the project)**

ALASKA

Benefits to Alaskans

Permanent jobs

400 in-plant and pipeline operations and maintenance jobs

Plus indirect service and support employment

\$100 million/yr impact on Alaskan economy

Improves national balance of payments

Contributes significantly to State revenues

AMBA

Benefits to Alaskans

Improved environmental air quality as a result of using natural gas

An exemplary environmental project, adhering to new regulations, making it a model for future Alaskan projects

Designed for utmost safety during both construction and operations

Benefits to Producers

- **No capital investment required**
- **Significant revenues to producers**
- **Increases field life and oil recovery**

Current Activities

Gas marketing initiatives, including direct contacts with LNG off-takers

IRS ruling request regarding Port Authority exemption from federal income tax

Regulatory and environmental permitting and approval process review

Design basis of gas processing, pipeline and LNG facilities

Logistics plan for the procurement, transport and delivery of material

Construction plan and schedule, including environmental monitoring

Current Activities (cont'd)

Study of labor and skills training requirements

Operation and maintenance plan

Estimate of capital cost and O&M expenses

Economic modeling and feasibility review

Commercial structuring

Preliminary financing plan

Risk Assessment and Risk mitigation plan