

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672

2274 SCOMM 93: HOUSE SPECIAL COMMITTEE ON OIL & GAS, 1993

House Special Committee on Oil and Gas
PROPOSED AMENDMENTS TO HB 474

- 1) PAGE 2, LINE 5** after the word "establish" insert "in the written finding"

Passed _____

Did Not Pass _____

- 2) PAGE 2, LINE 8** replace the word "nonspeculative" with the word "significant"

Passed _____

Did Not Pass _____

- 3) PAGE 2, LINE 10** after the word "limit" insert "in the written finding"

Passed _____

Did Not Pass _____

- 4) PAGE 2, LINE 12** replace the word "law" with "statutes and regulations"

Passed _____

Did Not Pass _____

- 5) PAGE 2, LINE 17** replace the word "law" with "statutes and regulations"

Passed _____

Did Not Pass _____

- 6) PAGE 2, LINE 19** replace the word "relevant" with the word "material"

Passed _____

Did Not Pass _____

7) **PAGE 2, LINE 23** after the word "limit" insert "in the written finding"

Passed _____

Did Not Pass _____

8) **PAGE 2, LINE 24** replace the word "law" with "statutes and regulations"

Passed _____

Did Not Pass _____

9) **PAGE 4, LINE 9** remove all words after "finding and that are" and insert attachment #1

Passed _____

Did Not Pass _____

10) **PAGE 4, LINE 10** omit lines 10 through 12

Passed _____

Did Not Pass _____

11) **PAGE 4, LINES 13 through 29**
remove the letters "(A)" through "(H)" and
replace with "(i)" through "(viii)"
chronologically

Passed _____

Did Not Pass _____

12) **PAGE 4, LINE 17** remove the word "nonspeculative"

Passed _____

Did Not Pass _____

13) PAGE 5, LINES 1 through 8

remove the letters "(I)" through "(K)" and
replace with "(ix)" through "(xi)"
chronologically

Passed _____

Did Not Pass _____

14) PAGE 5, LINE 10

replace "(2)" with "(3)"

Passed _____

Did Not Pass _____

15) PAGE 5, LINE 12

replace "(3)" with "(4)"

Passed _____

Did Not Pass _____

16) PAGE 5, LINE 15

remove "(a)" and the remainder of the
line

Passed _____

Did Not Pass _____

17) PAGE 5, LINES 16 through 31

remove all material and replace with
attachment #2

Passed _____

Did Not Pass _____

18) PAGE 6, LINE 1

remove lines 1 through 5

Passed _____

Did Not Pass _____

19) PAGE 6, LINE 6

replace "(c)" with "(b)"

Passed _____

Did Not Pass _____

20) PAGE 6, LINE 7

replace the first "party" with "officer or state agency" and remove the last two words of the line

Passed _____

Did Not Pass _____

21) PAGE 6, LINE 8

remove the word "responsible"

Passed _____

Did Not Pass _____

22) PAGE 6, LINE 12

after the word "project" insert the words "or phase of a project"

Passed _____

Did Not Pass _____

ATTACHMENT #1

- (A) material to the issues that were raised during the period allowed for receipt of public comment, and
- (B) within the scope of the administrative review that was established by the director under (e) (1) of this section;

and

- (2) facts that are known to the director at the time of preparation of the finding and that are
 - (A) within the scope of the administrative review that was established by the director under (e) (1) of this section, and
 - (B) material to the following matters:

ATTACHMENT #2

(a) If a use or activity is developed or authorized in discrete phases, and each phase will require agency decisions regarding permits, the office or state agency responsible for the consistency determination for a particular phase

(1) will, in its discretion, limit the consistency review to that phase if

(A) an office or state agency must carry out a subsequent consistency review before any later phase may proceed; and

(B) the office or state agency responsible has conditioned the consistency review for that phase on a requirement that any additional uses or activities authorized in any later phase be consistent with the Alaska Coastal Management Program; and

(2) shall, if the consistency review is limited pursuant to section 1 above, conduct the consistency review of the phase and make the consistency review based on

(A) applicable statutes and regulations;

(B) the facts pertaining to the uses or activities proposed for that phase that are

(i) known to the office or state agency responsible or made a part of the record during the consistency review; and

(ii) material to the consistency review; and

(C) the reasonably foreseeable, significant, direct effects of the uses or activities proposed for that phase.

Alaska State Legislature

While in Fairbanks
119 N. Cushman St.
Suite 203
Fairbanks, AK 99701
907-456-8161



While in Juneau
State Capitol
Juneau, AK 99801-1182
907-465-2327
907-465-4713

Representative Joe Sitton

MEMORANDUM

TO: Representative Joe Green, Chair
House Special Committee on Oil and Gas

FROM: Representative Joe Sitton *JS/et*

SUBJECT: House Bill 474

DATE: February 24, 1994

As you know, a death in my immediate family prevents me from being at the February 28 meeting of the House Oil and Gas Committee. However, I have asked my staff to draft this memo on my behalf with some of my concerns and comments. I would like to request that I have an opportunity to review this legislation in committee before any action is taken; House Bill 474 represents some major policy changes and this will be my only opportunity (and for some other committee members as well) to have input.

I believe that it is extremely important - in view of the public testimony which the committee has heard - to truly understand what this bill does and what its implications are. In other words, I wish for the committee to deliberate and discuss some issues and I would like to be present to ask questions and see if some of the concerns can be addressed in this committee.

As one example, I would request that the Attorney General be present to explain step-by-step exactly what happened in the litigation of Lease Sale 50, Lease Sale 55 and Lease Sale 78. I understand that the Attorney General has said that the state has never "had a lease sale invalidated." This raises the question again of whether or not this legislation is really needed.

One major question which must be asked relates to Section 1. How does the Department understand Section 1 (e)(1)(a)? Does the Department intend to adopt regulations to define the scoping etc. or will it just be a matter of the director exercising his own discretion?

Questions have also been raised about this legislation possibly placing the state out of compliance with the federal program. I wish to learn more about this. Additionally, how much money does the state receive from the federal government for the coastal zone program? What does the state stand to lose financially if we are out of compliance?

These are just some of the concerns which I believe need to be addressed - there are others - and I think it is appropriate for this to be done in the House Oil and Gas Committee.

Your attention to this request would be appreciated.

ALASKA OIL AND GAS ASSOCIATION
POSITION
ON
SB 308/HB474
ADMINISTRATIVE ACTION RELATING TO LAND

February 25, 1994

The Alaska Oil and Gas Association (AOGA) is a trade association whose member companies account for the majority of oil and gas exploration, production, transportation and marketing activities in Alaska.

AOGA supports a full analysis of all issues and concerns through the best interest finding process for each lease sale. The Association feels that the current statutes and regulations were designed to do just that.

However, ^{we are} ~~AOGA~~ is concerned by the uncertainty that has been created by recent rulings of the courts interpreting the current law.

AOGA supports certainty in the process so that DNR's scope of review can be defined during the administrative review process and not by the courts. We feel that most of the people testifying today would agree with that. The scope of the review should be defined by the administrative review process and not by the courts. The only question is how to define that scope of review.

AOGA believes that the scope of review for the best interest finding for oil and gas lease sales should cover three things.

First, through review of the information available to the Director, the director should determine those issues that should be addressed during the review.

Second, all public comments should be considered in determining what the scope of the review should be.

Third, the legislature has determined that those items listed in AS 38.05.035(g) should be a part of the scope of review.

