

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672

2958 SCOMM 129: JOINT COMMITTEE ON NATURAL GAS PIPELINES, 2001-02 722

Reserve-to-production ratios in the lower 48 are fairly consistent with about 8 to 10 years of supply because the reserve base has been replenished with supply additions. In Cook Inlet the reserve base has been declining because there have been no significant reserve additions in recent years.

The most commonly-accepted estimates of conventional gas yet to be discovered in the inlet range between 1 and 2 tcf, although there are some estimates of 3 tcf. There are also possibilities for conventional gas supply additions in the Matanuska-Susitna area (north of Anchorage) and from gas from shallow coal beds. Estimates are that coal-bed methane resources could be about 8 tcf. U.S. government geologists have estimated a total resource of 250 tcf in coals in the Cook Inlet basin (much of this is deep, however, and unlikely to be commercially produced). The study also cited possibilities that gas could be imported as LNG (the LNG plant in Kenai could be converted from liquefaction to regasification) for a price in the range of \$2.50 to \$3 per mcf, which is about the price LNG from Asia is being considered for projects discussed for western Mexico.

The study cited options for extending current Cook Inlet region gas supplies. If gas sales to the Nikiski LNG and fertilizer plants were terminated, gas supplies would be extended 6 years. If supplies to only the LNG plant were terminated, supplies would be extended 3 years. The study also noted that as gas prices in Cook Inlet increase, both the LNG and the fertilizer plants could be at risk.

Other findings were that the LNG plant at Nikiski could clearly be at risk by 2009 because the export license is up for renewal at that time (the federal government will not renew the license unless gas is surplus to local needs).

In summary, gas supply in the Cook Inlet region is still better off than in the lower 48, in that there is still a 13-year supply in Cook Inlet, while the lower 48 has an 8-year supply.

In response to questions from the Council, Pokorny related that problems in daily deliverability of gas (at peak times, i.e. during cold weather) could begin as early as 2004. Discovery of 1 additional tcf of gas would extend the peak-time deliverability to 2007. Discovery of 2 tcf of gas would extend it a little further.

Carl Marrs asked at what price coal-bed methane might be economic.

Pokorny answered that there was no clear answer to this. It could be in the range of \$3 to \$4 per mcf.

Council member Brian Davies observed that coal-bed methane is economic in the lower 48 at today's prices. Coal-bed methane technologies are very specific to the sites where they are applied, and in Alaska the technologies for our particular geologic environment have yet to be developed. Current prices in Cook Inlet do not support local coal-bed methane development but as prices go up it is certainly a possibility.

Council member Jack Roderick asked if AEDC was aware of any studies underway for mine-mouth coal power plants in the region.

Pokorny answered he was unaware of any studies. *(Note: Owners of the Beluga coal fields near Anchorage are now considering possibilities of mine-mouth power generation, as well as gasification, from their resource.)*

Council member Ken Thompson observed that studies several years ago by ARCO Alaska Inc. indicated that, in the long term, gas from the North Slope could be delivered to the Cook Inlet area for less than new conventional supplies could be developed within the region.

Gene Bjornstat, general manager of Chugach Electric Assoc., told the Council that Chugach generates 83 percent of its electricity from natural gas and 17 percent from hydro. There is also coal-fired generating capacity in plants at Healy, supplying Golden Valley Electric Assoc. Chugach has been generating electricity at its plant in the Beluga gas field since 1965. Gas from Beluga was purchased for 15 cents per mcf when the plant first went into operation.

Bjornstat told the Council that Chugach appreciates its consideration of the regional supply problem and believes that decisions made sooner are better than later on this question. Ken Thompson's suggestions of a gas hub and gas takeoff contractual arrangements are very appealing. Timely recommendations and decisions on those will help Chugach in its planning.

Steve Cleary, speaking on behalf of the Alaska Public Interest Research Group, said his members' concerns were those of consumers and utilities in the region. "In the next decade our members will need a reliable source of gas, and we think it must be North Slope gas." Options like burning coal (for local fuel) are not very appealing, and as for importing LNG, if we are concerned about dependence on foreign markets for sales of oil we should be equally concerned about dependence on foreign sources of gas supply.

Alaska Public Interest Research Group would like to see the discussion of supply and use broadened. Cleary said he is intrigued by the hub concept and the use of royalty gas in-kind. He said the Alaska Public Interest Research Group has four criteria to recommend to the Council for consideration: one, that gas be used to benefit Alaskans first; two, that the State profit from gas production (through royalties and taxes); three, that State controls are in place for local access to gas; four, that there is an option for deliverability of gas to tidewater.

Cleary asked that the Council consider a question, that if there is only a pipeline to the lower 48 and that if markets there dropped, the State would lose money (from royalty and tax) but the producers (if they are also owners of the pipeline) would continue to make money through their equity ownership of the pipeline.

Tony Izzo, president and CEO of Enstar Natural Gas, told the Council that he had not planned to speak but felt compelled after hearing the presentations. Enstar serves approximately 50 percent of the state's population and has done so for 40-plus years. "We have one of the best gas utilities in the country, with new high-tech systems, 400 miles of pipelines and 2,400 miles of distribution lines. We are ready to be of service."

We believe Ken Thompson is right on the mark. We endorse the idea of a hub in Fairbanks. Enstar has contracts pending to meet our supply needs to 2006, and we have some contracts that will fill part of our needs to 2017. But we have long-term concerns, beyond that.

"I did some quick calculations, and at our present rate of consumption the 35 tcf of known gas reserves on the North Slope are sufficient to meet the needs of Southcentral Alaska for 175 years. If only the utility needs are considered, which is about one-third of demand, the known North Slope gas

reserves are sufficient for 580 years." In making decisions on use of North Slope gas, "we've got to make sure we take care of ourselves."

Council member Carl Marrs asked at what cost an additional 1 to 2 tcf in Cook Inlet could be made available?

Izzo replied that there were no clear estimates, "but in my opinion the cost will be substantially higher" to acquire an additional 1 to 2 tcf of gas in Cook Inlet. Current gas prices in the region are about \$2 per mcf, and the most recent contracts are in the \$2.75 per mcf range. He also said Enstar is very interested in a spur pipeline to either Fairbanks or Delta. "We are very interested in securing additional long-term gas supply for Southcentral Alaska."

Scott Heyworth, speaking for his company "Our Gas, Our Future" told the Council that he is aware of 6 LNG projects Phillips is initiating in Asia, one project BP is involved in to import gas to Bolivia, and that LNG from Asia is now being considered for California, "which is the natural market for gas from Alaska." With the shift of control in the U.S. Senate, "ANWR is dead on arrival, and the support the governor has counted on for the Alaska Highway gas pipeline is in trouble. But we can do our own all-Alaska gas pipeline by ourselves" (i.e. no congressional approvals are needed).

Heyworth noted that costs of \$10 billion are currently estimated to build the "A to B" pipeline segment from Alaska to Alberta, another \$3 billion to build pipelines to lower 48 markets and another \$2 billion to build a liquid extraction plant somewhere. This totals \$17 billion in 2001 dollars (i.e. an investment sufficient for a large-diameter pipeline across Alaska and an LNG plant in southern Alaska). What makes more sense for Alaska? A pipeline to Chicago, or to Valdez? I know Alaskans don't support an Alaska Highway route. An all-Alaska route with an LNG project is in the best interest of Alaska.

Council member Ken Thompson observed that commodity markets always cycle up and down, and asked Heyworth that if the Asia markets are able to absorb 14 millions tons of LNG yearly from Alaska (the volume produced by a large-scale LNG project), what's wrong with starting smaller at a rate the Asia market will absorb, such as 1 to 2 million tons per year, and then ramping up?

Heyworth replied that he favored the "Y" concept (a pipeline branching off from a large-diameter main line) but that the pipeline should be built to Southcentral Alaska first, and then to the lower 48 when the inevitable litigation over the Alaska Natural Gas Transmission System laws and treaty are finally resolved.

Mike Macy, responding to Ken Thompson's question, observed that it's also a question of economies of scale. A large LNG project will be able to get into the Asia market at a more competitive price. Macy complained that Governor Knowles had made his decision to favor an Alaska Highway route for a gas pipeline without consideration of all alternatives. The governor has never listened to a presentation on a liquefied natural gas export project being proposed by Yukon Pacific Corp., for example. Macy also urged the Council not be used as a "shield" by the governor, to help justify his decision in favor of the highway route.

Council co-chair Frank Brown observed that Jeff Lowenfels, president of Yukon Pacific Corp., made a presentation on his project at an April meeting of the Council in Anchorage.

Council members Carl Marrs and Charlie Cole told Macy they do not consider themselves, being members of the Council, as "shields" for the governor. "I'm here to learn," Marrs said, "The governor is waiting for answers from us." Cole told Macy he had listened carefully to Lowenfels presentation of the LNG option and thought it excellent. "What we do here is not in opposition" to the proposal, he said.

Council member Ken Thompson said he favors LNG from Alaska but that it might not happen on this market cycle. "But would you favor a hub, with the first project to plug into the hub being a pipeline to the lower 48? A hub doesn't say 'no' (to LNG,) it says 'yes.' From 1998 to 2000 I marketed LNG in Asia," and it is ironic that Alaska represents a large source of gas supply to Asia but the very size (and capital cost) of the project needed is a major obstacle, relative to competitive supply sources. "Fourteen million tons per year of LNG is tough to sell in a market of 60 to 70 million tons per year. But I do believe there's room for 1 to 2 million tons. I wonder if we need a paradigm shift? Maybe a smaller project is better?"

Macy replied that there are reasons why North Slope producers don't want LNG from Alaska going to Asia. It is because there are finite terms on leases and concessions the producing companies have in Australia and Indonesia. "They're putting that gas in California and Japan. Those are our markets. If we could sell 9 million tons/year to Asia and 5 million tons/year to California, we've got our large-scale LNG project."

Tom Marshall, a retired state geologist, told the Council that 30 years ago Natural Resources Commissioner Phil Holdsworth sent him to Juneau to explain to the state Legislature the implications of the natural gas found associated with crude oil in the Prudhoe Bay oil discovery, which was announced a short time earlier.

Marshall explained at the time that the best near-term use of the gas would be to maintain pressure in the reservoir to support oil production. As the years passed this pressure maintenance, along with injection of water and miscible injectant (a fluid made from natural gas liquids, used in enhanced oil recovery) has resulted in \$100 billion in the value of additional oil produced. The availability of gas for enhanced oil recovery has also aided in production of oil from the Kuparuk River and other oil fields on the North Slope, and will play an important role in production of viscous (heavy) oil from the very large West Sak and Ugnu formations.

"What concerns me (about the discussions of natural gas being commercialized and moved off the slope) is that I want to see as much of the gas as possible used where people live. Seventy five percent of Alaskans live along the railbelt." Our gas is in the railbelt, "it will take a little ingenuity to figure out how coastal LNG tankers can move gas to other coastal areas."

Another concern is that we hear estimates of 35 tcf of reserves on the slope. "If we produce at 4 billion cubic feet per day, this is a 25 year supply. If we use a more realistic figure of 26 tcf (actually available for commercial sale after uses on the North Slope) and we subtract the 14 percent of this gas that is carbon dioxide (which will be removed from the gas before it is shipped) and natural gas liquids, we have a project with known reserves sufficient for 17.8 years. However, a large project like this must be able to operate for at least 30 years to justify the investment. "Therefore, whoever is building this project is depending on undiscovered resources. As a geologist, I will tell you that is pretty risky."

"It doesn't make any difference to me whether we deliver North Slope gas to Chicago or Japan, but I do want to see gas made available in Alaska. Gas can be used for so many things. In the Fraser River valley of British Columbia, local gas is used to heat greenhouses to make tomatoes for export to California. Gas is the preferred fuel for fuel cells. The options for using gas in Alaska will create many opportunities for our young people."

"The North Slope petroleum province is so much beyond anything I have seen in the south 48 states, but the concern I have is that BP, Exxon and the other producers will figure out a project that is just large enough" for an Alaska Highway route. "The North Slope could give Alaska a stable supply of gas for 100 years. Let's serve Alaska first and if gas reserves turn out to be very large, then we can send it Outside. What's wrong with creating economic incentives for using the gas in Alaska? It's okay to give Alaskans an economic advantage."

Council member Carl Marrs observed that "all of us would like to find ways to enhance the value of gas used here, but on the economic side we must assure whoever is doing the project will get a return."

Marshall replied that the governor and his advisors are well motivated to pursue an Alaska Highway route. Economics are important, and markets and prices do change. The project may not look so good at \$3 per mcf (prices in the lower 48). The gas pipeline is an extremely complex problem. It won't be solved with a snap of the finger.

Jerry McCutcheon, an Anchorage resident, told the Council that there were documents held at one time by the Alaska Oil and Gas Conservation Commission related to estimates of Prudhoe Bay oil and gas in-place resource estimates that have disappeared. He encouraged the Council to try and locate these documents. McCutcheon said there could be more oil produced from Prudhoe Bay and using gas to maintain the reservoir pressure is important.

Harold Heinze, an Anchorage resident, told the Council he is a former ARCO Alaska Inc. manager and a former state Commissioner of Natural Resources. When he was at DNR he worked actively to market Alaska's gas. "I came here in 1969 and I lived through the TAPS years. I think we can avoid some of the mistakes made during TAPS. Clearly, the governor should be congratulated in forming this Council and getting an important dialogue started." On projects like this, "I would like to see us consider things like an Alaska-Yukon 'free trade zone.' There's no reason that the project changes at the border." The Alaska and Yukon people both have priorities in maximizing jobs. We should all have opportunities to work up and down the pipeline. "The President has made it clear that he considers having good relations with Canada very important." Heinze also recommended that local citizen advisory groups be formed as part of the pipeline planning effort up-front. This wasn't done during TAPS, but there were tremendous impacts on small communities. On local-hire, "we need a more creative approach. The pipeline is being built across our (state) land. There has got to be some way we can legally ensure local people" are given priority in hiring. "We should also be flexible when we discuss the need for gas. Sometimes it's smarter to move electricity than gas. We could think of the Delta-Glenallen-Fairbanks areas as the electricity belt," where it could be more economic for regional power plants, fueled by gas, to produce energy than to build gas pipelines.

Heinze also urged the Council to move these discussions along. "I've lived here for 30 years and I've seen us at this point before, and there is value in taking action." He also said he is concerned that the

Alaska Oil and Gas Conservation Commission is "behind the curve." The current Prudhoe Bay field rules do not permit commercial gas sales, and AOGCC hearings will have to be held before they are allowed. "I know that the questions will be answered, but the AOGCC needs to get on it." Heinze also endorsed the concept of a State gas pipeline office, where everything having to do with gas pipeline decisions are in one place. "It's unfortunate the Legislature didn't provide for this. We've got to find the money and get on with it."

DNR Commissioner Pourchot mentioned that at the very end of the session the Legislature did provide some money for startup of a state gas pipeline office.

Heinze recommended the Council obtain copies of a 1983 publication by the University of Alaska's Institute of Social and Economic Research titled, "The Struggle for an Alaska Gas Pipeline," as excellent background reading. "The State of Alaska needs to be looking at its own best interests, but also why things are being done the way they are. Some issues are not as obvious as they might seem. My instincts tell me that Alaska hire is a bigger issue than many people think."

Council member Jack Roderick asked Heinze his opinions on the State taking an equity position in the gas pipeline.

Heinze replied, "I hate to see the State put in hundreds of millions of dollars to get information it could get through regulatory processes. I have a dim view of this because the State does not have a management vehicle to make risk investments."

Council member Ken Thompson observed that if the State doesn't have an equity interest, it pays a tariff (to private equity owners) for transport of royalty gas that includes federal taxes. With an equity share, "we can move our own gas at lower cost" (because the state would pay no federal tax) and pass these advantages on to in-state gas users.

Heinze replied that the Department of Revenue will be doing a study of possible state equity participation. "But I wouldn't leap too quickly."

Council member Charlie Cole observed that during the TAPS tariff negotiations in 1985 the State was able to take the position that as an owner of oil reserves it favored low tariffs, which also enhanced exploration. If the State had an equity interest, its interests in low tariffs might change.

Heinze commented that there are also issues around the "trajectory" of the tariff. In the 1985 TAPS tariff proceeding the State chose to allow high tariffs in the early years in order to allow low tariffs in the later years of the pipeline. "Without that (tariff structure) our royalty oil would be worth less. We may face policy choices like that with a gas pipeline, too."

Paul Simons, an Anchorage resident and a retired chemist, urged the Council to consider the possibility that gasification plants can be built on coal fields, with many products made from the gas. This is being done now by Sasol in South Africa, and a large U.S. coal gasification plant is operating in North Dakota.

Alaska Highway Natural Gas Policy Council

AGENDA

June 14, 2001, 5:00 p.m. to 8:00 p.m.
Tok School

- I. Community Reception sponsored by Doyon, Ltd.
- II. Meeting call to order/Welcoming remarks
- III. Presentation from DNR Commissioner Pat Pourchot
- IV. Public Testimony

Alaska Highway Natural Gas Policy Council

Tok Public Hearing Summary

June 14, 2001, Tok School

Council members attending included Co-chair Frank Brown, Mike Navarre, Rosemarie Maher, Rhonda Boyles and Charlie Cole. State Natural Resources Commissioner Pat Pourchot and Deputy DOTPF Commissioner Kurt Parkan also attended.

Co-chair Brown, who presided at the meeting, suggested a more informal question-and-answer session rather than the traditional public hearing format for a meeting.

(Note: Because the meeting was informal, with people asking questions and making comments from the audience, the editors were unable to get names of people speaking.)

Brown explained the Council's purpose: to study options for maximizing benefits of the natural gas pipeline to the state and to make recommendations. The governor has also formed a gas cabinet within the Administration, headed by Commissioner Pourchot.

Pourchot gave the Administration's presentation on the gas project.

A question from the audience asked how Alaska was coordinating with Canada on the gas pipeline.

Pourchot responded that Canada's federal government has just set up its mechanism to work on the project. The Prime Minister has set up a "gas cabinet" just as Alaska has done, with seven to eight departments involved. "They are clearly up to speed, although they are, officially at least, still neutral on the route question," the Commissioner said. Canada's parliamentary system allows the government to form unified positions because the party controlling parliament forms the government. The federal government is more in control of events in the territories, such as Yukon and Northwest Territories. Once the pipeline crosses into British Columbia and Alberta the provincial governments will exercise considerable influence.

An audience member asked about the preference by some Canadians for a northern route, and asked about the status.

Pourchot answered that Canada's federal government has taken the position that it doesn't want its northern gas stranded. The government doesn't want the movement of Alaska's gas to strand Mackenzie Delta gas.

The government also shows sensitivity to the concerns of aboriginal groups. The situation on aboriginal land claims in Northwest Territories has now changed, however. Most claims there have been settled, and the interests of aboriginal groups are now aligned with development of a pipeline along the Mackenzie River Valley. However, land claims in Yukon and northwest British Columbia are not settled, and they will have to be settled before an Alaska Highway gasline is built. There are discussions on this under way now, Pourchot said, although the status of talks is unknown.