If the Director, the public, and the legislature do not consider an issue to be of sufficient concern then the courts should not be allowed to decide it should have been covered in the best interest finding.

AOGA believes that the intent of this bill is directed at providing certainty in the scope of review.

AOGA supports SB308/HB474.

**Doyon, Limited**

Doyon Building
201 First Avenue
Fairbanks, Alaska 99701
Tel: (907) 452-4755 Fax: (907) 456-6785
Toll Free in Alaska: 1-800-478-4755

February 17, 1994

VIA FAX: (907) 465-4316

The Honorable Joe Green
Chairman
House Oil and Gas Committee
Capitol Building, Room 114
Juneau, Alaska 99811

RE: SB 308/HB 474 (oil and gas leasing)

Dear Representative Green:

We have followed closely the recent court decisions which are unnecessarily interfering with the State's oil and gas leasing program. The courts are substituting their opinions for those of the Legislature due to what they believe is a lack of legislative intent in authorizing legislation.

Passage of the above referenced legislation will provide the statutory changes needed to get the State out of endless litigation which is frustrating the purposes of the leasing program. The leasing program is an important part of the continued viability of a stable oil and gas industry in Alaska. We ask for your support.

Sincerely,

Morris Thompson
President and CEO

MT:JQM:rls

Post-It™ brand fax transmittal memo 7671 # of pages > 2	
To: <i>Spec Com O & G</i>	From: <i>Val LIO</i>
Co: <i>Oil & Gas Telon</i>	Co.
Dept: <i>HB 474</i>	Phone # <i>835-2111</i>
Fax # <i>465-4316</i>	Fax # <i>835-2017</i>

P.O. Box 1353
Valdez, AK 99686
Phone: 907-835-4300
Fax: 907-835-5679

To: Chairman Green, and members of the House Special Committee on Oil and Gas
From: Nancy R. Lethcoe, President
Date: February 28, 1994

Nancy R. Lethcoe

file
HB 474

As a business organization, AWRTA can appreciate the wishes of the Department of Natural Resources to have the legislature pass a bill that will decrease litigation costs and avoid increased unemployment. However, AWRTA believes that this bill may increase unemployment and litigation costs by giving priority to Alaska's extractive industries — timber, mining, and oil and gas — at the expense of the tourism industry which is also based on Alaska's natural resources.

We have reached this conclusion after listening to Mr. Eason's testimony before the Senate Resources and Finance committees. When questioned about the meaning of the words "direct" and "indirect," Mr. Eason explained that the fact that spills will occur is a direct effect, whereas the resource and economic damages to other industries and the natural resources on which they depend is an indirect effect. Currently, both direct and indirect effects are considered when making a written finding. ~~SB 308~~ limits findings to considering only the direct effects.
HB 474

While we appreciate the need to provide for a fair business atmosphere for the extractive industries, we ask you to consider whether it is wise to do this at the expense of the tourism and other industries based on Alaska's renewable resources. In particular, we are concerned that this change directly affects the tourism industry. As many of you know, the courts have ruled that tourism businesses do not have legal standing to recover economic damages sustained by a spill. Following the 1989 spill, tourism business operating in areas physically oiled, either went out of business completely, significantly reduced their business, or relocated to other areas. The economic effects lasted for several years. Businesses in the spill impacted areas also suffered. For example, in the years following the spill, Valdez, which was 25 miles from the oiled area, had a 40% decline in cruise ship landings. The summer of 1994 will be the first year that cruise ship landings will have equaled or exceeded the 1988-1989 level. The loss of cruise ship traffic cost Valdez tourism businesses such as gift shops and restaurants a minimum of 2 million dollars. According to the State Visitor Statistics Program, the total loss of tourism business to

Valdez in 1989 alone was \$12 million. It is, of course, true that the spill caused an economic boom in other parts of the Valdez economy, but this was at the expense of tourism businesses. None of these damages are recoverable. Prevention is the tourism industry's only protection.

Alaska needs a diversified economy. AWRTA supports laws and regulations that promote mutually compatible development of all of Alaska's industries, not the exclusive development of a few at the expense of others. We support laws that seek informed public input from all affected businesses and seek to balance the needs of competing industries without jeopardizing either one's existence. ~~SB 308~~^{HB 474} does not accomplish this. It limits the scope so narrowly that legitimate economic concerns of the tourism industry will not be considered. Actual and potential adverse economic impacts on tourism within the site and adjacent to it must be considered as it is under existing law.

AWRTA supports oil development where there are adequate safeguards to protect other industries. Good government provides those protections. The State's current Coastal Zone Management Program is working. The courts have not stopped lease sales. They have only asked the Department of Natural Resources to look at the indirect impacts and to seek ways of minimizing or mitigating adverse effects on the State's other natural resources and businesses dependent upon those resources.

AWRTA strongly opposes this bill. It is not a fair bill. It is not a just bill. It seeks to advance the profits of one segment of the state's economy at the expense of other parts of the business community. It is not a bill that is good for Alaska. Alaska needs both a strong, responsible oil industry and strong, locally owned and operated tourism, including guided sport fishing, businesses. We ask that you not support this bill.



UNITED FISHERMEN OF ALASKA

2/16/94

211 Fourth Street, Suite 112
Juneau, Alaska 99801
907/586-2820
Fax: 907/463-2545

POSITION PAPER ON HB 474 & SB 308

UFA opposes this legislation. We are not anti-development. However, this legislation attempts to ignore consideration of problems at the initial stage of projects.

The Alaska Coastal Management Program isn't broken: DNR is.

In April 1993, the Alaska Supreme Court ruled that DNR failed to adequately consider salient issues in making its best-interest finding to allow Lease Sale 50 (Camden Bay) to proceed. Sale 50 was remanded because DNR did not do its homework.

In December 1993, the Alaska Supreme Court ruled that DNR again failed to adequately consider identical issues in making its best-interest finding to allow Lease Sale 55 (Demarcation Point, ANWR) to proceed. Sale 55 was remanded because DNR did not do its homework. In fact, the Supreme Court was so astonished by DNR's sloppiness in preparing its Findings, that the court specifically pointed out in its ruling that DNR appears to have copied--without alteration--the previously rejected Sale 50 Finding in Camden Bay and tried to apply this same flawed Finding to Sale 55.

In January 1994, the State Superior Court ruled preliminarily that DNR failed to adequately consider salient issues in making its best-interest finding to allow Lease Sale 78 (Cook Inlet) to proceed. Although DNR has appealed, it is obvious, this time even at the state court level, that DNR has, once again, not done its homework.

Legislative "fixes" won't substitute for professionalism at DNR.

DNR has already asked the Legislature to change the law when the Alaska Supreme Court found that DNR made the initial consistency determination in Sale 50, rather than the Office of Management and Budget as required by law. The Legislature amended the law (AS 44.19.145(11)) to permit DNR to make consistency determinations--retroactive to Sale 50. Once again DNR is requesting legislative "fixes" for departmental incompetency. The law is not the problem.

This legislation increases federal authority on federal lands and decreases local authority on state lands.

This legislation tries to give DNR resource agency directors authority to limit the scope and number of issues that are raised during administrative review. However, because federal and state findings need to be consistent under the Coastal Zone Management

MEMBER ORGANIZATIONS

Alaska Crab Coalition • Alaska Longline Fisherman's Association • Alaska Trollers Association • Area K Seiners Association
Bering Sea Fishermen's Association • Bristol Bay Driftnetters Association • Concerned Area "M" Fishermen
Cook Inlet Aquaculture Association • Cordova District Fishermen United • Kenai Peninsula Fishermen's Association
North Pacific Fisheries Association • Northern Southeast Regional Aquaculture Association • Peninsula Marketing Association
Petersburg Vessel Owners Association • Prince William Sound Aquaculture Corporation • Seafood Producers Cooperative
Southeast Alaska Seiners Association • Southern Southeast Regional Aquaculture Association
United Cook Inlet Drift Association • Western Alaska Cooperative Marketing Association

Act, when this legislation delegates broad authority to state directors, it also delegates this same broad authority to federal directors. For example, if this legislation were enacted, the state would have far less opportunity to comment on federal findings on federal lands, such as outer continental shelf oil lease sales or Tongass timber harvests.

Similarly, by empowering DNR resource agency directors to narrow the focus of administrative reviews, this legislation also takes power away from local governments and the concerned public. This is undemocratic. The idea of concentrating control in the hands of state bureaucrats is as repulsive to local governments and people as the idea of concentrating control in the hands of federal bureaucrats is to state governments. Yet this legislation does both.

This legislation affects future timber, mining and oil projects.

This legislation gives all resource agency directors--timber, mining, oil-- power to limit the range of issues presented during administrative reviews. This concentrates power in the hands of state bureaucrats who have demonstrated their inability to make "reasoned determinations" in areas other than oil and gas lease sales. For example, the area forester determined that the visual impact from the 215,000 acre harvest in the Susitna Valley would be a "pleasing" mosaic of colors for viewers.

This legislation will increase the risk of environmentally unsound projects.

This legislation allows DNR to conduct multi-phase administrative reviews and permitting without requiring all the relevant information at the initial phase of the proposed project. This is counter to the best interests of the state, because DNR will find it difficult to slow or stop momentum once projects are initiated and developers have property interest. The lease sale buy-back situation in Bristol Bay is a perfect example. To be fair to the state, developers and the public, it is imperative that all social and environmental risks are brought to the table at the initial stage of the project.

The Alaska Supreme Court noted that "a finding... that development is economically feasible is not the same as a finding that the sale is in the State's best interests. DNR must consider the "social, cultural and environmental impacts on the state from oil production." However, the Supreme Court warned that "the more segmented an assessment of environmental hazards, the greater the risk that prior permits will compel DNR to approve later, environmentally unsound permits." Surely this is not in the state's best interests.

This bill legislates DNR's Incompetence and irresponsibility.

The Alaska Supreme Court found that "DNR is required [by law] to take a 'hard look' at the salient problems involved with a lease sale, and [it] must engage in reasoned decision making." Further, the Supreme Court ruled that DNR must "consider the probable cumulative impact of all anticipated activities which will be a part of [the project]. Instead DNR is appealing to the legislature to remove these requirements.

The problem lies with DNR's ability to meet the requirements of the Coastal Management Program, not with the program itself. The public, industry and the state deserve to discuss and resolve issues up front to ensure projects proceed responsibly and with minimal impact on other resource users and the environment.



Alaska State Legislature

Please enter into the record my testimony to the House Oil and Gas
committee name

committee on HB 474, dated February 28, 1994.
bill/subject

Mr. Chairman and Committee Members,

I strongly oppose HB 474. This bill is completely unnecessary and will only lead to future legal problems and controversy. The Alaska Coastal Management Program should not be tampered with or altered. I have several concerns.

Limiting the best interest findings to consideration of impacts on fish and wildlife only within a lease area is absurd. Air and water currents do not respect lease boundaries. Areas downstream from a hazardous spill at a mine site or poor logging practices, can definitely be adversely affected. Similarly, air emissions or an oil spill can be carried by the ocean and prevailing wind patterns to vast areas outside of a lease.

The vague terms "nonspeculative" and "direct effects" are invitations to lawsuits as the public and agencies struggle to determine their meanings and legal interpretations.

Best interest findings should not be limited to specific phases of a project. Long term and cumulative effects must be considered for any resource planning to be responsible.

Please do not pass this bill out of this committee.

Signed: Mary Forbes
Testifier

Representing (Optional)

418 Mill Bay Rd Kodiak
Address

486-2685
Phone No.

FISCAL NOTE

STATE OF ALASKA

BILL NO. HB474

1994 LEGISLATIVE SESSION

Revision Date: Original

Dept Affected: Natural Resources

Title: "An Act modifying administrative procedures and decisions by state agencies that relate to uses and dispositions..."

BRU: Resource Development

Component: All

Sponsor: House Resources Committee

Requestor: House Oil & Gas Committee

Component Serial No. All

Expenditures/Revenues

(Thousands of Dollars)

OPERATING EXPENDITURES	FY95	FY96	FY97	FY98	FY99	FY00
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
----------------------	-----	-----	-----	-----	-----	-----

CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0
------------------------	-----	-----	-----	-----	-----	-----

FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY94) cost: \$ None

POSITIONS

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS:

(Attach a separate page if necessary)

There is no anticipated fiscal impact associated with this bill in the Department of Natural Resources.

Prepared by: Jerry Gallagher, Legislative Liaison

Phone: 465-2400

Division: Commissioner's Office

Date: 15-Feb-94

Approved by Commissioner:

Harry A. Noah

Date: 15-Feb-94

Agency: Natural Resources

PREPARER TO PROVIDE INFORMATION TO GOVERNOR'S LEGISLATIVE OFFICE

(HB474.XLS Rev 2/15/94)

For use

Office

Page 1 of 1

FISCAL NOTE

FISCAL NOTE

STATE OF ALASKA
1994 LEGISLATIVE SESSION

BILL NO. HB 474

Revision Date: _____ Dept. Affected: Office of the Governor
 Title: Modifying administrative procedures and decisions BRG: Office of Management and Budget
 by State agencies that relate to uses of State land Component: Governmental Coordination
 Sponsor: House Resources Committee
 Requestor: _____ COMPONENT SERIAL NO. 0018

Expenditures/Revenues

(Thousands of Dollars)

OPERATING EXPENDITURES	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL EXPENDITURES	0	0	0	0	0	0
-----------------------------	----------	----------	----------	----------	----------	----------

CHANGE IN REVENUES ()	0	0	0	0	0	0
-------------------------------	----------	----------	----------	----------	----------	----------

FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts	0	0	0	0	0	0
1003 GF Match	0	0	0	0	0	0
1004 GF	0	0	0	0	0	0
1005 GF/Program Receipts	0	0	0	0	0	0
1006 GF/MHTIA	0	0	0	0	0	0
Other	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0

Estimate of any current year (FY94) cost: \$ 0

POSITIONS

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)

Prepared by: Paul C. Rusanowski, Director
 Division: Governmental Coordination
 Approved by Commissioner: Patrick J. Bryan
 Agency: _____

Phone: 465-3562
 Date: 2/15/94
 Date: 2-16-94

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE

COOK INLET REGION, INC.

February 28, 1994

Representative Joe Green
Chairman, House Special Oil & Gas Committee
Alaska State Legislature
State Capitol (MS 3100)
Juneau, Alaska 99801-1182

Via Faxcom to 465-4316

Dear Representative Green:

Due to a scheduling conflict I am unable to testify in person at today's Committee hearing on House Bill 474.