A question was raised on status of a gas pipeline to Valdez. Has it been eliminated?

Pourchot replied that a pipeline to Valdez would require use of liquefied natural gas technology and reliance on markets in Asia. "Our best information is that the Asia market does not now support a stand-alone pipeline to Valdez. However, the Alaska Highway route (to the lower 48) does not rule out a spur pipeline to an LNG plant in the future." Natural gas prices in the lower 48 are very strong, about \$4 per million cubic feet (mcf) now. Although the price has slipped (it was \$5/mcf) it is still higher than the \$2/mcf two years ago.

A question was raised about the timeline for a gas pipeline.

Pourchot responded that the producers will make this decision, but the best information the State has is that a target date of 2007 is under discussion.

A member of the audience asked about the impacts of gas pipeline construction. Since the technology is simpler than the trans-Alaska oil pipeline, wouldn't the impact be less?

Pourchot replied that the workforce requirements for the gas pipeline would be far less than TAPS, partly because the infrastructure is available to support construction. The gas pipeline technology is newer, but the entire project is simpler. Since the pipeline will be buried in total there isn't the need for the extensive design and engineering work needed for above-ground sections as for the TAPS line, or the vertical support members. There will still be two to three construction seasons involved. There will be thousands of people employed, but considerably less than TAPS.

One member of the audience asked what benefits the project would bring for small communities. Tok has no incorporated regional government and no opportunity to use the pipeline as a tax base. To use the gas, a gas utility will have to be established. The compressor plants for the pipeline present opportunities for use of waste heat, but the location of the compressor stations is not yet known. "I support the highway route, but what is the long-term benefit?"

Co-chair Frank Brown replied that the option to form a local government lies with the community. Presence of a pipeline doesn't automatically mean a government will form. The TAPS oil pipeline was built through the Glennallen area almost 25 years ago but there is still no borough government in the area. It is true that it isn't yet known where compressor stations will be located, although it is believed that several will be in the Tanana River valley. In the old Alaska Natural Gas Transportation System proposal there were 12 compressor stations planned in Alaska. The new plan will probably involve fewer, and they will be more automated with fewer people operating them.

A question was asked about local hire, meaning hiring from the local community.

Council member Mike Navarre replied that there is a subcommittee working on this. The Departments of Labor and Law are providing assistance to determine what can be done. Also, the governor is taking the issue up with the producers, to see what they are doing, Navarre said.

A question was asked whether it would be possible to ease regulations so that Native people could work on the pipeline on both sides of the border. Several people from the Dot Lake community attended a First Nations conference in Whitehorse in which Foothills Pipe Lines made presentations

on construction techniques. It became apparent that pipeline crews using modern technologies will move very fast, building several miles per day. Construction crews will be in the Dot Lake area for just a few days, which would seem to limit opportunities for training and employment in construction.

Council member Charlie Cole said that Harold Heinze, a former state Natural Resources Commissioner and ARCO Alaska manager, had suggested to the Council a free "economic zone" from Delta to Whitehorse where people could move back and forth without red tape. "His thought was that it could apply to all labor," Cole said.

A response from the audience was that only local people should be able to take advantage of a free-movement economic zone, not imported labor.

Co-chair Frank Brown said that local people should be able to tap gas from the pipeline. A small local utility will be needed, but this energy will be cheaper than any other form of energy the state has experienced. The cheapest alternative form of energy will probably be twice as expensive. There is also the possibility that gas will provide an energy source for mine development in the vicinity, through a small spur line to the mine.

Also, at points along the pipeline route there may be possibilities for industries that use gas or gas liquids. Propane could become a small industry, for example. These are potentials, Brown explained.

An observation from one person in the audience was that development of industrial infrastructure could change the community's rural character. Even development of a gas utility or incorporation of a regional government could impose "costs" by changing the character of the community.

Co-chair Brown replied that these were options. The community can decide whether or not to take advantage of access to gas.

A question was raised as to whether Fairbanks was considering natural gas plants, and whether the Tok community could buy products (such as propane) in Fairbanks.

Fairbanks North Star Borough Mayor Boyles, a Council member, replied that her community is looking to expand its economic base and hopes to develop new gas-based infrastructure.

A question was asked on who has the final say on a pipeline route.

Commissioner Pourchot said that the producers, or a consortium planning a pipeline, come to the State with a route application. "We look at it and review it." While the general route is selected by the applicants, the specific route is influenced by state and federal agencies, he said.

A comment from the audience was that in 1979 when the Northwest project consortium (the previous Alaska Highway gas group) was considered a strong project, one of former Governor Hammond's first actions was to set up a socio-economic impact committee of local people, so that local people could decide how to handle impacts of construction. How will the Gas Policy Council deal with this kind of question?

Council member Navarre replied that the subcommittee he chairs is working with economists with the Department of Labor and Department of Revenue, seeking funds to do a socio-economic study to use in the Council's final report. Dept. of Labor is also doing some separate, but related studies, and the Legislature may also deal with this issue.

Fairbanks Borough Mayor Boyles said her community is dealing with estimating socio-economic effects already. The University of Alaska's Institute of Social and Economic Research has been asked to help Fairbanks estimate social and economic effects.

A comment from the audience is that Alaskans' experience with promises of cheaper energy has not been promising. When the Anchorage-Fairbanks electric intertie was planned, studies predicted a lowering of electricity costs in the railbelt. This has not materialized. The construction of refineries in the state has not resulted in less expensive gasoline, either.

Council member Charlie Cole replied that he is incensed about the price of motor fuels in the state. His theory is that gasoline and others fuels are priced just slightly under the cost at Cherry Point, Wash., the nearest large out-of-state refinery (meaning that the Alaska price has no connection with the fact that oil is produced and refined here). Cole said he intends to do everything he can to ensure that local prices for natural gas are tied to a netback pricing scheme (the "netback" price on the North Slope, with tariffs added to move gas to Fairbanks, Tok or some other in-state point).

Skepticism was expressed from the person in the audience, who felt Alaska "already has strikes against us" from the past track record. "How are we to believe the gasline will really bring lower costs for gas when the track record has been the opposite?" He urged the Council to be realistic on this issue when talking with the public.

Co-chair Brown replied that the nature of gas is different than crude oil, which must be refined into usable products. The cost of delivering gas to Tok will definitely be cheaper than delivering it to the lower 48.

Commissioner Pourchot added that local prices will still be affected by overall supply and demand. "We will still see prices influenced by some other market. We won't have cheap gas in an isolated market."

A comment, and a question, from the audience was that local electricity prices were 22 cents/kilowatt hour. Would natural gas bring down electricity costs?

Commissioner Pourchot said there was no way of knowing for now. How we get access to gas, such as the State taking its gas in-kind, could make a difference. It would be a local decision to invest in the gas distribution infrastructure. In a small market, with just a few hundred homes, the economics get tougher.

Ken Freeman, staff to the Council, explained that these meetings are for "scoping," to find out what issues are important to Tok. He explained the Council's organization into subcommittees for dealing with specific issues.

Several comments from the audience followed regarding the cost of infrastructure and gas conversion. One audience member pointed out that hydro power is supposed to be cheaper in the long term, but the heavy up-front capital cost creates higher power rates for consumers in the early years. In Alaska this can be as much as six to eight times the cost of alternative forms of energy. The same may be true, to a lesser extent, with gas. There will be higher initial costs until an investor recoups the capital investment, unless there is a subsidy.

The regional manager for Alaska Power and Telephone commented that their studies indicated that it will cost \$40,000 to convert one of the utility's diesel generators to gas. Plus, the generator will be "de-rated" by about a third, which means fueled by gas it generates one third less electricity than if fueled by diesel. This means the utility will have to add an engine and generator to compensate for the de-rating and produce the same amount of power. Plus, there will have to be a diesel-powered generating unit on standby. All together, the costs associated with conversion to gas are estimated at \$600,000.

Another audience member commented that because of conversion and infrastructure, and other costs, the gasline could wind up imposing more costs than benefits, at least in the short term. "I'd rather just get my dividend," was the comment.

Council member Mike Navarre replied that his community, Kenai, has seen great benefits from natural gas. When his family arrived in Kenai in 1957 there were 323 people and no gas. Over the years, the availability of gas and the industrial development it brought has greatly benefited the community. "If the gasline runs through here there may not seem to be short-term benefits but in the long term these could be substantial. Some of the short-term costs could be offset if a local government is set up, or perhaps there could be temporary State subsidies."

A question was asked about the feasibility of a tap on the pipeline near Tok, and the minimum size to make a tap economic.

Co-chair Brown replied that the minimum size of tap to be feasible isn't yet known.

A question was asked on whether the State is likely to take royalty gas in-kind.

Commissioner Pourchot replied that the majority of the State's royalty oil share is now taken in-kind and sold to Williams Companies, for the Fairbanks refinery. In the past royalty oil was sold to Tesoro and PetroStar. A factor in the design of the pipeline will be whether the State's one-eighth royalty share will be shipped with the producers' gas to the lower 48, or used in the state.

Co-chair Brown added that one of the subcommittees of the Council is looking at how a tap on the pipeline can be contractually provided for before construction.

A comment from the audience was that during planning for the former ANGTS project in the late 1970s, the proposal was to install taps at the beginning because to put them in later would add costs.

Co-chair Brown replied that new technology allows for a "hot tap" procedure where taps can be installed without shutting down a pipeline.

A question was asked whether the Council's pipeline-related work is being coordinated with Rep. Jeanette James' efforts to see a railroad corridor established in the region.

Commissioner Pourchot replied that the Administration doesn't support James' bill (which is still in the Legislature). The bill provides for lands in a right-of-way to be transferred to the Alaska Railroad, which can then sell off corridors for other uses, such as a fiber-optic cable or a pipeline. The Administration believes the State should establish rights-of-way for these other uses, and not make a large land grant to the railroad and let the railroad manage the additional rights-of-way.

A question was raised whether there would be multiple corridors for all of these or a single corridor.

Commissioner Pourchot replied that one of his department's main projects now is looking at land status questions for a pipeline right-of-way. Foothills Pipe Lines has a right-of-way granted by the federal government from the ANGST project and is preparing an application for a State right-of-way. The railroad proposal is for a study, and there is actually no money yet to do the study, either in the U.S. or Canada.

A question was raised whether the Tok community may have to deal with right-of-way corridors several times, for a pipeline, railroad or utility.

Commissioner Pourchot replied the answer is probably yes.

A question was asked about the economic life of the pipeline.

Commissioner Pourchot said the economics many oil and gas projects are designed around are an expected 20 years of life. However, the pipeline itself, with proper maintenance, could last considerably longer. The estimated gas supplied on the slope could support the pipeline for many years beyond 20 years, he said.

A question was asked if there were any other right-of-ways issued.

Commissioner Pourchot replied that Yukon Pacific Corp. has received a conditional State right-of-way for its route (parallel to the TAPS pipeline to Valdez) and that in the 1980s the ANGTS group received a federal right-of-way as well as some permits. An application for a State right-of-way was prepared.

An audience member recalled that 10 years ago when the Air Force was planning its Backscatter radar projects, which would have included some facilities in the Tok area, an excellent job was done in projecting the long-range local job requirements and posting information in the community.

Mike Navarre, a Council member, replied that his subcommittee was assessing skills available in Alaska and the size of the available workforce. "We'll report what kind of jobs are required, but we won't get down to the community level," he said.

Mayor Boyles, a Council member, summarized what she learned at the meeting:

- Local hire is an issue.
- The ability for the local workforce to work across the border is desired.
- There is concerns for energy costs and the benefits the pipeline could provide in lower-cost energy.
- There are concerns about social impacts and changes to a rural way of life.

Co-chair Brown observed, "I felt like this was one of our better meetings. It was more like conversation. I learned a lot."

Alaska Highway Natural Gas Policy Council

AGENDA

July 19, 2001, 12:30 p.m. to 5:30 p.m.
North Slope Borough Assembly Chambers, Barrow

- I. Community Reception, sponsored by the North Slope Borough
- II. Public Hearing begins
- III. Introductory Remarks, Co-Chairs Frank Brown and Jim Sampson
- IV. Remarks from Acting Mayor Margaret Opie
- V. Welcoming remarks from Governor Tony Knowles
- VI. Remarks by Dept. of Natural Resources Commissioner Pat Pourchot
- VII. Invited Presenters
 - A. North Slope Borough
 - B. Alaska Eskimo Whaling Commission
- VIII. Public Testimony
- IX. Full Council meeting

Before the meeting, the Council toured the Barrow gas field and local gas utility facilities. The day after the meeting, Council members toured the Alpine Facility and the Prudhoe Bay Central Gas Facility.

Alaska Highway Natural Gas Policy Council

Barrow Public Hearing Summary

August 19, 2001, North Slope Borough Assembly Chambers

Co-chair Frank Brown opened the meeting, noting the presence of both Governor Knowles and Lt. Gov. Ulmer, as well as many members of the full Council. For the audience, in Barrow as well as listening by radio, he described the Council and its purposes.

Governor Knowles made some opening remarks, indicating that people of the North Slope have helped "set the standards" for projects in the Arctic.

Lt. Gov. Ulmer mentioned her appreciation for tours of the Barrow gas field and local gas utility facilities prior to the meeting. "I had wanted to see how you are using a local gas resource, how a community takes advantage of the opportunity presented by gas. We need to learn how you have balanced subsistence with economic development and retained subsistence while also encouraging appropriate development."

Molly Pedersen, president of the North Slope Borough Assembly, was the first person to speak to the Council. She was representing the mayor, who was in London at the International Whaling Commission meeting.

Pedersen said that people of the North Slope have played an active role in oil and gas development over the past 25 years, a partnership in which the role of the Borough and other organizations has been to enhance the protections of development activity. "At times our insistence on environmental safeguards has been a thorn in the side of industry, but the Borough's role has been important to the state. We are actively supporting lobbying for ANWR development, for example, including giving financial support to the effort. Because our agenda is beyond that of income from oil and gas, we are Alaska's most powerful response to the Gwich'in (an Athabascan group who oppose ANWR exploration) and the environmentalists."

"We bring the same partnership to natural gas. We applaud the governor's early commitment to an Alaska Highway route for the gas pipeline because this route would increase the potential for in-state use, the options for public sector involvement in the project. The North Slope Borough has expressed an early interest in public sector involvement through its membership in the Port Authority. The Borough will now await the conclusion of the Gas Policy Council's deliberations, as well as those by the Legislature's committee, chaired by Sen. Torgerson, and the industry's studies. There are a lot of questions to be answered before a plan to develop the natural gas can be put forward."

Pedersen noted that gas is a clean fuel and that its use will reduce pollution. "My biggest concern is that while development of the gas will be good for the nation and the state, the environmental risks of a large project like this are concentrated on our lands."

Charlie Neokok, a member of the Barrow Whaling Captain's Association and representing the Alaska Eskimo Whaling Commission (AEWC), told the Council that "subsistence hunting is at the core of our culture."

"We recognize that oil development has brought the standard of living in our villages up, although it is even today at a minimum standard compared with elsewhere." Most of the benefits of gas development will go to other communities, mainly in the lower 48, "while our communities will bear 100 percent of the environmental risk."

The AEWC realizes that two routes are under consideration for the gas pipeline. The AEWC supports the onshore Alaska Highway route because it provides opportunities for communities to use gas because it will provide more jobs and because it will add more tax base. "It is important to keep the pipeline onshore. We adamantly oppose the northern route because it would take the pipeline directly through the fall whale migration areas where we hunt. These are important feeding areas."

Of particular concern is the potential disturbance of offshore dredging. "There is no telling how long it will take to recover," from the effects of dredging. The ongoing maintenance activity on an offshore pipeline will also have impacts on wildlife. Research has shown that offshore seismic activity has disturbed whales during migration despite the industry's assurances otherwise. Whaling captains are concerned that an offshore pipeline will create a tremendous disturbance, but that industry, "is driven by greed, and will tell us whatever it takes to get what they want. The Arctic is unforgiving. Life here is fragile."

(Note: An extensive discussion among Council members and an industry representative followed Neokok's remarks. We will summarize the main points advanced.)

Curtis Thayer, representing the gas producers' group working on feasibility and cost studies for the gas pipeline project, described the studies underway now, which include the large gas conditioning plant on the North Slope, various sections of pipeline from Alaska to Alberta, Canada and from Alberta to lower 48 markets, and a natural gas liquids extraction plant located somewhere along the route. He described extensive logistics studies underway, of trucking needs and capabilities of ports through which material will be moved.

The heavy-wall pipe required for a high-pressure pipeline presents special challenges. It is so heavy that only one pipe length can be moved on a large truck, compared with several pipe lengths (of thinner wall pipe) moved on a truck during construction of the trans-Alaska oil pipeline in the 1970s. The high-strength types of pipe being considered have never before been rolled into 48-inch pipe diameters, and the only countries with the technical capabilities of doing this are Japan and Korea. It would take two full years of the steel production capacity of those countries to produce the amount of pipe needed.

The northern route is about 200 miles shorter, but there are questions as to whether it can be done. The industry group is now beginning sonar studies of bottom conditions along the route, to see if it is possible.

In the end, the industry has to have an economic project. "At this stage we don't have an economic project," Thayer said. "The analysis underway now is how to get an economic project. We have not completed the analysis for the three companies. It's like we're building a car. We don't know if anyone will buy it."

Governor Knowles commented that the northern route, on paper, appears less expensive, but this still begs the question of how the concerns of North Slope people can be quantified in economic terms. "What is this testimony (from North Slope communities) worth," (in the economic calculation)?

Carl Marrs, a Council member, asked the industry how it responds to the concerns being expressed at this meeting. "It sounds like they've already got it down to costs per mcf (thousand cubic feet of gas) but I haven't been given any information on the (effects of) trenching, and the safety risks."

Bob Penney, a Council member, remarked that the environmental impact statement for the project must take the human element into consideration along with the cost savings of building 200 miles less pipeline. Penney observed that in 1976 and 1977, during previous debates over gas pipeline routes, it also appeared that a northern route would be cheaper. But it wasn't possible to build. Now, if industry concludes that if there can't be a northern route there might not be a gas pipeline at all, "a lot of Alaskans will say fine, let's just leave the gas in the ground."

Charlie Cole, a Council member, questioned whether the industry group can really say the northern route is cheaper before the ocean bottom conditions and engineering problems are really understood.

Ken Thompson, a Council member, commented that he would not trust a net present value calculation of a pipeline route that has, in reality, little chance of securing permits. The petroleum industry in Alaska has realized billions of dollars of benefits, but coming with that is a responsibility to include the community values in its assessments, which are "a bigger part of the equation than net present value."

Richard Glenn, vice president of lands for Arctic Slope Regional Corp. (ASRC), spoke next to the Council, representing ASRC.