Attached is a copy of Cook Inlet Region, Inc.'s (CIRI) position on HB 474. I respectfully request that a copy of my testimony be provided to Committee members prior to this afternoons meeting.

In advance, I appreciate your consideration of this matter.

Thank you.

Sincerely,

COOK INLET REGION, INC.



Gerald G. Booth
Vice President
Energy and Minerals

Attachment

TESTIMONY
by: GERALD G. BOOTH
VICE PRESIDENT, ENERGY AND MINERALS
COOK INLET REGION, INC.
on HB 474
ADMINISTRATIVE ACTION RELATING TO LAND AND RESOURCES
FEBRUARY 28, 1994

Cook Inlet Region, Inc. is a Native Corporation established pursuant to the Alaska Native Claims Settlement Act (ANCSA). CIRI is one of the largest private land holders in Alaska with a land base of 924,000 acres of surface estate and over 1.6 million acres of subsurface estate.

The Company's principal line of business is natural resource development. Our strategy for growth is continued responsible development of our natural resource holdings. The development of CIRI's land and resources will play a significant role in the future economic growth and development of south-central Alaska. CIRI's success in this area will, through the 7(i) sharing provisions of ANCSA, contribute substantially to the statewide economy.

CIRI supports HB 474 in that CIRI believes that the intent of this bill is rightfully focused on providing certainty to the scope of review in the best interest finding process.

CIRI believes that current statutes and regulations are intended to provide for a full analysis of all issues and concerns through the best interest findings, however, recent rulings generated by court interpretations of the law have created uncertainty in the process.

CIRI believes that the State should establish resource development policy, not the courts. It is CIRI's position that all public comments should be a part of the scope of review and, thorough analysis of all valid, reasonably foreseeable, non-speculative information and data should be foremost in the process to determine best interest findings, thus lending certainty to the process.

CIRI further believes that there are ample opportunities for public and legislative input into issues and concerns surrounding a state lease sale. Thus, the Commissioner, should have ample discretion in the process to assure that projects are in the State's best interest and consistent with the Alaska Coastal Management Program. Because of the extreme economic interest of State oil and gas lease sales to Alaska's future, it is critical that the process maintain certainty which equates to timeliness relative to lease activities.

CIRI supports HB 474.

February 16, 1994

COOK INLET REGION, INC.

FEB 21 1994

Representative Joe Green, Chairman
House Oil and Gas Special Committee
Alaska State Legislature
State Capitol (MS 3100)
Juneau, Alaska 99801-1182

Dear Chairman Green:

This letter serves to convey Cook Inlet Region, Inc.'s (CIRI) support for House Bill 474.

It is my understanding that HB 474 is scheduled for its first hearing before the House Oil and Gas Special Committee at 5:00 p.m. today.

HB 474, as currently drafted, makes explicit the Commissioner of Natural Resources authority to limit the scope of "Best Interest Findings" to an analysis of the reasonably foreseeable non-speculative, direct efforts of leasing. I believe this tightening of the scope of such findings and ACMP determinations for leasing will enhance the state's ability to successfully conduct oil and gas lease sales.

My evaluation of HB 474 indicates that it in no way diminishes the public review process but rather enhances it by requiring that best interest and ACMP consistency be determined by valid, relevant facts rather than speculation on possible occurrences and impacts.

I respectfully request your support for HB 474 and that your committee pass the bill out with a favorable response.

Thank you.

Sincerely,

COOK INLET REGION, INC.



Gerald G. Booth
Vice President, Energy and Minerals

2/4017

LETTER OF SUPPORT

February 28, 1994
House Oil & Gas Cmte.

CONCEPTUAL AMENDMENTS TO HB 474
by Olberg by Request

Add language that puts the financial burden on the developer. Under the proposed multi-phase development, if the developer is under self imposed time restraints as far as start up is concerned and the state chooses not to address concerns and resolve conflicts during the initial administrative review, then the **developer** should proceed **at his own risk**. If the State decides later that the project must be stopped, then the State can do so without any pressure from buy back costs. The developer waives his right to recoup these costs and other investment costs when he starts a multi-phase development project.

OR

Add language that requires the lessee and state to share the financial risk in multi-phase development. Similar to the above only monies from the land disposal could be put in escrow until the last phase of the multi-phase review process. If the project is stopped, the State is under no pressure from buy-back costs; it returns the lessees monies except however for other costs incurred as a result of the land disposal (administrative, project development, lost potential, etc.) when he starts a multi-phase development.

DRAFT

8-LS1692J

CS HOUSE BILL NO. 474 (046)

IN THE LEGISLATURE OF THE STATE OF ALASKA

EIGHTEENTH LEGISLATURE - SECOND SESSION

BY THE HOUSE RESOURCES COMMITTEE

Introduced: 2/14/94

Referred: House Special Committee on Oil and Gas, Resources, Judiciary

A BILL

FOR AN ACT ENTITLED

1 "An Act modifying administrative procedures and decisions by state agencies that
2 relate to uses and dispositions of state land, property, and resources, and to the
3 interests within them, and that relate to land, property, and resources, and to
4 the interests within them, that are subject to the coastal management program;
5 and providing for an effective date."

6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

7 * Section 1. AS 38.05.035(e) is amended to read:

8 (e) Upon a written finding that the interests of the state will be best served,
9 the director may, with the consent of the commissioner, approve contracts for the sale,
10 lease, or other disposal of available land, resources, property, or interests in them, and,
11 in addition to the conditions and limitations imposed by law, may impose additional
12 conditions or limitations in the contracts as the director determines, with the consent
13 of the commissioner, will best serve the interests of the state. A written finding of

1 the director is subject to the following:

2 (1) with the consent of the commissioner and subject to the
3 director's discretion, for a specific proposed disposal of available land, resources,
4 or property, or of an interest in them, the director

5 (A) shall establish^{in the written finding}the scope of the administrative review on
6 which the director's determination is based, and the scope of the written
7 finding supporting that determination; the scope of the review and finding
8 may address only reasonably foreseeable,^{significant}[nonspeculative] direct effects of
9 the uses proposed to be authorized by the disposal;

10 (B) may limit^{in the written finding}the scope of an administrative review and
11 finding for a proposed disposal

12 (i) to the applicable^{statutes & regulations}[law] and the facts pertaining to
13 the land, resources, or property, or interest in them, that the
14 director finds are material to the determination and that are known
15 to the director or knowledge of which is made available to the
16 director during the administrative review; and

17 (ii) to issues that, based on the^{statutes & regulations}[law] and facts as
18 described in (i) of this subparagraph and on the nature of the uses
19 sought to be authorized, the director finds are^{material}[relevant] to the
20 determination of whether the proposed disposal will best serve the
21 interests of the state; and

22 (C) may, if the project for which the proposed disposal is
23 sought is a multiphased development,^{in the written finding}limit the scope of an administrative
24 review and finding for the proposed disposal to the applicable^{statutes & regulations}[law], facts,
25 and issues identified in (B)(i) and (ii) of this paragraph that pertain solely
26 to a discrete phase of the project when the only uses to be authorized by
27 the proposed disposal are part of that discrete phase, the department's
28 approval is required before the next phase of the disposal may proceed,
29 and the department conditions its approval to ensure that any additional
30 uses or activities proposed for that or any later phase of the disposal will
31 serve the best interests of the state;

1 (2) a [A] written finding for an oil and gas lease sale under
2 AS 38.05.180 is subject to (g) of this section;

3 (3) a [. A] contract for the sale, lease, or other disposal of available
4 land or an interest in land is not legally binding on the state until the commissioner
5 approves the contract but if the appraised value is not greater than \$50,000 in the case
6 of the sale of land or an interest in land, or \$5,000 in the case of the annual rental of
7 land or interest in land, the director may execute the contract without the approval of
8 the commissioner;

9 (4) before [. BEFORE] a public hearing, if held, or in any case no less
10 than 21 days before the sale, lease, or other disposal of available land, property,
11 resources, or interests in them, the director shall make available to the public a written
12 finding that, in accordance with (1) of this subsection, sets out the material facts and
13 applicable law upon which the determination that the sale, lease, or other disposal will
14 best serve the interests of the state was based; however, a [. A] written finding is not
15 required before the approval of

16 (A) [(1)] a contract for a negotiated sale authorized under
17 AS 38.05.115;

18 (B) [(2)] a lease of land for a shore fishery site under
19 AS 38.05.082;

20 (C) [(3)] a permit or other authorization revocable by the
21 commissioner;

22 (D) [(4)] a mineral claim located under AS 38.05.195;

23 (E) [(5)] a mineral lease issued under AS 38.05.205;

24 (F) [(6)] a production license issued under AS 38.05.207;

25 (G) [(7)] an exempt oil and gas sale under AS 38.05.180(d) of
26 acreage offered in a sale that was held within the previous five years if the sale
27 was subject to a written best interest finding, unless the commissioner
28 determines that new information has become available that justifies a revision
29 of the best interest finding; or

30 (H) [(8)] a lease sale under AS 38.05.180(w) of acreage offered
31 in a sale that was held within the previous five years if the sale was subject to

1 a best interest finding, unless the commissioner determines that new
2 information has become available that justifies a revision of the best interest
3 finding.

4 * Sec. 2. AS 38.05.035(g) is amended to read:

5 (g) When the director prepares a written finding required under (e) of this
6 section for an oil and gas lease sale scheduled under AS 38.05.180, the director shall
7 consider and discuss in the finding

8 (1) facts that are known to the director at the time of preparation of the
9 finding and that are material to the following matters or to the issues that are within
10 the scope of the administrative review that was established by the director under
11 (e)(1) of this section and that were raised during the period allowed for receipt of
12 public comment;

13 (i) (A) property descriptions and locations;

14 (ii) (B) the petroleum potential of the sale area, in general terms;

15 (iii) (C) fish and wildlife species and their habitats within [IN] the
16 lease sale area;

17 (iv) (D) the current and nonspeculative projected uses in the area,
18 including uses and value of fish and wildlife;

19 (v) (E) the governmental powers to regulate oil and gas exploration,
20 development, production, and transportation;

21 (vi) (F) the reasonably foreseeable cumulative effects of oil and gas
22 exploration, development, production, and transportation on the sale area,
23 including effects on subsistence uses, fish and wildlife habitat and populations
24 and their uses, and historic and cultural resources;

25 (vii) (G) lease stipulations and mitigation measures, including any
26 measures to prevent and mitigate releases of oil and hazardous substances, to
27 be included in the leases, and a discussion of the protections offered by these
28 measures;

29 (viii) (H) the method or methods most likely to be used to transport
30 oil or gas from the lease sale area, and the advantages, disadvantages, and
31 relative risks of each;

1 ~~(ix)~~ [(I)] the reasonably foreseeable nonspeculative fiscal effects of
2 the lease sale and the subsequent activity on the state and affected
3 municipalities and communities, including the explicit and implicit subsidies
4 associated with the lease sale, if any;

5 ~~(x)~~ [(J)] the reasonably foreseeable nonspeculative effects of oil and
6 gas exploration, development, production, and transportation on municipalities
7 and communities within or adjacent to the lease sale area; and

8 ~~(xi)~~ [(K)] the bidding method or methods adopted by the
9 commissioner under AS 38.05.180;

10 (3) [(2)] a summary of agency and public comments received and the
11 department's responses to those comments; and

12 (4) [(3)] the basis for the director's determination that, on balance, leasing
13 the area would be in the state's best interest.

14 * Sec. 3. AS 46.40 is amended by adding a new section to read:

15 Sec. 46.40.094. CONSISTENCY DETERMINATIONS. [(a) When a
16 consistency determination is required for a project, the party responsible for the
17 consistency determination shall conduct the consistency review of the project and make
18 a consistency determination based only on

19 (1) applicable law;

20 (2) the facts pertaining to the project that are

21 (A) known to the party responsible or made a part of the record
22 during the project's consistency review; and

23 (B) material to the project's consistency determination; and

24 (3) the reasonably foreseeable, nonspeculative, direct effects of the
25 project.

26 (b) If a consistency determination is required for a project that is a discrete
27 phase of a multiphased development project, in addition to the requirements of (a) of
28 this section, the party responsible for the consistency determination may, in its
29 discretion,

30 (1) limit the consistency determination for the proposed project to that
31 discrete phase if each later phase of the project requires the party responsible to review]

1 [and make a consistency determination before that later phase of the project may
2 proceed; and

3 (2) condition the consistency determination for that phase of the project
4 on a requirement that an additional use or activity proposed for that or any later phase
5 of the project be consistent with the Alaska coastal management program.]

6 (b) ~~(c)~~ In this section,

7 (1) ^{office or state agency} ~~party~~ responsible for the consistency determination" [or "party
8 responsible"] means

9 (A) the office of management and budget, for a consistency
10 determination required to be made under AS 44.19.145(a)(11); and

11 (B) the commissioner of the resource agency that coordinates
12 a consistency review for a proposed project ^{or phase of a project} when required by this chapter for
13 which a permit, lease, or authorization is required to be approved or issued
14 only by that resource agency;

15 (2) "resource agency" has the meaning given in AS 44.19.152.

16 * Sec. 4. This Act takes effect immediately under AS 01.10.070(c).

SCOMM

93:16

8-LS0706J ✓

Ford

2/10/94

CS FOR HOUSE CONCURRENT RESOLUTION NO. 12(O&G)**IN THE LEGISLATURE OF THE STATE OF ALASKA****EIGHTEENTH LEGISLATURE - SECOND SESSION****BY THE HOUSE SPECIAL COMMITTEE ON OIL AND GAS**

Offered:

Referred:

Sponsor(s): **REPRESENTATIVE FINKELSTEIN****A RESOLUTION****1 Relating to the use of natural gas as a motor vehicle fuel in Alaska.****2 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:****3 WHEREAS** Alaska has a large natural-gas resource base; and**4 WHEREAS** natural gas is available to approximately half of the state's population;**5 and****6 WHEREAS** most vehicles are capable of running on natural gas; and**7 WHEREAS** all major automobile, truck, and bus manufacturers in the United States
8 are building and road testing prototype natural-gas vehicles; and**9 WHEREAS** natural gas is a safe fuel that, if leaked, dissipates into the atmosphere;**10 and****11 WHEREAS** natural-gas refueling stations avoid the problem of leaking underground
12 storage tanks; and**13 WHEREAS** the federal Clean Air Act amendments of 1990 impose much tougher
14 vehicle emission standards beginning with model year 1994, and natural-gas vehicles can meet
15 most of those standards; and**16 WHEREAS** natural-gas vehicles produce significantly lower levels of harmful air
17 pollutants such as benzene than do gasoline or diesel vehicles; and