ASRC owns about 4 million acres of lands with prospects for gas, he said, and ASRC's mission is to use its resources to better the lives of its shareholders. ASRC must also balance the material benefits of gas development with its responsibility of environmental stewardship and protection of its lands.

The regional corporation owns lands in the Brooks Range foothills with some of the best prospects for gas in the U.S. One of the corporation's concerns is access to the pipeline for gas produced by non-pipeline owners, and whether a pipeline leaving the North Slope will have adequate capacity for future production of gas.

Access to opportunities presented by a pipeline project is also a major concern for ASRC, including jobs and business opportunities for the corporation's oil service subsidiaries. ASRC's companies have proven their competence and have much to contribute to the project. Glenn noted the involvement of Natchiq, Inc., ASRC's subsidiary, in engineering and design work for the large gas conditioning plant and the "B to C" (Alberta to lower 48) pipeline studies. There has been little discussion so far of who will own the pipeline, however. "We seek to be a part of that. ASRC wants to be there," he said.

ASRC joins the North Slope Borough in supporting an overland pipeline, which will also provide access to the significant resource potential of the central North Slope (foothills) region. "We are confident the producers will come to the same conclusion," he said.

Glenn urged the Council to study Barrow as an example of how gas has benefited a small community. Use of diesel fuel presents risks of an interruption of supply, and risks of spills, where natural gas is more reliable and cleaner. He noted there is a significant capital cost for a community to convert from diesel to gas, however.

Following Richard Glenn, there were comments by telephone from several villages on the Slope. From Atqasuk came comments that, "we've been waiting a long time to hook up to gas," and that the producers should build the pipeline overland, but with regard for caribou. "We live off caribou."

Council co-chair Frank Brown commented that all proposals so far for a natural gas pipeline involved burying the pipeline.

From Kaktovik, Fenton Rexford, representing Kaktovik Inupiat Corp. and its 110 shareholders, supported the comments presented by the AEWG and the North Slope Borough. "This summer the ice has been very heavy between our village and Canada. We watch these conditions closely because our relatives are travelling back and forth," to Canada. Ice ridges are very high this summer.

Mayor Gonzalez, of Kaktovik, followed Fenton Rexford and supported his testimony. He said that Kaktovik's city council had passed a resolution supporting an onshore pipeline route and opposing an offshore route, and supporting the concept of participating in the project through the Port Authority.

From Point Hope, Jack Schaefer said the North Slope Borough is experiencing declining revenues from property taxes that is causing hardship in the villages, because of layoffs and lost benefits. He added that ASRC should be a partner in a gas project.

Willie Neokok, mayor of Point Lay and a member of the North Slope Borough Planning Commission, told the Council he also supported the onshore gas pipeline. He concurred with the comments by Jack Schaefer that there is rising unemployment in the villages and that the gas project represents an opportunity for local people to go to work. He also pointed out that repairs and maintenance to an offshore pipeline would cost more and that salt water could have corrosive effects on pipe.

From Nuiqsut, the village nearest the Prudhoe Bay oil fields, Isaac Nukapigak, president of Kuupik Corp., said his corporation supports new development as long as it is done in an environmentally responsible way. If the pipeline is built by the overland route, there will be more contracting opportunities for Alaskan firms, he pointed out.

Ely Nukapigak, also a resident of Nuiqsut, said the community had sent a letter opposing an offshore pipeline. Cross Island, offshore Prudhoe Bay, is an area of particular importance for Nuiqsut in whaling, he added.

From Anaktuvuk, there was cautious support expressed for the overland pipeline, along with the hope that gas availability would lower energy costs in North Slope communities.

From Wainwright, there were comments that gas production could result in some lost oil production from the underground reservoir. The oil producers should be taking a careful look at this. A question was asked about the kinds of technology that would be available to minimize lost oil production and produce the remaining oil from the Prudhoe Bay field.

The mayor of the City of Barrow commented that the best way to protect subsistence on the North Slope is to build the pipeline down the highway. There is no way to really put a value on lost subsistence, he pointed out.

There is a perception that people of the North Slope have realized a lot of monetary benefits from oil production, through taxes, he said. But this is just a minor fraction of the monetary benefits that others have realized from the oil fields. The gas pipeline will add to the tax base of the North Slope, offsetting depreciation of oil production facilities in the existing fields.

He also hoped the rest of the state would appreciate the position of North Slope communities, so that there is no need to continually have to hire lawyers for the communities to get what is rightfully theirs under existing tax laws of the state.

Charlie Cole, a Council member, asked how important the property tax is to the Borough. The gas producers may ask for property tax relief for their project, he pointed out.

The city mayor replied that the property tax is of utmost importance to the Borough. The North Slope Borough is carrying a heavy debt load from general obligation bonds issued to make local improvements. It is important that the Borough be allowed to continue benefiting from property taxes.

Patsy Aamodt, president of the Native Village of Barrow, told the Council her community wishes no offshore exploration for development of natural gas, and "full funding" of State education funds for schools in the region, "without having to fight tooth and nail." The community supports responsible oil and gas development as long as it's not done in the ocean, she said.

Aamodt mentioned that her son is a certified welder now working in the Milne Point field on the North Slope, and she hopes the highway gas pipeline will provide employment opportunities for him and other young people on the North Slope.

Delbert Rexford, a local resident, told the Council he has served on the local city council as well as on a state oil and gas policy advisory council and has been active in the Alaska Municipal League. He supports the overland route because it can be more easily repaired and maintained, he said. The highway route will also bring important benefits to the local communities. North Slope communities are facing economic and social problems, but over the years the State of Alaska has been cutting back on municipal revenue-sharing. The industry has also made great strides in reducing environmental impacts and its "footprint" on land with its new projects, but these advances also reduce the tax base for the North Slope Borough.

Rex Okakok, director of planning for the North Slope Borough, submitted written comments to the Council.

Edna McLean, president of Ilisagvik College, said her institution has looked at the options for North Slope gas and believes all Alaskans should support the highway pipeline route. This route represents the greatest opportunity for jobs with the least disruption of the environment. Ilisagvik has successfully developed training programs in a variety of fields, ranging from heavy equipment operation to computer training. The college also helps students who have not completed high school

to get their GED and to improve english and math skills. Virtually all graduates of Ilisagvik are able to get good jobs upon graduation. Ilisagvik is ready to work with developers of a highway gas pipeline in training, she said.

Ben Nageak, former North Slope Borough mayor, told the Council he opposes offshore development and considers onshore development as the only prudent way to develop oil and gas resources. Nageak said he was proud of his role, when he was mayor, in helping form the Alaska Gasline Port Authority, with the assistance of Jim Sampson, former Fairbanks borough mayor and now co-chair of the Gas Policy Council, and former Valdez Mayor Dave Cobb. The Port Authority could be an important tool for developing and marketing Alaska gas, and Nageak hoped its formation encouraged the producers to begin their own studies of building a gas pipeline.

Marie Adams, vice president of Arctic Slope Native Association for health services, said her association oversees operations of the 35-year-old public health hospital in Barrow. She urged the Council to consider how important subsistence is in the diet and health of Native peoples. Studies being done in the Nome region are showing that subsistence foods can be important in restoring peoples' health who are afflicted with diabetes and heart disease.

Adams expressed concern about effects of construction of an offshore pipeline on beluga whales, which are important as a subsistence resource for communities in the Mackenzie Delta. The beluga whale population in the Beaufort Sea may range far more widely than is thought, and effects on the population may affect villages in Alaska.

Ned Aerie is a subsistence hunter who travels many miles to get food for his family. He is concerned with the movement west of onshore oil and gas activity into the NPR-A because of contaminants and effects of seismic activity on caribou. He opposes offshore activity because the industry has not demonstrated it has adequate plans for cleanup in the difficult ice and wind conditions of the Beaufort Sea. He also opposes an offshore pipeline because there have been no studies of its feasibility or environmental impacts. He expressed concern over high fuel prices on the North Slope and the unfairness of paying prices far higher than paid by consumers thousands of miles away, "when this is where the oil comes from."

Charlie Cole, a Council member, agreed with this. In Fairbanks people pay over \$2/gallon for gasoline when it is manufactured in a refinery 10 miles away, from crude oil from the North Slope, he said. He expressed concern that the same thing may happen if a gas pipeline comes near Fairbanks. "We've got to take a stand on this," he said.

Price Brower, director of the North Slope Borough Search and Rescue, said the borough research and rescue services have often been called to assist in support of oil field and trans-Alaska pipeline operations. The unit is available to assist with gas pipeline-related work, he said.

Rex Peter, a stockholder in ASRC, urged the Council to emphasize that the highway route is best for the gas pipeline because it helps the most people in the state. He also expressed concern that many people speaking to the Council today were bringing up subjects of no direct relevance to the policy issues before the Council.

Johnny Brower, a resident, expressed deep concerns to the Council about alienation felt by many North Slope people over changes thrust on the region by economic decisions made far away. He considers himself a "non-U.S. citizen" but still a Native American, and is proud of it. He feels frustrated because despite opposition of local people to many types of development over the last 25 years, there is still drilling. "You're forcing it on people who don't want to accept it," he said. "We don't want sickness, anger and anxiety. We want to live a healthy, well-balanced life with the proper resources."

Lucy Leavitt, a resident, described her own family's experience with public services, to illustrate the importance of property taxes to the Borough. She and her husband built a home for their family and were fortunate enough to be hooked up to electricity and gas, but not underground sewer and water. They pay 12 cents per gallon for delivered water and pay to have sewage taken away by municipal services. A few years ago the underground sewer and water system was extended to a block from her home. People there now pay \$69 per month for unlimited water. She petitioned the Borough to have sewer service extended but was told the extension would cost \$10 million and there is no money for it. Property taxes are the only way the Borough has to pay for such services, she told the Council. The issue has immediate and serious consequences for her family. When problems developed with the sewage tank in December, the family had to wait until spring to have it repaired. There were delays in getting the repairs made, and raw sewage leaked out around the house and created health hazards for her two young children.

Alaska Highway Natural Gas Policy Council

AGENDA

August 2, 2001, 10:15 a.m. to 6:00 p.m.
Juneau Baranof Hotel

- I. Subcommittee Session #1
 - A. Alaska Hire (AJ Room)
 - B. Federal/International Action (Room 307)
- II. Lunch Break
- III. Subcommittee Session #2
 - A. Environmental Considerations (Room 307)
 - B. Access to Instate Gas and Future Opportunities (AJ Room)
- IV. Break
- V. Public Hearing
 - A. Opening remarks by Co-Chair Jim Sampson
 - B. Welcoming remarks by Mayor Sally Smith
 - C. Remarks by Governor Tony Knowles
 - D. Presentation from DNR Commissioner Pat Pourchot
 - E. Public testimony

Alaska Highway Natural Gas Policy Council

Juneau Public Hearing Summary
August 2, 2001, Baranof Hotel

Co-chair Jim Sampson convened the meeting. A moment of silence was held in memory of the passing of Rosemarie Maher, a Council member who was president of Doyon, Ltd., who recently passed away in Fairbanks.

Juneau Mayor Sally Smith welcomed the Council to the capital city. She was pleased that a public hearing on an issue of such statewide importance as natural gas policy would be held in her community.

Governor Knowles made introductory comments, indicating that the natural gas pipeline will help pull Alaska together because its benefits will be seen in many parts of the State. Southeast Alaska has a contribution to make as a staging area for equipment and supplies being moved to construct the highway gasline, the governor noted.

State Resources Commissioner Pat Pourchot gave a presentation on the proposed pipeline and changes in U.S. gas markets that now make it a possibility.

Michael Hurley, representing the North Slope gas producers working on the pipeline, gave an overview of the consortium's summer work, including its assessment of two routes and goal of completing cost estimates and other analyses by the end of the year, to be ready to apply for permits.

Fairbanks Mayor Rhonda Boyles, a Council member, asked Hurley if the "message" the Council heard in Barrow, concerning deep opposition to the northern, offshore route, was received by the producers group.

Hurley replied that it had. "The message we're getting from Alaskans is clear and consistent," he said.

Governor Knowles asked that the producers add "subsistence protection" to their list of goals for the project, along with environmental protection, an economic project and other goals.

Rep. Ethan Berkowitz asked why the liquefied natural gas (LNG) export option is not included among the options.

Hurley replied that a separate industry consortium, the LNG "sponsor group," is working on this. BP and Phillips, two of the three members of the producers' group working on the lower 48 pipeline, are also involved in that effort. ExxonMobil, the third member of the lower 48 pipeline group, has participated in past studies on the LNG option. At this time the lower 48 pipeline looks like the "most likely" way to commercialize the gas, Hurley said.

Charlie Cole, a Council member, asked if the decision between a highway and northern, offshore route would be made mostly on economic grounds.

Hurley replied that economic considerations are probably the most important factor at this point.

Esther Wunnicke, a Council member, asked if the producers' views of the economics are affected by whether or not they are owners of a gas pipeline.

Hurley replied that their views on the economics would be influenced by ownership.

Council member Bill Corbus asked how the consortium felt about possible State equity participation in the project.

Hurley said the producers are not opposed to State involvement. "We're in discussions with most of the major pipeline companies in the U.S., also," but the first issue to be resolved is whether an economic project can be developed. The ownership structure will be developed later.

At the suggestion of the Council, Hurley briefly described the concept of an "open season," where a pipeline being developed as a "contract carrier" would have a period where gas producers or others could "nominate" future gas for delivery, which will allow the pipeline to be sized for those needs. "Contract carriage" is the common form of legal organization for gas pipelines. This was compared to the "common carrier" organization that is common for oil pipelines, including TAPS, where the pipeline is open to all offers of oil, with "nominations" in effect held every month.

Robert Venables, economic director of the City of Haines, told the Council that the community is in a position to play a major role in support of gas pipeline construction and in marketing of gas. Haines has a deepwater port and, thanks to recent highway improvements, good roads to Fairbanks. There were good reasons why the federal government selected Haines as the starting point for the military fuel pipeline to the Fairbanks area during World War II, he said.

The community has had a number of contacts with members of the producers' group studying logistics issues. Both Haines and Skagway are in good positions to support highway route construction, with Skagway supporting construction from Whitehorse south and Haines supporting Whitehorse north. Haines is also working cooperatively with Haines Junction, in the Yukon Territory. The two communities will be able to work together to provide support services.

Following construction, Haines can be a site for manufacture of gas into LNG for shipment to Southeast communities, and possibly to Pacific export markets. There is a relatively short distance for a "spur" pipeline connection to the larger trunk pipeline.

Council member Brian Davies asked what expansions of facilities are required to accommodate construction.

Venables replied no expansion, or very little, is required. There is ample port capacity and sites for on-land storage and staging. Only minor improvements would be needed.

Bill Leighty told the Council that he represents a small charitable foundation interested in new energy technologies. He urged the Council to consider future possibilities of conversion of methane to hydrogen and future conversion of the pipeline to transport hydrogen. An advantage of this is that carbon dioxide extracted in the hydrogen manufacturing process could be used for enhanced oil

recovery. If there are future "carbon credits" allowed for projects that use CO2 instead of releasing it into the atmosphere, these credits would benefit the project. Large markets for hydrogen don't yet exist, he acknowledged, but with prospects for hydrogen use in large-scale application for fuel cells, the market will develop.

Loren Gerhard, executive director of the Southeast Conference, told the Council that the resource industries that have been the mainstay of the economy of Southeast — timber and fisheries — are both suffering, and tourism has not yet grown to the point where it will replace these industries. The Conference, made up of municipalities, other organizations and individuals, sees the highway gas pipeline route as a potential benefit to Southeast through logistics support activity. Haines, Skagway and Juneau are well positioned to serve the project, but it's possible that Ketchikan could even play a role. A spur line to Haines is the shortest route to tidewater for an LNG project, he pointed out.

Tim Sunday, representing the Teamsters Union 959, said construction workers in Southeast hope to work on a highway project. Juneau also hopes to get a crack at work on the project, although Juneau would play a supporting role to Haines and Skagway, he said.

Dave Hunz, a Skagway city council member, told the Council his community has traditionally served as a "gateway" to the Yukon Territory. Skagway has a deepwater port and a road to Whitehorse capable of handling heavy loads.

Fred McCorriston, president of the White Pass & Yukon Railroad, said Skagway is an important logistics and transportation center for the Yukon and has the longshore skills and experienced truck drivers needed for pipeline work. There is an existing ore terminal which can be used.

Sue Schrader, representing the Alaska Conservation Alliance, said the environmental organizations she represents strongly opposes all pipeline routes that invade undeveloped, frontier areas and ecosystems, particularly the northern offshore route. The Alliance is not now supporting any particular route but urges that any project that goes forward meet strict state, U.S. federal and Canadian environmental requirements.

Charlie Cole asked why the offshore route is opposed.

Schrader said the concern is with an "unproven" technology of pipeline burial under the Arctic pack ice. "It could put the whole ecosystem at risk," she said. "We feel the 'over-the-top' route appears to present the most potential environmental impacts."

In response to questions from Council members, Schrader said her groups will be more favorable toward a pipeline route following existing infrastructure. She did mention concerns with talk of "streamlining" regulatory procedures. When this happens, usually the level of public notice and public involvement is reduced.

Resources Commissioner Pat Pourchot explained that the kind of "streamlining" contemplated in the Administration was more efficient functioning. The effort now is to bring all issues to the table early so that resolutions can be worked out. That will save time later.

Schrader replied that the Legislature had enacted two bills including provisions for permit "streamlining" that did affect the level of public involvement.

Frank Brown commented that he had seen national television interviews on ANWR in which the president of the Sierra Club recommended that Alaskans develop natural gas instead of opening ANWR.

Don Etheridge, who represents the AFL-CIO in Juneau, said the labor groups he represents would like to see a spur pipeline built to Haines from an Alaska Highway pipeline, and the economic boost to Southeast Alaska that this would bring. He requested that Southeast workers be included in any training programs related to the pipeline. "Our motto is, hire from home first," he told the Council.

Frank Avezac, who is head of Alaska Interstate Gas Co., told the Council his company supports the Administration's efforts to have the gasline built down the highway. Haines is 150 miles from that route, he pointed out. His company is a utility with approval from the Regulatory Commission of Alaska to supply gas service to several coastal Alaska communities, from Ketchikan to Kodiak. Alaska Interstate is now looking to supply Southeast Alaska from Prince Rupert, B.C., but would welcome gas supply from the North Slope pipeline via Haines.

Jamie Parsons, representing the Juneau Chamber of Commerce, urged the Council to support a spur pipeline to Haines, and asked that a Haines spur be included in future presentations by the Council on options for using gas in the state.