1 **WHEREAS** Anchorage is a nonattainment area for carbon monoxide, and natural-gas
2 vehicles would emit much less carbon monoxide, thus reducing the need for other attainment
3 measures such as oxygenated fuels; and

4 **WHEREAS** on a per-gallon equivalent, compressed natural gas in Alaska costs less
5 than gasoline; and

6 **WHEREAS** natural-gas vehicles require less maintenance than gasoline or diesel
7 vehicles; and

8 **WHEREAS** over 50 natural-gas vehicles currently operate within Alaska; and

9 **WHEREAS** natural gas could benefit the commercial motor carrier industry through
10 the availability of reliable, inexpensive fuel that will meet the pending low-sulphur
11 requirements of the Clean Air Act; and

12 **WHEREAS** natural gas is a proven performer in the Arctic conditions of Alaska,
13 having been in use in the North Slope Borough for more than 10 years on a year-round basis;

14 **BE IT RESOLVED** that the Alaska State Legislature supports and encourages the use
15 of natural-gas vehicles in federal, state, municipal, and private automobile, truck, and bus
16 fleets in Alaska; and be it

17 **FURTHER RESOLVED** that the Alaska State Legislature supports and encourages
18 the rapid development of a natural-gas fueling station infrastructure in Alaska; and be it

19 **FURTHER RESOLVED** that the Alaska State Legislature supports and encourages
20 the cooperative government and industry task force on natural gas vehicles.

21 **COPIES** of this resolution shall be sent to the Honorable Tom Fink, Mayor of the
22 Municipality of Anchorage; to the Honorable Don Gilman, Mayor of the Kenai Peninsula
23 Borough; to the Honorable Ernie Brannon, Mayor of the Matanuska-Susitna Borough; to the
24 Honorable John Williams, Mayor of the City of Kenai; to the Honorable George Carte, Mayor
25 of the City of Palmer; to the Honorable Ken Lancaster, Mayor of the City of Soldotna; to the
26 Honorable John Stein, Mayor of the City of Wasilla; to Mr. Jack Froiland, Acting Field Office
27 Manager, General Services Administration; to the Honorable Jerry Covey, commissioner of
28 education; to the Honorable Bruce Campbell, commissioner of transportation and public
29 facilities; to the Honorable John Sandor, commissioner of environmental conservation; to Mr.
30 R. F. Barnes, President, ENSTAR Natural Gas; to Mr. James B. Blasingame, Vice-President
31 of Corporate Affairs, Alaska Railroad Corporation; to Mr. A. L. Wright, Vice-President,
32 Mapco Alaska Petroleum, Inc.; to Mr. Louis R. Thomason, Vice-President for marketing,

WORK DRAFT

WORK DRAFT

WORK DRAFT

- 1 Tesoro Alaska Petroleum, Inc.; to Mr. Roy Lyons, Kenai regional manager, Phillips Petroleum,
- 2 Inc.; to Mr. Ray Latchem, President, Norgaso, Inc.; and to Mr. Frank Dillon, Executive
- 3 Director, Alaska Trucking Association.



Representative David Finkelstein

SPONSOR STATEMENT
HCR 12

A resolution relating to the use of natural gas as a motor vehicle fuel in Alaska.

As the nationwide drive toward alternative fuel use accelerates, Alaska's progress appears to be stalled. Yet, our huge, underused natural gas reserves can be put to very beneficial use in fueling motor vehicles, fueling our economy, and reducing pollution.

Currently, natural gas is used in Alaska for electrical generation, heating, and cooking. The resource would be more fully exploited if it were marketed to fuel the approximately 120,000 vehicles operating in southcentral Alaska, where natural gas is widely available.

Alaska's high-quality natural gas is a very viable fuel for motor vehicles. Rich in methane and high in octanes, it creates 90% less health-threatening carbon monoxide than gasoline. The persistent problems in controlling CO emissions in Anchorage and Fairbanks could be solved if more motorists there switched to natural gas.

Using natural gas as a motor fuel would help to eliminate the leaking underground storage tank problems inherent to gasoline and diesel fuels, because if natural gas leaks, it simply dissipates into the atmosphere. It produces significantly lower levels of harmful pollutants such as benzene than do gasoline and diesel vehicles.

Motorists--especially truckers--would save money by using natural gas, since it is much less expensive than gasoline or diesel, and necessitates less maintenance. Natural-gas vehicles have been in use in Alaska for many years, and employ proven technology.

Soon, federal laws will mandate alternative-fuel use and impose much stricter emission standards. It makes sense to anticipate such requirements by drawing on and developing our own rich resources.

This resolution encourages federal, state, municipal, and private fleet operators in Alaska to use natural-gas cars, trucks, and buses, and it encourages the rapid development of natural-gas fueling stations.

SPECIAL HOUSE COMMITTEE ON OIL AND GAS
JOINT PIPELINE BRIEFING
HCR-12

FEBRUARY 14, 1994

PAGES 1 THROUGH 54



1 PROCEEDINGS

2 FEBRUARY 14, 1994

3 (Tape 94-6 - Side 1)

4 CHAIRMAN GREEN: I call the Special House
5 Committee on Oil and Gas Matters together at five
6 minutes after five. We are on teleconference with
7 Anchorage and Fairbanks.

8 Can you hear us in Anchorage?

9 ANCHORAGE LIO: Anchorage hears you just fine.
10 Fairbanks has not joined the conference as yet.

11 CHAIRMAN GREEN: Is there anybody in Anchorage
12 that will be wanting to testify?

13 ANCHORAGE LIO: Mr. Ottesen is here to answer
14 questions. He is from the Department of
15 Transportation.

16 CHAIRMAN GREEN: Okay. He just wants to
17 answer questions, rather than testify?

18 ANCHORAGE LIO: If you have any of them.

19 CHAIRMAN GREEN: Okay. Thank you.

20 Well, we are going to take up House Concurrent
21 Resolution 12, natural gas as a fuel for motor vehicles
22 first, and then we will be fortunate to actually get an
23 overview from the Joint Pipeline Coordinator's Office
24 to discuss the overview, oversight of the Alyeska
25 Pipeline.

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

SPECIAL HOUSE COMMITTEE RE: OIL AND GAS (February 14, 1994)
JOINT PIPELINE BRIEFING (HCR-12)

1 So first we are going to have the -- is there
2 someone here -- okay. If you would like to come up and
3 give us a run through. Please identify yourself for
4 the record, David, and we will be off on House
5 Concurrent Resolution 12.

6 REPRESENTATIVE FINKELSTEIN: Thank you, Mr.
7 Chairman, members of the committee. My name is David
8 Finkelstein.

9 Where we left off last year was, we discussed
10 the resolution. The department and others had a number
11 of suggestions. So the CS that is before you, has a
12 couple added from that hearing that members of the
13 committee showed an interest in.

14 One of them was, "Whereas natural gas could
15 benefit the commercial motor carriage through the
16 availability of reliable inexpensive fuel, meet the
17 pending low sulphur requirements of the Clean Air Act,
18 and whereas natural gas has improved and performed the
19 arctic conditions of Alaska, having been in use in the
20 North Slope Borough for more than ten years on a year
21 round basis. And then there is some other changes made
22 that were comments from committee members, and exactly
23 who the copies of the resolution were sent to, which is
24 getting to be quite a list.

25 Other than that, the situation is basically

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

SPECIAL HOUSE COMMITTEE RE: OIL AND GAS (February 14, 1994)
JOINT PIPELINE BRIEFING (HCR-12)

1 the same. I did attend some of the meetings that the
2 state sponsored during the interim on their cooperative
3 approach in trying to advance natural gases as a fuel
4 in vehicles. I think there is a lot of optimism. I
5 just passed out an article from February 7 in the
6 Anchorage Daily News on the same subject. And other
7 than that, I would be glad to answer any questions.

8 CHAIRMAN GREEN: Are there any questions from
9 any of the committee members, for Representative
10 Finkelstein?

11 (No audible response.)

12 Do -- are there currently places that people
13 can get natural gas, if they had the conversion, in
14 Alaska.

15 REPRESENTATIVE FINKELSTEIN: There are some.
16 In Anchorage there is basically a fast fueling spot and
17 a slow fuel spot out. The conclusion of the working
18 group to date, from the meetings I attended, and the
19 minutes I've read, is that is the bottle neck of the
20 system at this point, that -- of private fleets,
21 especially, are not about to convert until they have
22 some minimum level which, I think, the Department, the
23 state views as about four -- four to five in Anchorage,
24 so that it is reasonably convenient.

25 There are other communities, though, that can

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

SPECIAL HOUSE COMMITTEE RE: OIL AND GAS (February 14, 1994)
JOINT PIPELINE BRIEFING (HCR-12)

1 operate off of just one fueling spot for the town.
2 It's just the nature of Anchorage, that is relatively
3 inefficient to travel beyond that to get to the fueling
4 spot.

5 The view of those who might be in the business
6 of selling natural gas is -- it's hard for them to make
7 the commitment without any sense that the Department is
8 going to follow through, as well as the municipality,
9 private fleets, and the federal government are going to
10 follow through, that there really will be a market out
11 there, if they make the expenditure.

12 But in all levels that is happening, there is
13 still strong support within the municipality of
14 Anchorage, at least for that one city. And on the
15 federal level, Clinton has recently imposed to a higher
16 level of expectation for natural gas vehicles in the
17 federal fleet. And from my understanding, in talking
18 to the Department of Transportation people, the private
19 fleet managers seem to be as interested as ever.

20 So I've got faith that -- and I've been fairly
21 impressed with the efforts the department has made in
22 trying to work cooperatively with industry, and sort of
23 move together, so that by the time these refueling
24 stations might be put in, there really will be enough
25 demand out there.

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

1 CHAIRMAN GREEN: Is there a preferred -- is
2 it, like, a cryogenic compartment that this gas would
3 go into and be stored as a compressed gas, or would it
4 be liquified, or...

5 REPRESENTATIVE FINKELSTEIN: I think all --
6 someone from the department could add to this, once I'm
7 finished. But I don't think they have operated any
8 liquified stations. There is a bit more technology
9 involved there. I think, generally, they unloaded, and
10 they have the transfer station, and from then on out,
11 the distribution system is just compressed gas. But,
12 they can correct me if I'm wrong.

13 CHAIRMAN GREEN: How does it compare economic
14 wise, if you had the conversion? Say, your vehicle was
15 ready to run on natural gas?

16 REPRESENTATIVE FINKELSTEIN: The range of
17 figures that I've seen, and, again, the department's
18 experience is much more relevant here -- but the range
19 of figures that I've seen is anywhere from 40 percent
20 of the cost, up to 80 or 90 percent. That it's always
21 lower per BTU, and lower -- I think BTU is the term
22 used, rather than "thermal unit." And, usually, 50 to
23 60 percent of the figures that I hear.

24 It is very efficient, and it can be argued --
25 if you have refueling available, it can be argued it's

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

SPECIAL HOUSE COMMITTEE RE: OIL AND GAS (February 14, 1994)
JOINT PIPELINE BRIEFING (HCR-12)

1 worth the investment for even each of us right now.
2 It's just the refueling station issue, that's, you
3 know, created the problem.

4 It has a variety of other benefits on the
5 engine as well. It's a more clean burning fuel. It
6 doesn't have the tendency to build up deposits.

7 CHAIRMAN GREEN: Do you suppose it would ever
8 be clean enough that you wouldn't have to have a
9 certificate inspection, if you had a gas car?

10 REPRESENTATIVE FINKELSTEIN: Well, those are a
11 lot after carbon monoxide. I don't know how we deal
12 with the particular exemption program, but I don't
13 think you get the variation you get in traditional
14 gasoline powered engines, where it's dependant on a
15 complex technology to reduce the emissions.

16 It's, you know, inherent in the engines, so
17 even the -- a more poorly tuned engine isn't going to
18 be off to the extreme. But all these things, you
19 should ask, again, the department, if they have any
20 thoughts beyond mine, because I would not pretend to be
21 an automotive expert. I can barely keep my car
22 running.

23 CHAIRMAN GREEN: Anybody else have any
24 questions for Representative Finkelstein?

25 (No audible response.)

1 Any questions from Anchorage?

2 JEFF OTTESEN (VIA ANCHORAGE): Mr. Chairman?

3 CHAIRMAN GREEN: Yes, sir.

4 JEFF OTTESEN (VIA ANCHORAGE): This is Jeff
5 Ottesen. I'm with the Department of Transportation,
6 and have been, I guess, spearheading, more or less, the
7 -- our conversion of our fleet -- partial conversion to
8 natural gas for the last few years.

9 It is interesting that your meeting is today.
10 I spent the last three days riding one of our first new
11 CNG vehicles here in Anchorage around. I drove a CNG
12 vehicle to this meeting in the last 15 minutes. And I
13 could tell you that they operate every bit as well as a
14 gasoline vehicle; you can't tell the difference.

15 To answer a couple of questions that were
16 raised. The exemption for I & M. If your vehicle is a
17 dedicated CNG vehicle, that is, it only can burn CNG,
18 yes, it can be exempt. If it's a dual fuel vehicle,
19 which is probably the most practical choice, that is a
20 vehicle that can burn either gasoline or CNG -- it's a
21 switch -- then it has to maintain the I & M, because of
22 the gasoline that is present there.

23 As far as the LNG versus CNG, that's really
24 the same chemical fuel source, it's only a matter of
25 how it is stored. Either being delivered to the

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

SPECIAL HOUSE COMMITTEE RE: OIL AND GAS (February 14, 1994)
JOINT PIPELINE BRIEFING (HCR-12)

1 refueler, or, ultimately, to the vehicle.

2 LNG is simply natural gas that has been
3 liquified. It can (indiscernible) many temperatures.

4 CNG is simply natural gas that has been
5 compressed to very high pressures, but it's not being
6 stored at cryogenic temperatures.

7 There are advantage to the LNG that we have
8 available there at Kenai, that's a very economical
9 method of transporting natural gas. It can be put in a
10 truck like gasoline. It can be carried to the
11 refueling location, beyond the range of the current
12 pipelines. To places like Fairbanks. Stored there at
13 refueler, and then loaded into automobiles or heavy
14 trucks, for ultimate use by the vehicle.

15 So I think Representative Finkelstein is
16 right. The problem now is the refueling
17 infrastructure. There is a lot of interest in fleet
18 owners here in Anchorage, from what I hear, in getting
19 into the business of having CNG. They have no place to
20 buy the gas right now.