Alaska Highway Natural Gas Policy Council

AGENDA

August 23, 2001, 2:00 to 6:00 p.m.
Valdez Convention and Civic Center

- I. Presentation from Dick Peterson, Alaska Gas To Liquids Group
- II. Presentation from Shane O'Leary, GTL Program Manager, BP
- III. Presentation from Dave Dengel, Alaska Gasline Port Authority
- IV. Public Hearing
 - A. Call to Order: Co-Chair Jim Sampson
 - B. Welcoming Remarks: Mayor Bert Cottle
 - C. Presentation: Ken Freeman, Executive Director,
Natural Gas Policy Council
 - D. Public Testimony

Alaska Highway Natural Gas Policy Council

Valdez Public Hearing Summary
August 23, 2001, Valdez Convention and Civic Center

Council co-chair Jim Sampson opened the meeting.

Richard Peterson, president of ANGTL, Inc., gave a presentation on gas-to-liquids potential for Alaska. He briefly outlined his company's proposal, to build a 50,000 barrels/day GTL plant on the North Slope that would batch "clean" GTL diesel and naphtha down the existing TAPS pipeline. This could be a pilot for additional plants, which could be added incrementally as the market for clean diesel expands.

A North Slope GTL project could also enhance the economics of a gas pipeline and increase benefits to Alaska, Peterson said. The GTL project would provide the infrastructure for "batching" natural gas liquids that could be removed from the gas on the North Slope and shipped down the TAPS pipeline. These could be sold to a wider world market through Valdez, and used in Fairbanks, as opposed to the current proposal to ship NGLs through the gas pipeline and market them in Alberta. The market for gas liquids in Alberta, and the U.S. Midwest, is already saturated, he said.

Peterson critiqued two points made in a recent analysis by Cambridge Energy Research Associates (CERA). One is that taking gas liquids out of the gas pipeline in Alaska will weaken its economics. Peterson disagreed with this and said having the liquids available in Alaska would increase benefits to the state. Second, CERA missed an important advantage of fuels made from natural gas rather than petroleum — federal taxes are less on fuels from natural gas. This is worth 31 cents/gallon or \$13 per barrel to a GTL diesel fuel, he said. Because of these advantages, Peterson said a GTL plant on the North Slope could pay the State \$1.75 to \$2 per mcf for its royalty gas, much higher than the netback values discussed for a gas pipeline.

Council member Ken Thompson asked if Peterson plans to use Sasol technology.

Peterson replied that his company was technology "neutral," that any proven GTL technology could be used, but that he does have an agreement with Sasol to license their technology. He pointed out that since Sasol doesn't license their technology to a project they don't participate in, this means that Sasol could be a partner in an Alaska GTL project.

A Council member asked for more information on the TAPS batching and gas liquids possibility.

Peterson explained that batching GTL diesel through TAPS would make batching of other liquids possible. Butanes, for example, are now blending with crude oil in TAPS. If these could be batched and sold separately, they would have a higher value than if just blended with the crude oil. ANGTL's proposal involves using physical "pigs" to separate the liquids in the pipeline.

GTL gives the state another option for using liquids, Peterson explained, by batching the liquids from the slope through TAPS rather than the gas pipeline. If liquids are shipped through a dense-phase gas

pipeline, problems are created for anyone wanting to tap the gas pipeline for gas offtake because the liquids must be handled also, creating more cost.

Peterson also said that the three major producers have not put forward GTL as an option because they claim it doesn't have enough value. ANGTL believes the majors have missed the important tax advantages.

A Council member observed that BP is investing \$100 million in a GTL test plant near Kenai.

Peterson pointed out that other companies are far in advance of BP and Exxon in GTL technology.

A question was asked about energy loss during the GTL process, that 25 percent to 30 percent of energy might be lost.

Peterson said that if it were looked at as a straight conversion, the process is 70 percent to 75 percent efficient (i.e. 25 percent to 30 percent loss of energy). However, if waste heat from the GTL process were captured and used, and other potentials of the process taken advantage of, such as manufacture of pure hydrogen, the efficiency of Btus in and Btus out is more like 95 percent.

Council member Brian Davies observed that this assumes beneficial uses for the waste heat and other products.

Peterson pointed out that water generated by the project could be used in waterflood, and that nitrogen could be used in enhanced oil recovery.

Council member Peg Tileston asked who is involved in ANGTL.

Peterson said he has a partner, and that Forest Oil Corp. was backing the venture. Moss gas, a South African company that operates a commercial-scale GTL plant, is an advisor and is also interested in becoming involved in an Alaska project.

A question was asked about how much GTL product could be made from North Slope gas.

Peterson replied that he believes the North Slope has the potential to produce 1 million barrels per day of liquid GTL products. More likely is 300,000 barrels per day produced by several GTL plants built in increments of 50,000 barrels/daily, which seems to be the optimum capacity for commercial-scale GTL plants. The project should begin with one plant producing 50,000 barrels/daily, batched through TAPS. This would establish Alaska "clean diesel" in the market, which could then be gradually expanded.

If the State wished to do something with its royalty gas, ANGTL could move forward with a project, Peterson said.

Council member Esther Wunnicke asked about transportation costs.

Peterson replied that his analysis assumed \$2.80 per barrel tariffs for the TAPS pipeline and \$5 per barrel for marine transportation to the West Coast.

Shane O'Leary, GTL project manager for BP, presented information on BP's project.

O'Leary explained the process as essentially taking methane, the main component of natural gas, and combining it with steam in a reforming process, making a synthesis gas. The second stage is the Fischer-Tropsch chemical conversion, which converts the synthesis gas into paraffin waxes. A third stage is conventional refining, which converts these waxes into different products, such as diesel.

The first stage - reforming - is where 65 percent of the capital cost of a GTL project is, and this is the heart of the BP strategy. GTL is now inefficient. For 100 units of energy in, you get 60 out. A lot of work is being directed at ways of capturing waste heat and lowering the capital cost.

GTL plants that have been built were done for reasons of national interest. Germany built GTL plants during World War II because there was not access to enough conventional oil. South Africa built plants because international boycotts cut them off from most supplies of oil. More recently, Sasol and Chevron are working on a GTL project in Nigeria, but this is mostly to capture gas that is now flared and wasted. What could be the first truly commercial GTL plant is a project planned by Sasol in Qatar. But little is known of the commercial terms of this project, whether there could be subsidies.

BP has been working on GTL since the 1980s, mostly focused on the reformer stage. Their next step is the plant at Nikiski, which will test a new compact reformer, which promises to reduce costs. The test results from the Nikiski plant can be scaled up to a commercial plant.

Other products can be made from synthesis gas produced through a compact reformer besides "clean" diesel, including methanol and fertilizer. Agrium, for example, now makes fertilizer from a synthesis gas made from natural gas through a reformer.

Dick Peterson addressed very well the high quality of products made through a GTL process. The diesel has no sulfur, nitrous oxide or aromatics (which produce the smoke seen from diesel trucks and buses). There are other products, such as naphtha, a petrochemical feedstock. Naphtha made through GTL has a 10 percent to 15 percent quality differential than conventional naphtha. Jet fuel made from GTL is very high quality, leaving no contrails. Contrails are a serious environmental problem in some areas of high air traffic, such as parts of Europe. BP is looking for ways to make its GTL process economic with a conventional 30,000 barrels/day plant.

The big advantage of GTL is that the plants can be build incrementally, expanding production with the market. This isn't the case with a gas pipeline or liquefied natural gas project, where all the costs are "up-front." The compact reformer technology being demonstrated at Nikiski is proprietary with a partner. "But BP is not hung up on property rights to technology, unlike other major oil companies. We just want to commercialize our gas."

The best Fischer-Tropsch GTL technology is the slurry-bed reactor, like Sasol has developed, O'Leary said. BP is working on slurry-bed technology also.

Today the conventional wisdom is that a GTL plant will cost about \$25,000 per barrel of daily capacity, built on the U.S. gulf coast. A 30,000 barrels/day plant would cost about \$750 million. BP believes that if costs can be reduced to about \$20,000 per barrel of daily capacity, there will be a lot

of excitement about GTL. Once these plants are beginning to be built on a mass scale, the cost structure will come down more. BP believes costs can be reduced to about \$17,000 per barrel of daily capacity, at which point GTL will be on par with liquefied natural gas (LNG). This is on the gulf coast, however. The rule-of-thumb is that it costs 25 percent more to build a plant on the North Slope, compared with the U.S. gulf coast.

O'Leary said construction of the Nikiski plant required 150 to 200 workers, and that the biggest problem was securing skilled craft labor. BP's target for starting up its Nikiski plant is second-quarter 2002. The plant is intended to operate for five years, but there are many types of testing that can extend the operating life. The facility is designed so that a technology system, such as a new slurry-bed Fischer-Tropsch reactor, can be "plugged in" to the compact reformer. One additional technology now being tested at the plant is a new type of solid oxide fuel cell that could be 30 percent to 45 percent more efficient than conventional fuel cells, and generate one-third less carbon dioxide. BP sees potential for installation of these new fuel cells on platforms and drilling rigs. There could be many other uses as well.

Council member Bill Corbus asked about the cost of Fischer-Tropsch diesel, made through GTL.

O'Leary replied that the environmental properties of the fuel should command a higher price. "But unless you're in a place where a conventional pipeline or LNG won't work, GTL isn't economic." BP still looks at the economics in a "holistic" sense. "We don't see it as economic until we get the costs down. We do think there is a good market for Fischer-Tropsch GTL diesel, but we still need to get costs down. We're almost there. It's right on the cusp. It's really close."

Council member Esther Wunnicke asked about the gas price assumptions used in the economic analysis.

O'Leary replied that a gas price of 30 cents per mcf is assumed. "Even at 30 cents, it still struggles. We've got to get costs down."

Council member Brian Davies asked if BP had taken the tax advantages mentioned by Dick Peterson into consideration.

O'Leary said BP's analysis was without tax considerations. "It's an interesting point that we haven't researched. I'm going to take his paper back," for further review.

Council member George Wuerch observed that if GTL diesel has such clean properties, California would probably offer incentives.

O'Leary said that refiners will say they don't need GTL technology, that they can install desulfurization facilities and make clean diesel more cheaply than through GTL. So, the industry's "downstream" is not enthused about GTL.

Council member Ken Thompson said that at a Girdwood conference on GTL earlier this year he had understood that it will take about 10 years to achieve the 20 percent reduction.

O'Leary said that BP's view is that it will take five years to achieve the reductions. Some interesting new technologies are also being experimented with, such as use of ceramic membranes.

Thompson said he also learned of dramatic cost reductions in natural gas liquids technologies at the Girardwood conference, which will improve the economics of businesses related to propane and butane. It pinpoints the NGLs as a major issue for Alaska and Alberta.

O'Leary said BP had always said there will be more than one commercialization strategy for gas from the North Slope. The key is to get the first commercialization accomplished, through a gas pipeline. Once that happens, there will be an explosion of activity, exploring for more natural gas. BP ranks the pipeline first, GTL second and LNG third in order of options.

Co-chair Jim Sampson said BP's original plan was to build its test plant on the slope. He asked why this was changed to Nikiski.

O'Leary said because the plant is "stick-built" (built on site, not modularized) it's cheaper to build near Kenai, where there is also a supply of gas and labor is available. It's also closer for the scientific staff, who will be based in Anchorage.

Dave Dengel, acting executive director of the Alaska Gasline Port Authority, welcomed the Council to Valdez and introduced Charlie Cole, who is a member of the Authority's board (as well as a Council member).

Cole described how the Authority was first formed, at the initiation of the mayors of Valdez, Fairbanks North Star Borough and the North Slope Borough, and how it was formed with approval of voters in all three municipalities. The financial concept of the Authority is that it would retain earnings in Alaska, paying 60 percent of net earnings to the State, 30 percent in a distribution to all Alaska municipalities and reserving the remaining 10 percent to the three municipalities which had initiated the Authority.

The Authority built a team of legal, financial and construction advisors and consultants, including Bechtel. The first analysis was on an all-Alaska pipeline to Valdez, with an LNG export project. This was found to be uneconomic. The plan was then shifted to a combined LNG-export and lower 48 pipeline, with six billion cubic feet (bcf) daily produced off the slope and transported to a hub at Delta, where 3 bcf/day would move to the lower 48 and 3 bcf/day would move to a Valdez LNG plant, which would have a capacity to produce 15 million tons per year of LNG.

The cost assumptions included \$4.2 billion for a conditioning plant at the North Slope, \$9.7 billion for pipelines to Delta and branches to Valdez and the Canada border, and \$3.65 billion for an LNG plant at Valdez. The total capital cost would be \$18 billion. Adding "soft costs" of \$5 billion for interest paid during construction, an owners' contingency fund of \$900 million, and \$1 billion in debt service, brings financing costs to \$7.8 billion, for a total of \$26 billion.

"This may not be the best or only project, but it's a start," said Cole.

Co-chair Jim Sampson asked what happens at the Canada border.

Cole said the pipeline obviously would extend through Canada to the heartland of the U.S. He introduced Rigdon Boykin, financial advisor to the Port Authority.

Boykin said the Authority has had several conversations with Foothills Pipe Lines, and a gas tariff through Canada to Chicago is assumed to be \$1.20 per mcf based on information from Foothills.

Studies by the Authority show that capital costs per ton of a pipeline and LNG plant would be high, about \$740 per ton of LNG produced, but the revenues from a liquids extraction business could offset this, to the point that costs of LNG would be reduced to about \$400 per ton. This is in the range of competitiveness with other, competing LNG projects.

The Port Authority proposed to finance the project 100 percent with debt, using a project-financing approach. The financial plan includes a 2.08 debt coverage ratio as a minimum and 2.5 as an average, in terms of revenues over debt. The tax-exemption of the project is worth \$3 billion to \$6 billion in value to the project, compared to what financing costs for a privately-financed project would be.

Results of the financial analysis show the project able to pay producers 75 cents/mcf for gas on the North Slope. Based on this, the State would receive \$371 million per year in royalty and severance tax, \$148 million per year for a payment-in-lieu of corporate income tax, and \$222 million per year in a direct payment to the State treasury. Separately from this, municipalities would receive \$148 million per year. Producers would receive \$1.7 billion per year. The analysis assumes a \$3 per mcf price for gas in Chicago and \$2.50 per million Btus for LNG in Valdez (one mcf roughly correlates to 1 million Btus). The Valdez LNG price assumes a \$3.40/million Btus price for LNG delivered in Asia.

One of the primary benefits of a port authority is that it would not be subject to Federal Energy Regulatory Commission (FERC) regulation. This is based on an exemption from FERC review in the federal National Gas Act, exempting public entities from regulation. The State of Alaska would have regulatory control over the project.

Co-chair Sampson opened the public hearing portion of the meeting.

Mayor Bert Cottle welcomed the Council to Valdez. He pointed out that state revenue sharing to local governments has been reduced from \$110 million per year to about \$30 million. The Port Authority has developed its plan and put it out for public review, and no one has yet come up with a better plan. "Let's have no more studies, no more politics. The best way to kill a project is to study it." The gas on the North Slope is Alaska's gas. "It's time we stood up to take care of Alaskans first." As for the producers, it's "use it, lose it or tax it." If the producers' study comes back to show that only the "over-the-top" (northern) route is economic, "then we should say, no gas."

Ken Freeman, executive director of the Council, gave a prepared presentation on the proposal for a North Slope gas pipeline and the evolving market for Alaska gas in the U.S.

Curtis Thayer, representing the producers' group working on gas pipeline studies, gave a prepared presentation on the producers' project.

At the conclusion of Thayer's presentation, Council member Jerry Hood asked Thayer why "economics" is always listed as the top criteria for the study, and why "use of gas" as a resource by

Alaskans isn't listed among seven criteria. It gives the impression that economics is the number one consideration, he said.

Thayer responded that benefits to Alaskans is one of the criteria for analysis.

Council member Ken Thompson noted that the presentation speaks only of lower 48 markets, and that Alaskan markets for gas or gas liquids are not mentioned.

Thompson went on to comment that there is more to an analysis than consideration of market forces. An example is ARCO's consideration of double-hull tankers with redundant steering and engine systems, for added safety. "The present value calculation was higher without all that extra stuff, but we chose a path that included the environmental concerns of Alaskans. It was the right thing." The gas pipeline is a complex issue, and a "leader" is needed to step forward, he commented.

Council member Peg Tileston asked Thayer if anyone is making 52-inch high-pressure pipe.

Thayer said that no steel producer was making pipe of this type, as of yet.

Council member Charlie Cole noted that the 1977 U.S.-Canada agreement on the ANGTS stipulates that gas will be made available to remote communities in the Yukon Territory. Are the producers willing to make similar commitments in federal legislation?

Thayer said the producers are very supportive of supplying gas to Alaska communities in the vicinity of the pipeline, but how this gets done is up to the communities.

Council member Jerry Hood said he would like it said for the record. "You are in support of Alaska gas to communities but you don't want it in legislation. What are you in support of?"

Thayer replied that the issue is inappropriate for legislation, but is an important statement of principle.

Cavan Carlton, of Williams Energy, described his company's activities in Alaska and a study underway of manufacturing petrochemicals from North Slope gas at the company's Fairbanks refinery. *(Note: a more complete presentation on this project was made in the Council's September 25 Anchorage meeting and is in the summary prepared for that meeting.)*

Dell Wilson, of Copper Center, told the Council he is president of Ahtna Construction, which is currently a major contractor to Alyeska Pipeline Service Co. Ahtna supports a pipeline through Alaska to Valdez, he said. An "over-the-top" northern pipeline would not benefit Alaskans.

Robert Wilkinson, representing Copper Valley Electric Association, told the Council his association supports a gas pipeline to tidewater. Electricity now costs 16.4 cents/Kilowatt hour in Valdez, double the average cost in the state's "railbelt" communities. A gas pipeline to an LNG plant in Valdez would not only make gas available for local electrical generation, but waste heat from the Valdez plant would further reduce costs.

Bill Walker, city attorney for Valdez but speaking for himself, said he was born in Fairbanks and has lived for much of his life in Valdez. He worked on the TAPS project and saw its benefits first hand. He has been active in efforts to commercialize gas ever since the TAPS pipeline was completed.

Walker said his biggest concern is that the producers will find that only an "over-the-top" route is viable, or that neither the highway or "over-the-top" route is viable. Yet there is a market for the gas, and what's needed is a consortium of purchasers of the gas to team with pipeline companies to build a project if the producers don't want to do it.

CERA has pointed out that if an Alaska project is delayed to the point that the present market window closes, there may not be another opportunity for Alaska gas for 15 years.

Scott Heyworth, proponent of a trans-Alaska gas pipeline and LNG project, told the Council he is supporting an initiative campaign to encourage a trans-Alaska pipeline because most Alaskans want it. The new bill gas producers have circulated in Washington, D.C. would centralize too much power on gas issues in the President's office, and would not provide for use of the gas in-state.

Dave Dengel, city manager of Valdez, said the city has been involved in efforts to build a trans-Alaska gas system for many years. The LNG export project would have wide benefits throughout the state, including Southeast and Southwest Alaska. The port authority concept would benefit many Alaskans.

John Devens, a Valdez resident, said he is not convinced by the producers' statement that if an "over-the-top" northern pipeline is built, a separate pipeline to Fairbanks to serve Alaskans will be built. He urged decisive action to "send a clear message" that Alaskans want a project that will benefit them.

Lynn Chrystal, a Valdez resident, said the Port Authority has made a big improvement on the Alaska Highway pipeline proposal, with a "Y" system that would bring a spur line to Valdez. A northern route, on the other hand, "is like sending all of our salmon Outside."
"If the big companies don't want to play, we should find someone who will," he said.

Rep. John Harris, state representative for the Valdez region, told the Council the Legislature has enacted a law that prohibits an "over-the-top" route. He said a gas pipeline through Alaska would make processing of the resource possible. Also, Yukon Pacific Corp. has signed a Project Labor Agreement, and the Port Authority anticipates signing one. The State's priority should be to have as much infrastructure in Alaska as possible.

John Downes, representing the Copper Valley economic development council and chamber of commerce, expressed support for the Port Authority concept. "It seems doable." He urged the Governor to work with the Port Authority in developing the project.

Pat Abney, an Anchorage resident, told the Council she supported an Alaskan route. She has been an Alaska resident for 40 years and recalls the 1964 earthquake, when Alaskans pulled together to face a big challenge.

Alaska Highway Natural Gas Policy Council

AGENDA

September 7, 2001, 9:00 a.m. to 4:00 p.m.
Anchorage Sheraton Hotel

I. Federal/International Action Subcommittee (*Yukon Room*)

Foothills Pipelines
John Katz & Bob Loeffler

II. Full Council meeting (*Ballroom A*)

Subcommittee Updates
Discussion

III. Environmental Considerations Subcommittee (*Yukon Room*)

Alaska Highway Natural Gas Policy Council

Anchorage Meeting Summary September 7, 2001, Anchorage Sheraton Hotel

Council co-chair Jim Sampson opened the meeting.

Lt. Gov. Fran Ulmer made opening remarks. Despite press reports about the producers' concerns about a mandate of a pipeline route, the governor is continuing to work with the producers, she said. Ulmer outlined Gov. Knowles' 10-point proposal for federal legislation, which would designate the Alaska Highway route as the approved route and would include federal tax incentives to help the project.

Mike Navarre, chair of the Council's Alaska Hire/Buy/Build Committee, briefed the Council on meetings his committee had with Department of Labor and Department of Community and Economic Development staff on an Administration study of socio-economic impacts that is now underway. The producers' group is nearing completion on a socio-economic study and will present their information at the Council's next meeting. Navarre shared some preliminary information he was given by the producers' group.

He said his committee is considering recommending that a pipeline proponent make commitments on Alaska hire and training, similar to those made in the BP-ARCO charter commitments. One issue the committee is still grappling with is how to ask for commitments to use Alaska companies and contractors.

Bill Corbus, chair of the State Ownership Committee, reported his committee has held four meetings, two shorter sessions coinciding with full Council meetings, and two separate, longer sessions in which the group talked extensively with experts, including a consulting firm retained by the State to analyze the benefits of possible State equity in a gas project.

Corbus said the committee has identified four ways the State can finance an equity investment: through the Permanent Fund; the Constitutional Budget Reserve; the State issuing general obligation bonds; or sale of revenue bonds through the Alaska Industrial Development and Export Authority (AIDEA), or an AIDEA-type authority created to do the gas project financing. The committee reviewed State oil and gas tax policy with the Department of Revenue, focusing on tax structure (Alaska's taxes are both regressive and "front-loaded") and how that might affect a large gas project. The panel has not yet heard from the producers on taxes, however.

Corbus said the committee is likely to make recommendations both on a possible percentage of the pipeline the State might consider owning and the geographic area of participation, such as the section of pipeline from the North Slope to a major offtake hub in Fairbanks or Delta. Under a scenario where the producers choose not to participate, the committee will have an alternative recommendation for the State to work with an independent pipeline group.

In response to questions from the committee, Corbus outlined the main reasons why State equity should be considered: 1) it would create better control over the sale of State royalty gas; 2) it would ensure that other developers would have access to the system for transporting gas. Corbus said he did

not believe the investment would make a lot of money for the state (i.e. there might be better alternative ways of using the money) but other members of the committee have not yet weighed in on this.

Ed Rasmuson, a member of the committee, commented that he believed the committee is leaning toward a recommendation that the State make the investment. Corbus agreed. Rasmuson also commented that State investment would be a way for the State to know what's going on inside the pipeline consortium, an important advantage. Dave Rose, another member of the committee, commented that if the investment could earn 15 percent or greater, as seems possible, the return would be in the range that Permanent Fund Trustees might consider it.

Charlie Cole, chair of the Federal/International Action Committee, briefed the Council on meetings his committee has held.

In a meeting in Juneau, John Katz, the state's Washington representative, and Bob Loeffler, an attorney on contract with the State, gave the committee their views on legislation being proposed by the producers. Katz "doesn't think much" of the producers' bill, Cole said, because it aims to somewhat duplicate the expedited regulatory review process established two decades ago in ANGTA for the highway route. Under the amendments proposed to the Natural Gas Act, the Federal Energy Regulatory Commission (FERC) would have no choice but to issue a certificate to the producers group once certain conditions were met. Since the language is "route neutral" (it doesn't designate a route), in effect the provisions would allow the producers to control the choice of a route.

In a committee meeting Sept. 7, held just before the full Council meeting, another problem was discussed in some depth: a potential \$4 billion liability on an Alaska Highway project pursued by Foothills Pipelines due to past investments by partners who withdrew from the project. Ken Thompson, a member of the committee, told the Council he believes this issue must be ironed out before the State can support Foothill's application. Cole said that as long as this issue is out there, there will be uncertainties as to how it will effect the pipeline tariff.

The committee will also be taking an in-depth look at how existing lease agreements governing the producers' responsibilities to make gas available for sale are affected by various proposals. For example, if an independent pipeline group were to propose a project, what would be the producers' responsibility to make gas available under existing lease contracts with the State?

Ken Thompson briefed the Council on the work the Access for In-state Gas Use and Future Opportunities Committee has been doing, including review of work related to in-state gas demand studies now underway by consultants to the State.

The committee is also looking at ways of delivering gas to rural communities, including possibilities of shipment of propane and butane as an alternative for communities at a distance from the pipeline. One problem that has been identified is that this pipeline will operate at high-pressure, carrying natural gas liquids with the gas. If there is a "tap" in the pipeline to supply a community, the liquids will have to be extracted from the gas before it can be used, creating additional costs. It may be that gas will have to be taken out at only one or two hubs where the liquids can be economically processed.

The committee reviewed State royalty-in-kind policy and has met with Texas state officials on how they handle their royalty-in-kind. The advice they got was not to "negotiate away" the right to take royalty gas in-kind. Regarding transparency in pricing, it is important for the State to sell some royalty gas in the market to gain information on pricing. Regarding access for gas off-take, it is clear through studies by CERA and others that the Alaska Natural Gas Transportation Act (ANGTA) has very clear language regarding rights to access. If the ANGTA law is not used for a pipeline, similar guarantees can be obtained through FERC proceedings or, as Texas does it, through the right-of-way lease process for state lands. Access into the pipeline is a more serious issue. If the pipeline is operated as a contract rather than common carrier, there are uncertainties. The committee is still looking at this, Thompson said.

Regarding other gas use options, the economics of liquefied natural gas (LNG) still look doubtful but Yukon Pacific Corp. has an active project and if a hub is available, an LNG project may yet materialize. Gas-to-liquids (GTL) is an option but improvements in technology will take 5 to 10 years to make GTL commercial. In the meantime, there are substantial advances occurring in cost reductions of natural gas liquids processing. Williams Energy is seriously studying a large liquids plant that would be an addition to their Fairbanks refinery.

Peg Tileston briefed the Council on work the Environmental Considerations Committee is doing. Several meetings have been held with the Departments of Fish and Game and Environmental Conservation, Division of Governmental Coordination and the Joint Pipeline Office. The committee is focusing on broad policy issues rather than specifics, such as access to information and early consultation with communities on large projects. Once design and engineering has started, it is too late to get significant community involvement, she said.

The committee is also concerned with whether adequate funding is available to agencies reviewing pipeline applications, and problems, particularly for State agencies, in recruiting staff.

Alaska Highway Natural Gas Policy Council

AGENDA

September 25, 2001, 8:30 a.m. to 5:00 p.m.
Anchorage Hilton Hotel

- I. Access to In-State Gas Subcommittee — *Lupine Room*
- II. Alaska Hire Subcommittee — *Cook Inlet Boardroom*
- III. Environmental Considerations Subcommittee — *Prince William Boardroom*
- IV. Federal/International Action Subcommittee — *Prudhoe Bay Room*
- V. Full Council Meeting Call to Order — *Denali Room*
- VI. Working Lunch
- VII. Federal Legislation/Congressional Update
- VIII. Alaska Natural Gas Producers Pipeline Team
- IX. David Hall, Deputy Land Commissioner, Texas General Land Office
- X. Break
- XI. Alaska NGLs and Petrochemicals, Cavan Carlton, Williams Pipelines
- XII. Council members comments/discussion
- XIII. Business meeting

Alaska Highway Natural Gas Policy Council

Full Council Meeting Summary
September 25, 2001, Anchorage Hilton Hotel

Co-Chair Jim Sampson convened the meeting.

Council member Charlie Cole led an extensive discussion of the governor's 10 points in proposed federal legislation.

Here are the 10 points:

- 1) Mandate the already permitted Alaska Highway route as the preferred gasline route.
- 2) Provide access to the gas for Alaska communities for energy and to businesses for new development;
- 3) Provide access to the pipeline for new discoveries that will keep Alaska's oil and gas industry healthy through new leasing, exploration and production;
- 4) Expand opportunities for new pipeline participants to include existing producers, pipeline companies, and major Alaska companies such as Arctic Slope Region, Inc., CIRI and Doyon regional corporations.
- 5) The legislation must include a provision for Alaska and Alaska Native hire;
- 6) Must include a provision to use Alaska businesses;
- 7) Must include a project labor agreement for the construction, operation and maintenance of the pipeline, and worker training to prepare the thousands of needed skilled workers.
- 8) A priority for the use of American and Canadian steel.
- 9) Federal legislation must find that the Alaska Highway gas pipeline is in the national interest, including the interest of consumers, businesses, organized labor and manufacturers who would help build it.
- 10) Include economic incentives such as accelerated depreciation, an investment tax credit and gas tax credit to give investors an additional level of confidence.

There was an extensive discussion of the 10 points and debate on several. Speaking by phone from Washington, D.C., John Katz, the state's Washington representative, said a "joint board" approach, as suggested by Nan Thompson, chair of the Regulatory Commission of Alaska (RCA), is the appropriate mechanism to coordinate action by the Federal Energy Regulatory Commission (FERC) and the state's RCA. There is precedent for such joint boards in the telecommunications field.

Ken Thompson, a Council member, said the governor's principle on access to a pipeline allowed for new exploration on the Slope and new gas brought into the pipeline. It's important that FERC understand this so that rulings are not made that hinder access and future exploration.

Anchorage Mayor George Wuerch raised discussion over a provision for preferential "Alaska hire" when all estimates show there will be more than enough jobs for Alaskans, and that construction is now so busy that hiring halls are empty. There should also be a provision providing for pipeline impact aid to communities affected by construction, he said.

From Washington, John Katz said there was precedent for local impact aid in federal law in the Outer Continental Shelf royalty revenue sharing provisions.

Council Co-Chair Jim Sampson acknowledged the state's economy is larger and more mature than when the TAPS oil pipeline was built, and thus better able to absorb impacts, but the Alaska hire provision is still useful to encourage the support of training of Alaskans. Charlie Cole agreed with this, that the provision will encourage the building of skills among Alaskans.

Brian Davies, a Council member, urged the Council to be "careful what we ask for." To ask that the maximum number of jobs be "dedicated" to Alaskans while also asking for impact aid is contradictory and would undercut the credibility of the state's requests in Congress.

Jim Jansen, a Council member, observed that Alaska labor markets are now extremely tight. In his company (Lynden Transport), "we hire for the stable market and contract out for the peaks in work." The point is that it might be better to hire outsiders to do pipeline work, and let them live in camps, and keep local people in permanent local jobs.

Carl Marrs questioned the provision for Project Labor Agreements and questioned whether this, if applied for operations, would cut out competition from merit shops (non-union).

Jim Sampson relied that if labor support were desired to move the legislation in Congress, a PLA would be helpful.

Mike Navarre, a Council member, questioned the contradiction between the "preference for Alaska businesses" and preference to unionized firms through the PLA requirement.

From Washington, John Katz commented that this was drafted to be similar to the House-passed ANWR bill, which includes a PLA provision, except that this would focus on construction while the ANWR PLA, in the House bill, includes operations. Katz noted that for a period of years TAPS oil pipeline maintenance and operations work was done under a PLA.

Navarre acknowledged the need for labor's support to get the legislation through, but still felt there was a contradiction between a PLA provision and a preference for Alaska business.

Marrs suggested that the proposal for training for Alaskans include unions, under a PLA, as well as companies.

There was discussion among the Council members on the potential liability of requests by withdrawn partners for repayment of past investments, an issue which could cloud the ability of the current ANGTS partners to finance the project.

John Katz said the Administration is still waiting to see if the issue can be resolved privately between the commercial interests.

In discussing the overall 10 points, Brian Davies observed that many of the items will add to costs, creating a lower wellhead value of gas. "We're asking for short-term benefits and foregoing the longer-term benefits," of a higher value for the natural gas on the Slope.

Jim Jansen said he objected to the requirement that U.S. and Canadian steel be used. He suggested softening the language to include terms like "if available and reasonably priced."

George Wuerch said he supports the overall legislation but doesn't want to make the 10 points "an ultimatum. All 10 points or else."

Esther Wunnicke commented that the Council should endorse the legislation in principle and leave the wording to others.

Peg Tileston said it was important for Alaska to "send a message" to Congress that the state needed special consideration. "We don't want FERC to put us in a box, treating us like other states."

Ethan Berkowitz said the mandate for a highway route still bothered him. "We haven't disproved the opportunity for a liquefied natural gas (LNG) export project to my satisfaction."

John Katz said the concept of future expansions, including a spur and LNG export project, is embedded in the governor's legislation.

Jack Roderick commented that several of the governor's points are extremely important, such as the mandate of the highway route and the joint board with FERC. He was concerned about adding too many "extras" that were possibly less important.

John Katz replied that there is always a fine line between asking for too little and too much. The 10 principles incorporated the most important concepts that were important both in the nation's as well as the state's interest.

At Charlie Cole's request, the Council voted to support the 10 principles. A majority of the Council voted to support them.

Robbie Schilhab of ExxonMobil Corp. and Joe Marushack of Phillips Alaska Petroleum Co., two of three members of the management committee of the producer's consortium, presented the interim results of the economic evaluation of the project.

The current analysis shows both the northern and southern route to be uneconomic, "at present," said Schilhab. The conclusion is based on early numbers, and the companies are now concentrating on areas where they might achieve cost reductions.

The current plan assumes a northern route of 1,803 miles (to Alberta), a southern route of 2,139 miles. A stand-alone Mackenzie Valley pipeline would be 1,140 miles, he said. The study assumed gas throughput at 4.0 to 4.5 billion cubic feet daily, with the project designed so that volume could be increased to 6 billion cubic feet/day in the future, he said. A 52-inch diameter thick-wall pipeline, operating at 2,500 pounds-per-square-inch operating pressure, is assumed in the study, he said.

Costs of a northern, offshore route are estimated at \$15.1 billion, with a longer southern route, through the Interior and along the Alaska Highway, estimated at \$17.2 billion, he said.

The "tariff," or the cost for transporting gas from the North Slope to markets in the lower 48, is estimated at \$2.39 per thousand cubic feet (mcf) for the southern route and \$2.07 per mcf for the northern route.

Cumulative government revenues on both routes were about equal, however, at \$66.2 billion for the southern route and \$68 billion for the northern route, the analysis showed. This includes revenues to Alaska, Canada, provinces of Canada and the U.S. government. Alaska's share of that would be \$22.7 billion for the southern route and \$24.1 billion for the northern route.

However, a key part of the analysis that was questioned by Council members was a 15 percent discount rate used in the net present value calculation of cumulative cash flows. The discount rate can be assumed to be similar to an expected rate of return for the project, including gas production revenues.

Thompson said that using a 12 percent discount rate the project might be break-even, and if the benefits of the governor's proposed federal tax incentives and the value of the NGL business are added, "this is a commercial project." Thompson said, "I calculate another \$3 billion to \$4 billion a year in revenue. There's a big component of this that is undervalued." Thompson said his figures were based on assumptions that the liquids shipped would total 100,000 to 150,000 barrels/day. "Is there something we're missing?"

Schilhab said the analysis does not now include any value for downstream sales of liquids. The producers assume the pipeline will carry about 60,000 barrels/day of liquids.

He said the cost estimates were "unclassified" at this point, meaning they were so rough there couldn't yet be a plus-or-minus percentage given. By the end of the year the group intends to have estimates plus-or-minus 30 percent.

Brian Davies asked if it was customary with large gas pipelines to go to an "open season" (a call for gas nominations) with the project still plus-or-minus 30 percent in cost. Schilhab replied that this might be done with this project, and if costs were on the high side, consultations with shippers would have to be done.

He said that the current producers might have to sign on to the project even with the 30 percent probability, but that non-owners, such as companies now exploring for gas who might nominate future production, could be given an "out" if there were cost increases.



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SCOMM

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ATTACHMENT "A" **INITIAL QUESTIONS**

GENERAL BACKGROUND

The Committee conducted a number of public hearings on the construction of a pipeline to deliver natural gas to the lower 48 or to a liquefaction plant in Southcentral Alaska for delivery of liquefied natural gas to Asia, Mexico or California. Before several of these meetings the Committee, the Committee had sent various questions regarding the respective jurisdiction of the FERC and Regulatory Commission of Alaska (RCA) over a natural gas pipeline, upstream access to the pipeline, and downstream access to a pipeline to the FERC, the RCA and the law firm of Morrison & Foerster (Mofo), which represents the governor. The Committee received a lot of good information from the agencies, Mofo, and others about these issues. However, some of the information seemed conflicting or incomplete. Additionally, more questions, which I will break down by subject area, were raised. These questions are of vital importance to Alaskans and this body in making informed decisions regarding Alaska's ability to benefit from a natural gas pipeline. It is important that the Legislature get its own expert legal advice regarding these issues.

UPSTREAM ACCESS

Background

One group that desires to build a natural gas pipeline to the lower 48 and become its owner is composed of three largest owners of gas reserves on the North Slope, BP, Phillips, and Exxon (Owner Producers). The Owner Producers are among the largest companies in the world. Originally, under ANGTA, the Owner Producers were prohibited from owning any portion of the Alcan pipeline because of anti-trust concerns. ANGTA was later modified to allow the Owner Producers to own some portion of the pipeline. Since the time of that amendment, however, the FERC has unbundled pipeline services on the downstream end to allow for more competition. If the Owner Producers own the pipeline, many competitive concerns may arise, particularly with access to the pipeline by other potential shippers. Those potential shippers include the State of Alaska, which owns about 12.5% of the known reserves, and other oil and gas producers, like Anadarko and Alberta Energy (Non-Owner Producers), that have leased state or federal acreage with gas potential.

If the gas pipeline is a "contract carrier" as discussed above, the Committee understands that the Owner Producers will have a so-called "open season." During this period, potential shippers of gas are given the opportunity to enter long-term contracts with the pipeline owner, presumably on a fair and equitable basis. We were told that the reasons for an open season included demonstrating the need for a pipeline and providing information for sizing of the pipeline. If the Owner Producers own the pipeline, there is little need for an early open season since they have enough gas reserves themselves to justify construction of a pipeline and size it, assuming an adequate market exists. We

were also told that the open season must be conducted before an application is filed and that the FERC does not control the open season.

The Owner Producers have informed the state that they intend to conduct an open season as early as first quarter of this year, although production will not flow through the pipeline for about seven years. (More recently, in response to request for comments to the royalty-in-kind gas sale proposed by the Department of Natural Resources, the Owner Producers have suggested that an open season may be delayed.) Further, the Committee has told that the application process alone would likely take eighteen to twenty-four months to complete.

Allowing the Owner Producers to control the date for an open season and to require a binding commitment to ship gas so early in the process creates several problems for the state. First, the state will not be in a position to decide whether it wants to ship its gas by first quarter of this year. It will not even know whether it will be allowed to have midpoint deliveries to Alaska markets. Second, the Non-Owner Producers say that they will not be in a position to enter firm contracts so early in the process (without taking inordinate risk). If the Owner Producers sign twenty-year contracts for the full capacity of the line with themselves, then the state and the Non-Owner Producers would be effectively shut out.

It is in the Owner Producers' interest to shut their Non-Owner Producers out of the pipeline rendering the latter's leases valueless and forcing them to relinquish the leases to the state and the federal government. Ultimately, the Owner Producers could use their monopoly power to buy the leases cheaply from the state and federal government. Usually a pipeline company, which does not own the gas resource, conducts the open season. It has no motive to take advantage of other owners of the gas resource. That will not be the case here. Moreover, the Owner Producers, unlike a non-affiliated pipeline company, will have an incentive to create high tariffs. High tariffs reduce royalties and taxes, and create another formidable barrier to entry.

During the course of the Committee's hearings, we were also told that the FERC lacks the ability to control expansion of a pipeline. In other words, even assuming that expansion would be economic and would yield a reasonable return to the owners, the FERC cannot require it.

Initial Open Season

Here are some of the questions upon which we believe expert advice is needed. Is it true that the initial open season must be conducted before filing an application? Has the FERC ever considered an application before an open season? Is it true that the FERC has no control over the open season? Given the situation here, can the FERC delay the open season until later in the process? Would the state have the ability to block an early open season either before FERC or in court and on what basis would a challenge be most successful?

If the open season cannot be delayed, can the FERC stipulate that the original open season only requires an expression of interest rather than a binding commitment? Has the FERC ever issued such an order? If there are over-subscriptions, will space be pro-rated? What will be the method for pro-rationing, proven reserves, high bid, or some other method? Who will determine the duration of firm capacity obligations, the Owner Producers or the FERC? Will the length be 10, 15, or 20 years?

Expansion Open Season

Assuming that the Owner Producers effectively shut out the state or Non-Owner Producers from the initial open season, we have several questions regarding expansion of the pipeline. Does the FERC have the authority to mandate expansion for the benefit of the state or Non-Owner Producers over the Owner Producers' objection? If so, how would that be determined? Has FERC ever ordered expansion of a pipeline? Assuming that the pipeline were expanded, how would the tariff be determined? Would the parties seeking expansion only bear the incremental costs of the expansion? Would they have to bear part of the original costs? (ANGTA, unlike what we understand the FERC's general practice to be, allows the costs of a conditioning plant at Prudhoe Bay to be recovered from shippers. If Non-Owner Producers had to build their own conditioning plant at their field, it would seem unfair to allow recovery of the Prudhoe Bay conditioning plant costs from them.) Assuming that the pipeline were expanded, how would access to the new capacity be allocated? Would the Owner Producers have the right of first refusal to the new capacity or would another open season be conducted?

JURISDICTION

Background

The Trans Alaska Pipeline System (TAPS) carries oil from the North Slope to Valdez. Along the route, some oil is delivered into intrastate commerce in the Fairbanks area for the Williams and Petro Star refineries and in Valdez upstream of the marine terminal for another Petro Star refinery. The oil delivered to the marine terminal is transferred to tankers for shipment primarily to lower 48 markets with an occasional shipment to the Far East market.

The TAPS is operated as a "common carrier" pipeline, which must accept all oil tendered to it on an equal basis to all shippers. If there is insufficient capacity for the volumes tendered, the pipeline company apportions its available capacity to accommodate all shippers requesting capacity. The RCA and the FERC jointly regulate the TAPS. The RCA regulates the intrastate shipments, while the FERC regulates the interstate shipments.

Naturally, Alaskans want the North Slope gas, virtually all of which has been discovered to date is owned by the state, to be available for in-state demand just as North Slope oil is available for in-state demand. We were told during the hearings, however, that the

pipeline would not be a common carrier pipeline and that Alaska (and its regulatory agency, the RCA,) may have little say about the availability of gas for in-state demand.

In contrast to the TAPS situation, we were told at the hearing that, if "one molecule of gas" were shipped on a gas pipeline for interstate use, the pipeline would be exclusively regulated by the FERC. Even though the FERC would have exclusive jurisdiction, we were also told that the RCA would have general jurisdiction over "lateral lines" and that the RCA was "looking into these issues further."

The FERC representatives repeatedly answered their questions with reference to the Natural Gas Act (NGA), while barely mentioning the Alaska Natural Gas Transportation Act (ANGTA). Although the NGA does not talk about Alaska in-state use of North Slope gas, Section 13 of ANGTA clearly contemplates that North Slope gas transported along the Alaska Highway (Alcan) route to the lower 48 would be available for in-state use by Alaskans. With this background in mind, we have many questions regarding the respective agencies' jurisdiction and state access to North Slope gas for in-state demand.

State Access for In-State Demand and Tariffs

Assuming that the gas were to follow the Alcan route, where does the RCA's jurisdiction over lateral lines begin under the Natural Gas Act (NGA) and the Alaska Natural Gas Transportation Act (ANGTA)? Would the FERC or RCA decide whether mid-route delivery points could be established to serve Alaska markets such as Fairbanks, a spur line to Southcentral, and a spur line to Valdez? Under section 13 of the ANGTA, is an Alaskan mid-route delivery point required? Under either the NGA or ANGTA, could the FERC decide that the Alaska market would not be served, only the lower 48 market? If the pipeline owners opposed an Alaska mid-route delivery point, could the FERC mandate such a point? On what basis would FERC decide to allow a mid-route delivery point in Alaska at the time of the original construction of a pipeline? At a later date?

Can FERC guarantee now that Alaska will have access to **its own royalty gas**? If FERC cannot guarantee access to gas for Alaska under current law, what tweaking of federal law would you recommend to guarantee such access?

What would be the basis for in-state tariffs? Would there be a "postage stamp" tariff charging gas delivered to Fairbanks the same tariff as gas delivered to Chicago? Or would the tariff be determined on a mileage basis? According to Mofo, there was litigation regarding this issue in the late 1970's and the state's theory of a mileage-based tariff prevailed. Would that theory prevail under the NGA?

Regulation of In-State Tariffs and Prices

We were told that even if there were mid-route delivery points in Fairbanks, Delta Junction, and Tok, the RCA would not set tariff rates between the North Slope and those points in Alaska, rather the FERC would. Is this true under the Natural Gas Act (NGA)? Is it true under the ANGTA? What would be the basis for determining in-state tariffs on

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a pipeline with a Midwest final destination given that most of the costs would be incurred to serve the Midwest market?

Assuming that the tariff for shipment to Fairbanks is lower than the tariff for shipment to the Midwest, would the FERC set the price in Alaska for the gas? Would the state have the authority to set the price? How would the price in Fairbanks be determined?

Regulation over Hubs

We understand that the FERC does not regulate certain lengthy pipelines in the Gulf of Mexico that bring gas from the deep water to onshore pipelines. There the gas enters a "hub," a place where various pipelines meet. These lengthy pipelines may be thought of as gathering lines as opposed to transmission lines. In some respects an Alaska pipeline is akin to such gathering lines until it gets to a hub such as Fairbanks, where the gas could go to different markets. When the Committee asked questions about moving the jurisdiction of FERC to downstream of a Fairbanks hub, we got less than clear answers. Is it possible to move the FERC's jurisdiction downstream to a Fairbanks hub? In essence, is it possible to move the wellhead from Prudhoe Bay to Fairbanks? If it were not possible under existing law, what changes would you recommend so that the wellhead could be moved?

Regulation as a Common Carrier

As discussed above, the TAPS is a common carrier. We were told at the hearing that gas pipelines, unlike oil pipelines, are contract carriers. This means that a gas pipeline is not obligated to accept all gas tendered to it for transportation. In some respects, a gas pipeline through Alaska along the Alcan route would be more like the TAPS in that there is unlikely to be any competitor pipeline. Has the FERC ever regulated a gas pipeline as a common carrier pipeline? If so, what was the basis for the decision?

Regulation under the NGA or ANGTA

Under the ANGTA, a route for delivery of North Slope gas to the lower 48 has already been selected. That route is the Alcan route and it was selected ahead of an "Over the Top" route and a LNG route. Moreover, the Alcan route is the subject of a treaty and has already been approved by the Congress, the President and the Canadian government.

Given the ANGTA, what authority does the FERC have to consider a competing application for delivery of North Slope gas along an Alcan route under either the ANGTA or the NGA? Given the ANGTA, what authority does the FERC have to consider a competing application for delivery of North Slope gas along an Over the Top route under either the ANGTA or the NGA?

Under the NGA or the ANGTA, what authority will the state have with respect to environmental and right of way issues, including state-owned rights of way.

During the hearings the FERC staff stated that it couldn't even speculate about how long an application under the ANGTA would take to process. They could only say that it would not take any longer than a conventional NGA application. Since the whole purpose of the ANGTA is to expedite the certification and approval process, why can't FERC commit to a faster than conventional track for an ANGTA application?

**Response To Request For Proposal
Answers to Questions on Attachment A**

I. Upstream Access

A. General Discussion

The Legislature is correct in being concerned about the reality of "open access" on a pipeline owned either all, or in part, by the three largest owners of gas reserves on the North Slope – BP, Phillips, and Exxon. However, those same concerns exist whether or not BP, Phillips, and Exxon have an ownership interest in the pipeline. That is because BP, Phillips, and Exxon will be the anchor shippers. As such, whether or not they hold an ownership interest in the pipeline, they have an enormous amount of power and, therefore, control over (a) the structure and timing of an "open-season"; (b) the structure of the pipeline's tariff; and (c) the terms and conditions under which service will be provided to both the anchor shippers and others. They may also have a certain amount of control over the pipeline's potential expansion if not directly, indirectly through precedent agreements or undisclosed letter agreements.

1. Contract Carriers and the "Open Season": Natural gas pipelines are today somewhat of a hybrid between common carriers and contract carriers. Prior to the open access requirements imposed on virtually all federally-regulated interstate pipelines, interstate pipelines were true "contract carriers." They provided service to those with whom they chose to contract – service being provided pursuant to the rates and terms and conditions generally applicable to all similarly-situated shippers. These were usually set out in generally-available Rate Schedules. However, pipelines were also free to provide unique services tailored to a particular customer's needs -- so long as the pipeline obtained FERC approval prior to commencing service. These contracts were filed as separate "Rate Schedules." They were a part of the pipeline's filed tariff and, therefore, were public. They could become the basis for an undue discrimination claim down the road if the pipeline refused to provide similar rates or terms and conditions of service to a similarly-situated person requesting service. But, because pipelines were usually fully-contracted for on a firm basis, and because pro-rationing of service cannot be ordered under the Natural Gas Act, access was usually denied because of a lack of available firm capacity.

Some, but not all of this changed when FERC began to require interstate pipelines to provide "open access" transportation. Now, pipelines are still allowed to contract with whom they choose but there are new rules governing how

"excess" or "turned-back" capacity is to be made available. Rules have also been established to govern the means through which contracted-for but unneeded capacity can be temporarily released or permanently resold by the existing capacity holder. But, for pipeline expansions or new pipelines, until FERC developed its "open season" requirement there was no obligation to afford all potential shippers access to capacity on a non-discriminatory basis.

As the RFP observes, FERC has stated that the reasons for an open season include demonstrating a "need" for the pipeline and providing information regarding the "sizing" of the pipeline. These regulatory objectives are of little significance when dealing with an Alaskan natural gas pipeline. However, there is a more general objective also articulated by FERC -- to provide all potential shippers an equal opportunity to enter into long-term contracts with the pipeline. This latter objective, also, can be frustrated through advance negotiations, timing of the open season, or both.

Generally speaking, a new pipeline will hold an "open season" for all or some portion of its capacity. But, there are no specific rules or regulations governing the procedures for allocating generally-available pipeline capacity for new projects. Rather, there are only general guidelines and these guidelines -- which have as their basis the NGA's nondiscrimination requirement -- tend to reflect the complexities and risks associated with planning, financing, and developing new pipeline projects. Therefore, without rules governing how an open season should be conducted, an aggrieved shipper must wait until after the capacity has been awarded and the certificate has been filed before it can raise an objection.

The "need" for the Alaskan pipeline, it would seem, should be measured by reference to the projected need for additional natural gas in both Alaska and the Lower-48 -- not by the willingness of BP, Phillips, and Exxon to contract with the pipeline. Similarly, the proper sizing of the pipeline should be determined by reference to the delivery potential of reserves along the route of the pipeline or accessible to the pipeline (as is done in the OCS) not by reference to the reserves that BP, Phillips, and Exxon are willing to commit to the pipeline. Of course, the viability of the pipeline is in large part, dependent upon the receipt of long-term contractual commitments from BP, Phillips, or ExxonMobil. The ultimate question then, is whether these producers either need to, or can be required to, produce these gas reserves. Alternatively, can they be enticed into producing their reserves? But, if one allows the "need" for this pipeline or its sizing to be controlled exclusively by the outcome of the open season, FERC would be abdicating its regulatory responsibility to BP, ExxonMobil, and Phillips. Therefore, in this case, it would not be beyond the pale for FERC to indicate that it will move

forward and process an application for an Alaska pipeline on the basis of overall national need – not on the basis of executed binding precedent agreements. This could be done as a matter of policy to eliminate or mitigate the significant power that these producers currently hold over the terms and conditions of service on an Alaskan pipeline. FERC could at the same time, indicate when the pipeline should hold its open season and the terms and conditions under which that open season will be conducted. This would have to be done by a new rulemaking.

B. Initial Open Season – Response to Specific Questions

1. Although FERC prefers that an open season be held prior to the filing of a certificate application it is not required. Open seasons have been held before and after the filing of certificate applications. And, in some cases, the open season has been held after the certificate has issued. In situations where the open season is held either after the application is filed or after the certificate has issued, it is usually because pre-subscriptions of capacity are already sufficient to justify the pipeline. On new projects, FERC has allowed a significant amount of capacity to be pre-subscribed – and not even made subject to the outcome of the open season – generally where owner-shippers have significant reserves to ship and have committed a significant amount of capital to the project. For example, in Green Canyon Pipe Line Co., 47 FERC ¶ 61,310 (1989), 78% of the pipeline's capacity was pre-subscribed with only 22% made available through an open season. FERC has not been sympathetic to protests raised by potential shippers which were not prepared to commit to capacity at the time of the open season. Shell Gas Pipeline Co., 74 FERC ¶ 61,219 (1997).

2. It is not true that FERC has no control over the open season. It is true that FERC has yet to exercise control over the open season except on an after-the-fact basis when faced with complaints of undue discrimination or preference. We believe that it is well within FERC's authority to promulgate rules of a general or specific nature governing open seasons.

3. We do not believe that the state could block the project sponsors from conducting an early open season either by filing a complaint before FERC or by seeking relief in the courts. Given the existing statutory and regulatory scheme under which FERC operates, any such challenge would be deemed premature and dismissed by FERC; and any attempt to seek judicial review of a FERC decision declining to entertain such a complaint would fail the ripeness standard. Further, because exclusive jurisdiction over appeals from FERC action resides in the Courts of Appeals, there is no jurisdiction in the United States District Courts. As such,

under the existing regulatory scheme, a challenge at FERC would have to await the filing of a certificate application reflecting the allocation of capacity from the open season, and any challenge to FERC's ruling would have to await a final decision on the merits before an appeal could be brought in a United States Court of Appeals.

If the Legislature were to conclude that it is essential to have this issue addressed before an application is filed, the best option is to seek a rulemaking at FERC governing the timing of and rules for conducting an open season for the Alaska pipeline. Although FERC has no obligation to respond affirmatively to such a request, we believe that if the filing is preceded by meetings with FERC Staff and the FERC Commissioners to explain the basis for concern, the Legislature will have a receptive audience. At the same time, the state could consider a federal legislative directive to FERC to promulgate rules regarding the timing and content of any open season for an Alaskan pipeline, including guidelines on how capacity is to be allocated.

4. If an open season is held and an application is filed based on the results of that open season, FERC could rule, in response to a complaint, that given the long lead time between the filing of the application and the proposed in-service date of the pipeline that a second open season should be held to confirm or reallocate capacity. That second open season would have to take place within some specified time prior to the commencement of construction because, as a practical matter, financing must be in place prior to the commencement of construction and financing will be dependent upon the pipeline's contracts. FERC could also make this determination as a part of a rulemaking regarding the Alaskan pipeline project were a petition for a rulemaking filed. The arguments would have to be persuasively made – as we believe they could – because FERC has never recharacterized as an “expression of interest” an open season that the pipeline considered “binding” and based upon which it entered into “binding” precedent agreements. Keeping in mind that under the Natural Gas Act a pipeline is free to enter into binding contractual commitments, FERC will have to make the finding that those commitments are contrary to the public interest and require modification.

5. In a properly-conducted open season, an over-subscription means that there are qualifying bids for more capacity than has been offered in the open season, keeping in mind that certain capacity may be pre-subscribed and, therefore, not offered. Capacity is generally allocated based upon the highest net present value (“npv”) to the pipeline (typically, the discounted cash flow of incremental revenue per dekatherm based on factors such as rate, term, quantity, reserve commitment, and date on which service is to commence). E.g., Nautilus

Pipeline Co., LLC, 78 FERC ¶ 61,325 (1997); Southern Natural Gas Co., 96 FERC ¶ 61,008 (2001); Tennessee Gas Pipeline Company, 76 FERC ¶ 61,101 (1996); Texas Eastern Transmission Corp., 79 FERC ¶ 61,258, order on reh'g, 80 FERC ¶ 61,270 (1997). Only capacity for which there is a tie tends to be pro-rated, although using pro-rationing as the method for breaking the tie is not required. E.g., Kern River Gas Transmission Co., 95 FERC ¶ 61,022 (2001); Transcontinental Gas Pipe Line Corp., 66 FERC ¶ 61,273 (1994); Green Canyon Pipe Line Co., 47 FERC ¶ 61,310 (1989); Shell Gas Pipeline Co., 76 FERC ¶ 61,260 (1986). The only real rule is that the criteria used to allocate capacity must be applied without undue discrimination. Id.

6. The pipeline may establish a minimum term for contracts for newly constructed facilities National Fuel Gas Supply Corporation, 77 FERC ¶ 61,005 (1996), as well as a maximum term. Southern Natural Gas Company, 96 FERC ¶ 61,008 (2001). There is no FERC policy on the duration of contracts – they may be for the life of the reserves.

C. Expansion Open Season – Response to Questions

1. FERC has absolutely no authority to mandate an expansion of the pipeline under existing law and any attempt by FERC to condition a certificate on a requirement that expansion capacity be constructed would be challenged as ultra vires. Panhandle Eastern Pipe Line Co. v. FERC, 204 F.2d 675 (3d Cir. 1953). To the best of our knowledge, FERC has never successfully ordered the expansion of a pipeline under the Natural Gas Act. (FERC does possess that power, in certain circumstances, under the Outer Continental Shelf Lands Act although, to the best of our knowledge, it has not used that authority).

2. Pipeline expansions are treated in much the same way by FERC as are new pipelines. Rates are usually designed on an incremental basis to ensure that customers bear only those costs associated with the facilities that they use. Of course, an expansion customer may benefit from the original capacity, depending on the operational characteristics of the pipeline. In a case where a pipeline expansion is to be used by the original shippers and where the expansion shippers also utilize the original capacity the costs of the expansion may be rolled into the original cost and allocated among all shippers.

3. Access to new capacity would be handled consistently with the tariff of the existing pipeline or in accordance with the same rules discussed above for new pipelines. Some pipelines have included in their tariffs specific procedures

to be followed for purposes of allocating expansion capacity. When this is done, and the tariff is approved by FERC, the pipeline need only follow its tariff rules when allocating capacity.

4. The Commission strongly encourages, and, in fact, expects that an open season will be held for all new capacity, including expansion capacity. Again, in the absence of a tariff provision stating otherwise, pre-subscriptions are permitted if the facts and circumstances so require. The Legislature should be aware that bids can be submitted in the initial open season for both initial capacity and expansion capacity if the open season is so structured. Rights-of-first-refusal ("ROFR") relate to the right of an existing shipper to continue its existing service upon contract expiration by matching the highest competitive bid for service up to the maximum rate. Under FERC's Order No. 637 certain restrictions apply to the ROFR but, to respond to the state's question, these rights do not extend to new capacity.

II. Jurisdiction

A. General Discussion

A primary distinction between natural gas pipelines subject to FERC's jurisdiction under the NGA and oil pipelines subject to FERC's jurisdiction under the ICA is that oil pipelines are common carriers while gas pipelines are not. In addition, the commingling of interstate gas with intrastate gas in a common stream causes the entire gas stream to fall within the exclusive jurisdiction of FERC under the NGA as being "in interstate commerce." However, the sale of natural gas to communities or distribution companies in Alaska is not within FERC's jurisdiction even though the gas travels in a commingled stream through an interstate pipeline. As such, the availability of the Alaskan gas for in-state use is not affected, other than in instances of pipeline operational problems or capacity restraints. The terms and conditions of the transportation service, however, will be within the province of FERC (including those relating to capacity curtailments). State agencies can regulate wholly intrastate facilities or facilities which form part of an intrastate natural gas company even if natural gas is received from an interstate pipeline. This can be done by having the natural gas transported through the interstate pipeline under NGPA section 311(a)(1) to the point of interconnect with the intrastate facilities or by transporting the gas through the interstate pipeline under NGA § 7, thereby transforming the intrastate system into a Hinshaw pipeline which is exempt from FERC's jurisdiction under NGA section 1(c). In the latter case it would be essential that the RCA exercise regulatory control over the intrastate

facilities and that the gas be consumed within Alaska. With that as background I will respond to the specific questions asked, to the extent possible.

**B. State Access for In-State Demand and Tariffs –
Response to Specific Questions**

1. The RCA's jurisdiction over lateral lines exists wherever there are intrastate facilities owned and operated by an Alaskan company which are used to sell or deliver gas, whether bundled or unbundled, to customers in Alaska (whether wholesale or retail). Under the Natural Gas Act, federal jurisdiction ends at the local distribution of gas (NGA § 1(b)) or at the point of interconnect between an interstate transmission system and an intrastate transmission system where all of the gas received by the intrastate system is consumed within the state and the rates and services of the intrastate system are subject to regulation by a state commission. NGA § 1(c), 15 U.S.C. § 717(c).

2. Assuming that the pipeline which is ultimately constructed is the pipeline which was authorized under ANGTA, FERC would have the authority to order mid-route delivery points in Alaska were the pipeline to refuse to provide the requested delivery points. Under Section 13 of ANGTA, in the exercise of that authority, FERC is required to ensure that the State of Alaska may ship its royalty gas for use within Alaska "and is to issue whatever authorizations are necessary to withdraw such gas from the interstate market for use within Alaska." (Note: The language of ANGTA pre-dates the Wellhead Decontrol Act and, therefore, speaks in terms of withdrawing gas from the interstate market. Before the decontrol of wellhead sales of natural gas, once the sale of gas in interstate commerce commenced or the transportation of natural gas in interstate commerce commenced, the entire gas stream became dedicated to the interstate market and could not be withdrawn from that market for intrastate purposes. That is no longer the law. Natural gas from a single wellhead may now be sold in both the interstate and intrastate markets. There is no longer a concern about "withdrawing" gas from the interstate market because gas is no longer "dedicated" to the interstate market. Rather, contracts will control the destination of gas.) However, if the pipeline is not constructed under the authority of ANGTA, but only under the NGA, then the State of Alaska would have to file a complaint against the pipeline were it to refuse to allow the required intrastate delivery points and/or the required interconnection with intrastate facilities. The Complaint would have to be based on the prohibition in NGA §§ 4 and 5 against undue discrimination and undue preference.

3. Given the language of Section 13 of ANGTA, the State of Alaska is "authorized" to ship its royalty gas on the approved Alaskan pipeline system but the statute does not specify under what "terms and conditions" or whether access is guaranteed for the State's royalty gas. While the clear inference is that Congress intended all shippers to have "access" the statutory language does not go that far. On this point as well as the issue in II E., infra, additional research is required. However, if an Alaskan pipeline is constructed solely under the authority of the Natural Gas Act – without reference to ANGTA – then the State of Alaska, clearly, would have to participate in the open season in the same way as a private party.

4. If one were to conclude that under ANGTA FERC can guaranty access to the state's royalty gas, then the Legislature's primary concern should be whether a pipeline can be approved outside of ANGTA. There are those (including DOE and FERC) who believe that current law does not require that a pipeline constructed to bring North Slope Alaskan gas to the Lower 48 must be the pipeline authorized under ANGTA. Rather, they believe that such a pipeline could be authorized solely under the NGA. As explained in response to E. below, we are unable, without additional research, to opine as to the correctness of that position. Regardless of the answer to that question, and given the view of the DOE and FERC, it would be best to ensure transportation capacity rights for the state's royalty gas in any new legislation directed at the Alaska natural gas pipeline.

5. In-state tariffs would related only to intrastate facilities and, therefore, would be governed exclusively by Alaskan law.

6. FERC-approved rates – which would apply to deliveries made within the State of Alaska or in interstate commerce – would be governed by federal law. Under current FERC policy rates are to reflect distance absent other overriding factors. 18 C.F.R. § 284.10(a)(3) (2001). The Commission has concluded that on most pipeline systems, the costs of providing service are materially affected by the distance the gas is transported. E.g., Northwest Pipeline Corp., 82 FERC ¶ 61,158 (1998); Kern River Gas Transmission Co., (ALJ: 94 FERC ¶ 63,008 (2001)). However, the Commission does not mandate mileage-based rates. For example, on some systems distance may not materially affect the cost of doing business – the most common factor in determining whether the permit postage-stamp rates is whether the pipeline received gas at both ends of its system so that the gas may flow in either direction, rather than in a single upstream to downstream direction. Northwest Pipeline Corp., 82 FERC ¶ 61,158 (1998); East Tennessee Natural Gas Co., 64 FERC ¶ 61,159 (1993); Williams Natural Gas Co., 41 FERC ¶ 61,037 (1987), Southern Natural Gas Co., 10 FERC ¶ 61,287 (1980).

In addition, the Legislature should be aware that FERC allows negotiated rates which may differ significantly from tariff rates.

C. Regulation of In-State Tariffs and Prices

1. It is true, as noted above, that even if there were mid-route delivery points in Alaska, FERC would set the rates for that transportation service. This is because, due to the commingling rule, all of the gas in question is treated as gas being transported interstate commerce placing exclusive jurisdiction over the rates for such transportation service in FERC. NGA § 1(b). ANGTA does not alter this regulatory scheme. In fact, ANGTA Section 13 preserves FERC's jurisdiction over rates stating that "the . . . [FERC] shall issue all authorizations necessary to effectuate such shipment and withdrawal subject to review by the Commission only of the justness and reasonableness of the rates charges for such transportation."

2. If distance-based rates were structured for the Alaskan pipeline, more costs would be allocated to shippers designating delivery points in the Midwest over shippers designating Fairbanks.

3. FERC has no jurisdiction over the price at which natural gas can be sold in Alaska. The state would have the authority to set the price for such sales. And, presumably, the price in Fairbanks would be a delivered price inclusive of the cost of the gas, the interstate transportation costs, and any intrastate transportation costs.

4. It is unlikely that FERC would disclaim jurisdiction over the transportation of natural gas from the North Slope to Fairbanks. While the unusual length of pipeline bringing natural gas from the wellhead to the "hub" is similar to the long, deepwater gathering lines in the Gulf of Mexico, both in concept and in purpose – bringing natural gas from a wellhead located a significant distance from a possible point of interconnection on the interstate pipeline grid – here there is only one continuous pipeline which will extend from the North Slope to natural gas markets. This configuration is indicative of an interstate pipeline, not a gathering system. In fact, we would conclude that were a pipeline comparable to that proposed for Alaska to be constructed in the Gulf of Mexico, the entire pipeline would be classified by FERC as an interstate pipeline subject to the Commission's NGA jurisdiction.

5. While I do not believe that FERC would be inclined to disclaim jurisdiction over the portion of the Alaska pipeline extending from the North Slope

to Fairbanks if there is only one pipeline under common ownership which will take the North Slope gas to market, such a determination might be obtained if there were two separate entities (potentially even with the same ownership) and a bifurcated line – that is, Company A owning the line (and, ideally it will pick up more than just North Slope gas) from the North Slope to Fairbanks, and Company B owning the line from Fairbanks south. It may also be possible – albeit somewhat difficult – to obtain authorization from FERC for a “dual-use” facility. Under this scenario, the state would lease an undivided interest in the pipeline facilities to Fairbanks for the state’s royalty gas and obtain a ruling from FERC that the leased capacity is subject only to state regulation. While FERC has in some instance, allowed the converse, policy considerations here could play a significant role in attempting to expand that authorization. Any of these approaches would require the full cooperation of the pipeline owners and appropriate rulings from FERC.

6. As noted above, capacity reservations for the state’s royalty gas and state control over that capacity is potentially achievable under existing law through the arrangements discussed above. However, an amendment to ANGTA to ensure state control over the capacity used to transport the state’s royalty gas would be the best solution, as would, of course, explicit language in any new federal legislation.

**D. Regulation as a Common Carrier –
Response to Specific Questions**

1. There appears to be no question that there will be only one major gas pipeline transporting North Slope gas to the Lower 48. However, that does not alter the fact that under existing law, including both ANGTA and the NGA, such a pipeline is not a common carrier. Legislation would be required to alter that status and it is my understanding that the United States Congress would not support such legislation. Legislation addressing competition issues related to access, however, may well to receive such support.

2. Neither FERC nor its predecessor has ever regulated a natural gas pipeline as a common carrier. To do so would be outside the scope of the agency’s authority under its enabling acts.

**E. Regulation Under the NGA or ANGTA –
Response to Specific Questions**

1. The issue of FERC's authority to approve an application for delivery of North Slope gas along a route different from that authorized under ANGTA is subsumed into the question whether ANGTA precludes FERC from considering an application filed exclusively under the NGA for an Alaskan natural gas pipeline intending to deliver natural gas from the North Slope of Alaska to the Lower 48. I am aware that competent counsel (both public and private) have differing views on this critical issue. I am also aware that DOE and FERC are of the view that FERC may consider and approve under its Natural Gas Act authority a competing application which proposes a route other than the Alcan route.

As I mentioned above, I do not know the answer to these questions at this time. Additional research and analysis is required. Of course, Congress could render that issue moot through legislation such as S. 1766.

2. The state's authority regarding environmental issues and rights-of-way, including rights-of-way through state-owned lands, continues, intact, with the caveat that the state cannot refuse to grant the necessary rights-of-way nor can it interfere in the construction of a federally-approved project along a federally-approved route. However, FERC has historically listened to legitimate state concerns and can be expected to continue to do so, conditioning certificates accordingly. But, in the end, FERC's decision will control.

3. FERC cannot now commit to a faster track for approval of a project because it has not seen the application and does not know how extensive an environmental review it will be required to conduct. FERC has stated publicly that the existing environmental data for ANGTS is stale and that updated studies and analysis must be filed and reviewed, even for the existing route. The time that will be required to conduct that review will depend, on large part, on how complete the data are and how much opposition the project receives. Absent a statutory mandate to complete the review within a specified time, FERC simply will not commit to any particular timeframe within which it will grant a certificate.



Official Business

ALASKA STATE LEGISLATURE

JOINT COMMITTEE ON NATURAL GAS PIPELINES

Senator John Torgerson, Chair

Senator Rick Halford

Senator Pete Kelly

Senator Johnny Ellis

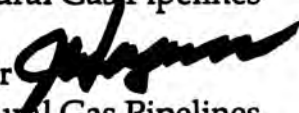
Representative Joe Green, Vice-Chair

Representative Brian Porter

Representative Scott Ogan

Representative John Davies

To: Joint Committee on Natural Gas Pipelines

From: Senator Torgerson, Chair 
Joint Committee on Natural Gas Pipelines

Date: February 15, 2002

Subject: Attachment to Committee Meeting Folders for 2/15/02

The United States Senate is no longer considering SB 1766, the Energy Policy Act of 2002, and is now considering S. 1948. Enclosed please find the pages pertinent to the Alaska Natural Gas Pipeline that we received on February 14, 2002.

Session: January - May
State Capitol, #427
Juneau, AK 99801
Phone: 907-465-2828
Fax: 907-465-4779

Interim: May - December
35477 Kenai Spur Hwy., Suite 101A
Soldotna, AK 99669
Phone: 907-260-3041
Fax: 907-260-3044

*New Federal Legislation
2/14/02*

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TITLE VII – NATURAL GAS PIPELINES

Subtitle A – Alaska Natural Gas Pipeline

SEC. 701. SHORT TITLE.

This subtitle may be cited as the “Alaska Natural Gas Pipeline Act of 2002”.

SEC. 702. FINDINGS.

The Congress finds that:

(1) Construction of a natural gas pipeline system from the Alaskan North Slope to United States markets is in the national interest and will enhance national energy security by providing access to the significant gas reserves in Alaska needed to meet the anticipated demand for natural gas.

(2) The Commission issued a certificate of public convenience and necessity for the Alaska Natural Gas Transportation System, which remains in effect.

SEC. 703. PURPOSES.

The purposes of this subtitle are—

(1) to expedite the approval, construction, and initial operation of one or more transportation systems for the delivery of Alaska natural gas to the contiguous United States;

(2) to ensure access to such transportation systems on an equal and nondiscriminatory basis and to promote competition in the exploration, development and

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1 production of Alaska natural gas; and

2 (3) to provide federal financial assistance to any transportation system for the
3 transport of Alaska natural gas to the contiguous United States, for which an application
4 for a certificate of public convenience and necessity is filed with the Commission not later
5 than 6 months after the date of enactment of this subtitle.

6 **SEC. 704. ISSUANCE OF CERTIFICATE OF PUBLIC CONVENIENCE AND**
7 **NECESSITY.**

8 (a) **AUTHORITY OF THE COMMISSION.**— Notwithstanding the provisions of the
9 Alaska Natural Gas Transportation Act of 1976 (15 U.S.C. 719-719o), the Commission may,
10 pursuant to section 7(c) of the Natural Gas Act (15 U.S.C. 717f(c)), consider and act on an
11 application for the issuance of a certificate of public convenience and necessity authorizing the
12 construction and operation of an Alaska natural gas transportation project other than the Alaska
13 Natural Gas Transportation System.

14 (b) **ISSUANCE OF CERTIFICATE.**—

15 (1) The Commission shall issue a certificate of public convenience and necessity
16 authorizing the construction and operation of an Alaska natural gas transportation project
17 under this section if the applicant has—

18 (A) entered into a contract to transport Alaska natural gas through the
19 proposed Alaska natural gas transportation project for use in the contiguous United
20 States; and

21 (B) satisfied the requirements of section 7(e) of the Natural Gas Act (15

1 U.S.C. 717f(e)).

2 (2) In considering an application under this section, the Commission shall presume
3 that—

4 (A) a public need exists to construct and operate the proposed Alaska
5 natural gas transportation project; and

6 (B) sufficient downstream capacity will exist to transport the Alaska natural
7 gas moving through such project to markets in the contiguous United States.

8 (c) EXPEDITED APPROVAL PROCESS.— The Commission shall issue a final order
9 granting or denying any application for a certificate of public and convenience and necessity under
10 section 7(c) of the Natural Gas Act (15 U.S.C. 717f(c)) and this section not more than 60 days
11 after the issuance of the final environmental impact statement for that project pursuant to section
12 704.

13 (d) REVIEWS AND ACTIONS OF OTHER FEDERAL AGENCIES.— All reviews
14 conducted and actions taken by any federal officer or agency relating to an Alaska natural gas
15 transportation project authorized under this section shall be expedited, in a manner consistent with
16 completion of the necessary reviews and approvals by the deadlines set forth in this subtitle.

17 (e) REGULATIONS.— The Commission may issue regulations to carry out the provisions
18 of this section.

19 **SEC. 705. ENVIRONMENTAL REVIEWS.**

20 (a) COMPLIANCE WITH NEPA.— The issuance of a certificate of public convenience
21 and necessity authorizing the construction and operation of any Alaska natural gas transportation

1 project under section 704 shall be treated as a major federal action significantly affecting the
2 quality of the human environment within the meaning of section 102(2)(C) of the National
3 Environmental Policy Act of 1969 (42 U.S.C. 4332(2)(C)).

4 (b) DESIGNATION OF LEAD AGENCY.— The Commission shall be the lead agency for
5 purposes of complying with the National Environmental Policy Act of 1969, and shall be
6 responsible for preparing the statement required by section 102(2)(c) of that Act (42 U.S.C.
7 4332(2)(c)) with respect to an Alaska natural gas transportation project under section 704. The
8 Commission shall prepare a single environmental statement under this section, which shall
9 consolidate the environmental reviews of all Federal agencies considering any aspect of the
10 project.

11 (c) OTHER AGENCIES.— All Federal agencies considering aspects of the construction
12 and operation of an Alaska natural gas transportation project section 704 shall cooperate with the
13 Commission, and shall comply with deadlines established by the Commission in the preparation
14 of the statement under this section. The statement prepared under this section shall be used by all
15 such agencies to satisfy their responsibilities under section 102(2)(C) of the National
16 Environmental Policy Act of 1969 (42 U.S.C. 4332(2)(C)) with respect to such project.

17 (d) EXPEDITED PROCESS.— The Commission shall issue a draft statement under this
18 section not later than 12 months after the Commission determines the application to be complete
19 and shall issue the final statement not later than 6 months after the Commission issues the draft
20 statement, unless the Commission for good cause finds that additional time is needed.

21 (e) UPDATED ENVIRONMENTAL REVIEWS UNDER ANGTA.— The Secretary of

1 Energy shall require the sponsor of the Alaska Natural Gas Transportation System to submit such
2 updated environmental data, reports, permits, and impact analyses as the Secretary determines are
3 necessary to develop detailed terms, conditions, and compliance plans required by section 5 of the
4 President's Decision.

5 **SEC. 706. FEDERAL COORDINATOR.**

6 (a) **ESTABLISHMENT.**— There is established as an independent establishment in the
7 executive branch, the Office of the Federal Coordinator for Alaska Natural Gas Transportation
8 Projects.

9 (b) **THE FEDERAL COORDINATOR.**— The Office shall be headed by a Federal
10 Coordinator for Alaska Natural Gas Transportation Projects, who shall—

11 (1) be appointed by the President, by and with the advice of the Senate,

12 (2) hold office at the pleasure of the President, and

13 (3) be compensated at the rate prescribed for level III of the Executive Schedule (5
14 U.S.C. 5314).

15 (c) **DUTIES.**— The Federal Coordinator shall be responsible for—

16 (1) coordinating the expeditious discharge of all activities by federal agencies with
17 respect to an Alaska natural gas transportation project; and

18 (2) ensuring the compliance of Federal agencies with the provisions of this subtitle.

19 **SEC. 707. JUDICIAL REVIEW.**

20 (a) **EXCLUSIVE JURISDICTION.**— The United States Court of Appeals for the District of

1 Columbia Circuit shall have exclusive jurisdiction to determine—

2 (1) the validity of any final order or action (including a failure to act) of the
3 Commission under this subtitle;

4 (2) the constitutionality of any provision of this subtitle, or any decision made or
5 action taken thereunder; or

6 (3) the adequacy of any environmental impact statement prepared under the
7 National Environmental Policy Act of 1969 with respect to any action under this subtitle.

8 (b) DEADLINE FOR FILING CLAIM.— Claims arising under this subtitle may be brought
9 not later than 60 days after the date of the decision or action giving rise to the claim.

10 **SEC. 708. LOAN GUARANTEE.**

11 (a) AUTHORITY.— The Secretary of Energy may guarantee not more than 80 percent of
12 the principal of any loan made to the holder of a certificate of public convenience and necessity
13 issued under section 704(b) of this Act or section 9 of the Alaska Natural Gas Transportation Act
14 of 1976 (15 U.S.C. 719g) for the purpose of constructing an Alaska natural gas transportation
15 project.

16 (b) CONDITIONS.—

17 (1) The Secretary of Energy may not guarantee a loan under this section unless the
18 guarantee has filed an application for a certificate of public convenience and necessity under
19 section 704(b) of this Act or for an amended certificate under section 9 of the Alaska Natural Gas
20 Transportation Act of 1976 (15 U.S.C. 719g) with the Commission not later than 6 months after
21 the date of enactment of this subtitle.

1 (2) A loan guaranteed under this section shall be made by a financial institution subject to
2 the examination of the Secretary.

3 (3) Loan requirements, including term, maximum size, collateral requirements and other
4 features shall be determined by the Secretary.

5 (c) LIMITATION ON AMOUNT.— Commitments to guarantee loans may be made by the
6 Secretary of Energy only to the extent that the total loan principal, any part of which is
7 guaranteed, will not exceed \$10,000,000,000.

8 (d) REGULATIONS.— The Secretary of Energy may issue regulations to carry out the
9 provisions of this section.

10 (e) AUTHORIZATION OF APPROPRIATIONS.— There are authorized to be
11 appropriated to the Secretary such sums as may be necessary to cover the cost of loan guarantees,
12 as defined by section 502(5) of the Federal Credit Reform Act of 1990 (2 U.S.C. 661a(5)).

13 **SEC. 709. STUDY OF ALTERNATIVE MEANS OF CONSTRUCTION.**

14 (a) REQUIREMENT OF STUDY.— If no application for the issuance of a certificate of
15 public convenience and necessity authorizing the construction and operation of an Alaska natural
16 gas transportation project has been filed with the Commission within 6 months after the date of
17 enactment of this title, the Secretary of Energy shall conduct a study of alternative approaches to
18 the construction and operation of the project.

19 (b) SCOPE OF STUDY.— The study shall consider the feasibility of establishing a
20 government corporation to construct an Alaska natural gas transportation project, and alternative
21 means of providing federal financing and ownership (including alternative combinations of

1 government and private corporate ownership) of the project.

2 (c) CONSULTATION.— In conducting the study, the Secretary of Energy shall consult
3 with the Secretary of the Treasury and the Secretary of the Army (acting through the Commanding
4 General of the Corps of Engineers).

5 (d) REPORT.— If the Secretary of Energy is required to conduct a study under subsection
6 (a), he shall submit a report containing the results of the study, his recommendations, and any
7 proposals for legislation to implement his recommendations to the Congress within 6 months after
8 the expiration of the Secretary of Energy's authority to guarantee a loan under section 708.

9 **SEC. 710. SAVINGS CLAUSE.**

10 Nothing in this subtitle affects any decision, certificate, permit, right-of-way, lease, or
11 other authorization issued under section 9 of the Alaska Natural Gas Transportation Act of 1976
12 (15 U.S.C. 719g).

13 **SEC. 711. CLARIFICATION OF AUTHORITY TO AMEND TERMS AND**
14 **CONDITIONS TO MEET CURRENT PROJECT REQUIREMENTS.**

15 Any Federal officer or agency responsible for granting or issuing any certificate, permit,
16 right-of-way, lease, or other authorization under section 9 of the Alaska Natural Gas
17 Transportation Act of 1976 (15 U.S.C. 719g) may add to, amend, or abrogate any term or
18 condition included in such certificate, permit, right-of-way, lease, or other authorization to meet
19 current project requirements (including the physical design, facilities, and tariff specifications), so
20 long as such action does not compel a change in the basic nature and general route of the Alaska
21 Natural Gas Transportation System as designated and described in section 2 of the President's

1 Decision, or would otherwise prevent or impair in any significant respect the expeditious
2 construction and initial operation of such transportation system.

3 **SEC. 712. DEFINITIONS.**

4 For purposes of this subtitle:

5 (1) The term "Alaska natural gas" has the meaning given such term by section 4(1) of the
6 Alaska Natural Gas Transportation Act of 1976 (15 U.S.C. 719b(1)).

7 (2) The term "Alaska natural gas transportation project" means any other natural gas
8 pipeline system that carries Alaska natural gas from the North Slope of Alaska to the border
9 between Alaska and Canada (including related facilities subject to the jurisdiction of the
10 Commission) that is authorized under either—

11 (A) the Alaska Natural Gas Transportation Act of 1976 (15 U.S.C. 719-719o); or

12 (B) section 704 of this subtitle.

13 (3) The term "Alaska Natural Gas Transportation System" means the Alaska natural gas
14 transportation project authorized under the Alaska Natural Gas Transportation Act of 1976 and
15 designated and described in section 2 of the President's Decision.

16 (4) The term "Commission" means the Federal Energy Regulatory Commission.

17 (5) The term "natural gas company" means a person engaged in the transportation of
18 natural gas in interstate commerce or the sale in interstate commerce of such gas for resale; and

19 (6) The term "President's Decision" means the Decision and Report to Congress on the
20 Alaska Natural Gas Transportation system issued by the President on September 22, 1977

1 pursuant to section 7 of the Alaska Natural Gas Transportation Act of 1976 (15 U.S.C. 719c) and
2 approved by Public Law 95-158.

3 **SEC. 713. SENSE OF THE SENATE.**

4 It is the sense of the Senate that an Alaska natural gas transportation project will provide
5 significant economic benefits to the United States and Canada. In order to maximize those
6 benefits, the Senate urges the sponsors of the pipeline project to make every effort to use steel that
7 is manufactured or produced in North America and to negotiate a project labor agreement to
8 expedite construction of the pipeline.

1 (b) A waiver, reduction, or deferral of tax made by the commissioner under (a)
2 of this section is not effective until approved by the legislature. The legislature may
3 approve a waiver, reduction, or deferral of tax under this section only by enacting
4 legislation.

5 * **Sec. 11.** AS 46.40.094 is amended by adding a new subsection to read:

6 (d) Notwithstanding any other provision of this section, for a natural gas
7 pipeline project from the Alaska North Slope following a route that parallels the Trans
8 Alaska Pipeline System and the Alaska Highway to the Canadian border or a route
9 that runs south to Alaska tidewater for which the project applicant has complied with
10 AS 38.35.240 and obtained all certificates described in that section, any agency
11 responsible for the consistency determination with respect to proposed uses or
12 activities involved in the project may, in its discretion, conduct the review and make
13 the consistency determination in separate phases in a manner that promotes review of
14 proposed uses and activities based upon the project's design, construction sequence,
15 and schedule.

16 * **Sec. 12.** The uncodified law of the State of Alaska is amended by adding a new section to
17 read:

18 **LIMITATION OF CERTAIN ACTIONS.** A legal proceeding may not be initiated to
19 challenge the constitutionality of sec. 2 of this Act or the constitutionality of AS 38.35.235 -
20 38.35.259, added by sec. 5 of this Act, more than 60 days after the effective date of this Act.

21 * **Sec. 13.** The uncodified law of the State of Alaska is amended by adding a new section to
22 read:

23 **LEGISLATIVE AUTHORIZATION AND APPROVAL.** AS 42.40.695, added by
24 sec. 9 of this Act, and this section constitute the approval required by AS 42.40.285 for the
25 issuance of the bonds described in AS 42.40.695.

26 * **Sec. 14.** This Act takes effect immediately under AS 01.10.070(c).



State Financial Participation **in an Alaska Natural Gas Pipeline**

- **The History**
- **The Project**
- **The Options**
- **The Costs**
- **The Risks of State Participation**

*Prepared by the Alaska Department of Revenue
January 31, 2002*

PETRIE PARKMAN & CO.

CH2M HILL

STATE OF ALASKA

Department of Revenue

Office of the Commissioner

Tony Knowles, Governor

P.O. Box 110400

Juneau, Alaska 99811-0400

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January 31, 2002

The Honorable Tony Knowles
Governor of Alaska

The Honorable Rick Halford
Senate President
Alaska State Legislature

The Honorable Brian Porter
Speaker of the House
Alaska State Legislature

The Honorable John Torgerson
Chairman, Joint Natural Gas Pipelines Committee
Alaska State Legislature

Dear Governor Knowles, President Halford, Speaker Porter and Senator Torgerson:

It has been six months since Senate Bill 158 was signed into law, calling on the Department of Revenue to prepare a report on the merits of state ownership or financing of an Alaska Gas Pipeline project. In those six months my staff, our consultants and I have spent considerable hours looking for the light at the end of the pipeline. We had hoped that light would lead us to clear and convincing answers to the questions: Should the state invest in a natural gas pipeline? If so, where would the state get the money? Are the rewards worth the risks? Would state financial participation in the project help bring about the start of construction?

Although we have reached the end of our assignment, we did not find answers to every question. It was like finding the light at the end of the line, only to discover that you don't have the authority to turn the switch on and off. Although we believe the financial risks to the state are substantial, it is possible that some would decide—as a matter of public policy—that the state should take such sizable risks in an attempt to exercise greater control over its own destiny.

As for finding the money for state participation in a project, Alaska is a little short on cash these days—unless you go into the Permanent Fund, which presents several legal and political constraints. Clearly, one answer is that state participation perhaps could be a plus if the state could issue tax-exempt bonds to help finance the multibillion-dollar project. But that switch is in federal hands.

We believe our report sheds new light on old discussions, and serves as a reference book on the project. Our work includes:

- A comprehensive review of the history of Alaska gasline proposals.
- A summary of current gasline proposals and potential sponsors.
- An analysis of the issues of state financial participation—how much money would be needed, and where could it come from.
- An explanation of what could or could not work for state financing—and why not.
- And what are the risks of putting up state money.

I believe our report provides you—and the Alaska public—with the information needed to make informed decisions.

In closing, I would like to thank our two consultants on this report: Dave Gray of CH2M Hill and Bill Garner of Petrie Parkman & Co. Mr. Gray is director of energy economics for CH2M HILL's Bellevue, Washington, office, and Mr. Garner is in the Houston office of Petrie Parkman, an investment banking firm that specializes in oil and gas issues. Their technical assistance was key to the success of this report.

As you read through this report, please call on the department for any additional information you need. I look forward to working with you on this project, which is so important to Alaska's future.

Sincerely,

Wilson L. Condon
Commissioner

Executive Summary

The purpose of this report is to examine whether the State of Alaska should financially participate in a pipeline to transport natural gas from Alaska's North Slope to domestic or foreign markets.

The legal and fiscal issues today are not much different than the gas pipeline concerns Alaskans have grappled with over the past 30 years. During that time, the state and private groups commissioned several reports both favoring and dissuading state financial participation. Although the issues have not changed much, certainly the legal, regulatory, market and fiscal situation today is much different than that of decades ago.

Today, proponents of state involvement cite three main reasons for the state to participate in ownership or financing of an Alaska Gas Pipeline project:

- It would be a good investment with a healthy rate of return and minimal risk.
- Alaska should control its own financial destiny and development of its resources.
- State involvement would enhance the project's feasibility—that is, the pipeline would stand a better chance of getting built sooner if the state was a financial partner.

The answers, however, are much less clear than the questions.

A Good Investment

The state is in a precarious financial position as it starts 2002. Its ability to provide essential services will be tested as the Constitutional Budget Reserve Fund runs out of money. The Department of Revenue projects that the reserve fund, which has helped cover state spending for all but two years since 1991, will hit empty by Labor Day 2004. Alaska may be resource rich but we are cash poor—unless you count the Permanent Fund. Other than taking money out of the Permanent Fund to invest in a gasline, the state is in no position to write a check for any significant investment in a gas pipeline project, regardless how good the investment.

The Alaska Permanent Fund

There are several options for using the Permanent Fund for state investment in the project:

- Spend money from the Earnings Reserve Account to buy in as a gasline partner. This means going into the business of owning and operating a natural gas pipeline. This could be done by a legislative appropriation to another state agency or new state corporation to make an equity investment in the pipeline. However, withdrawing too much from the Earnings Reserve Account could jeopardize its future ability to pay for inflation proofing of the fund's principal and dividends.
- The legislature could change state law to authorize a direct investment by the Permanent Fund in the gasline business. A statute change would be required because the Permanent Fund's investment authority does not cover going into the gasline business.
- Or the Permanent Fund, as part of its regular asset allocation and investment mix, could decide to buy shares in a public traded corporation or buy bonds issued by the corporation or corporations that own the pipeline. These investments, however, would give the state no more control over the project than any other minority shareholder, and any return would depend on the corporation's performance and stock or bond value. Any such investment would—by constraint of the Prudent Expert Rule for Permanent Fund investments—be limited to a small percentage of a pipeline corporation's stock or debt.

Taking on State Debt

The state and its municipalities are looking at how to pay for several billion dollars of school construction and repairs, and deferred maintenance to public facilities. The state, which has not issued any general obligation bonds in nearly 20 years, will go to market in the next year if legislators agree with the governor's proposal for school bonds. Taking on new debt for schools and other needs most likely will consume all of the state's available debt capacity, unless Permanent Fund earnings are diverted from the dividend program to pay debt service.

Any over-ambitious reliance on debt to finance a state investment in the gasline could jeopardize Alaska's credit rating, which could have a domino effect as it raises the cost of borrowing for the state and municipalities.

Rate of Return

The Federal Energy Regulatory Commission in the United States and the National Energy Board in Canada would regulate the rate of return on any interstate pipeline, and we expect that return would not differ significantly from what the state—or the Permanent Fund—could earn in other investments with similar risks.

Risks to the State

State investment as a partner in the project could put the state at financial risk if there are construction overruns, delays in completion of the project, unbudgeted calls for additional capital, or volatile natural gas market conditions. Unlike large corporations, the state does not maintain reserves for such risks, and it would be a difficult policy call to tell the public that key government services might be cut back to make money available for gasline expenses.

State Control

Proponents who advocate state financial participation in the project for reasons of control raise two points: (1) Alaska should take a stronger hand in managing its resource development, and (2) a belief that North Slope oil producers took advantage of the state by inflating tariffs on the Trans-Alaska Pipeline System, thereby reducing their oil tax and royalty payments to the state.

Both are emotional issues, and both require an unemotional review.

First, whether the state should take an active role in managing the development and marketing of its oil and gas resources is a public policy call. If people believe that is the overriding issue in this project, then it might justify the financial risks to the state. However, advocates of this position should carefully weigh the risks against the potential benefits. Could state participation in the gasline make it happen any sooner? Would state participation dissuade corporations from putting up their own billions—private money that Alaska needs. And is it the role of government to build and operate for-profit ventures? We believe the state could best control the development of its resources by regulating their extraction and use, and

project. The lower cost of tax-exempt debt could help tip the project toward economic feasibility, and that could be a proper role for the state to take in assisting in the development of its natural resources. Even with the lower interest rate on tax-exempt debt, however, it is still possible that the companies might choose to issue their own taxable debt in order to take advantage of the federal tax benefits of owning and depreciating the line.

As it says in the cover letter to this report, there are no easy answers.