21 CHAIRMAN GREEN: Would it be a fair
22 assumption, then, that the -- if you were going to a
23 cryogenic system, that you would have a greater range
24 than you would under compression?

25 JEFF OTTESEN (VIA ANCHORAGE): That is

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

SPECIAL HOUSE COMMITTEE RE: OIL AND GAS (February 14, 1994)
JOINT PIPELINE BRIEFING (HCR-12)

1 correct. If you go to cryogenic as your source on
2 board, that is beginning to show up more and more in
3 the commercial side of the industry. That is the -- I
4 know the bus system in Seattle has just opted to go to
5 LNG, because they get greater range than tanks.
6 Likewise, the long over-the-road carriers now, around
7 the country, are converting to natural gas.

8 But once the gas is being used by the engine
9 itself, it's the same gas as if it were stored in the
10 compressed form. The LNG is just a more dense form of
11 storage.

12 CHAIRMAN GREEN: And I guess my last questions
13 -- I don't want to monopolize the questions. But how
14 would, say, either a compressed gas, or a liquified
15 gas, be safety wise, as compared to conventional
16 gasoline?

17 JEFF OTTESEN (VIA ANCHORAGE): Well, I'm not
18 an expert, but I've listened to a lot of experts talk.
19 And my own skepticism, I think, has come full circle --
20 or, I should say, half circle. I have come from being
21 a skeptic of safety, and now believing that natural gas
22 is probably safer. And I will give you a few reasons
23 why.

24 One, the tanks, themselves, are much more
25 durable, much stronger than a conventional gasoline

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

SPECIAL HOUSE COMMITTEE RE: OIL AND GAS (February 14, 1994)
JOINT PIPELINE BRIEFING (HCR-12)

1 tank. They are capable of withstanding a high velocity
2 of rifle rounds. They are capable of being dropped off
3 a six-story building, and surviving in tact. So just
4 their durability, as compared to sheet metal, which is
5 how gasoline is stored, is much better.

6 Secondly, the fuel has a lower range of
7 ignition. The range that it will ignite, the amount of
8 gasoline versus the atmospheric conditions, has a much
9 narrower band of accountability than gasoline.

10 And then, finally, the gas, if it does have a
11 spill, you do have a break in storage, it's lighter
12 than air. It quickly dissipates and blows away.
13 Where, gasoline, being heavier than air, pools and
14 settles down.

15 But for all those reasons, it's really a safer
16 fuel.

17 CHAIRMAN GREEN: Thank you, Jeff.

18 Any questions from anyone in the audience?

19 (No audible response.)

20 What we need to do, I think, is first adopt
21 the substitute as the bill. I would entertain a motion
22 to that effect.

23 REPRESENTATIVE KOTT: Well, Mr. Chairman, I
24 wonder if I might be able to ask Jeff a question.

25 CHAIRMAN GREEN: Sure.

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

SPECIAL HOUSE COMMITTEE RE: OIL AND GAS (February 14, 1994)
JOINT PIPELINE BRIEFING (HCR-12)

1 REPRESENTATIVE KOTT: It seems to be in order
2 at this particular point in time.

3 Jeff, Representative Kott here. I just have a
4 question for you regarding the number of natural gas
5 vehicles that are currently in operation in the state
6 of Alaska. Do you have any estimate as to how many
7 those are?

8 JEFF OTTESEN (VIA ANCHORAGE): I don't have a
9 hard estimate. I think, from what I've heard at the
10 various conferences we've held, I think it's well over
11 100 now, and growing. The state fleet here is just in
12 the process of adding six to its inventory. That will
13 be our first six. We have a variety of vehicle types,
14 as well as some that are dedicated natural gas. That
15 is, that is the only fuel. We also have a Ford Taurus
16 that is a bi-fuel. Some are off the factory assembly
17 line conversions, and some are being converted --
18 after-market conversions. That is, the state has done
19 it itself.

20 So we even have these vehicles available for
21 people that are visiting Anchorage, and need to use a
22 state car for a day or three. They could be made
23 available. Give me a call there in Juneau, and I could
24 put you in touch with people that could schedule that
25 car.

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

1 REPRESENTATIVE KOTT: I would be more than
2 happy to oblige you in using one of those vehicles, as
3 long as I don't have to report it on my ethics report.

4 Those numbers that you cited, over 100, are
5 those state owned vehicles, or is that a combination of
6 public and private?

7 JEFF OTTESEN (VIA ANCHORAGE): I believe
8 that's public and private. There are people that own
9 these vehicles as individual citizens. There are
10 various businesses that are using them now. There is a
11 new coalition of public and private fleet managers here
12 in Anchorage that are just this week, I believe, going
13 to sign their resolution as -- basically, their bylaws,
14 and that includes one of the Anchorage taxi cab fleets,
15 the municipality and state fleet, and other fleet
16 owners, basically getting together and trying to work -
17 - get a teamwork environment to make this happen.

18 In the three or four days here in town that
19 I've had a vehicle, driving around, and I have been
20 stopped three times with people wanting to know what
21 this car is all about, and how does it drive. Does it
22 work? There's a lot of difference.

23 REPRESENTATIVE KOTT: Thank you for your
24 comments.

25 CHAIRMAN GREEN: Jeff, I have another comment.

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

1 This is Representative Green.

2 How does the maintenance compare on a natural
3 gas engine to a gasoline engine?

4 JEFF OTTESEN (VIA ANCHORAGE): We held a
5 conference a year ago December, where we brought fleet
6 managers from around the country here to talk about
7 that, and they all reported the same thing. The
8 engines simply burn cleaner on natural gas. It doesn't
9 put the contaminants into the oil. It doesn't foul the
10 spark plugs. You don't get the (indiscernible) on
11 valves, and that sort of thing, in the engine, or the
12 rings. They'll last a long time.

13 CHAIRMAN GREEN: Thank you.

14 Any other questions?

15 (No audible response.)

16 Okay. I would entertain a motion to adopt the
17 committee substitute.

18 REPRESENTATIVE KOTT: So moved.

19 CHAIRMAN GREEN: It's been so moved by
20 Representative Kott. Any objections?

21 (No audible response.)

22 So ordered.

23 I would now entertain a motion...

24 UNIDENTIFIED MALE: Mr. Chairman, do we have
25 anybody from the oil and gas industry in the audience

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

SPECIAL HOUSE COMMITTEE RE: OIL AND GAS (February 14, 1994)
JOINT PIPELINE BRIEFING (HCR-12)

1 that can give us an estimation as to how many natural
2 gas vehicles are currently in operation on the North
3 Slope Borough, since they've been up there for about 10
4 years or so? Any idea?

5 CHAIRMAN GREEN: I don't know whether industry
6 -- I see, we have a member, Department of Environmental
7 Conservation.

8 Do you happen to know, or have a feel for -- I
9 guess what you're really after, is just kind of an
10 approximation.

11 UNIDENTIFIED SPEAKER: Yes.

12 MEAD TREADWELL: Mr. Chairman, Mead Treadwell,
13 Deputy Commission, ADEC.

14 As I understand it, the firm NORGAS, which is
15 one of the people you are directing this to, has been
16 operating its truck fleet on the North Slope. I don't
17 know how many it is, but it's not a large fleet. My
18 guess is five to 10 vehicles at this point. There has
19 been -- there is also a source of natural gas, as you
20 know, that's not connected to Prudhoe Bay, that
21 operates in Barrow. And we had at the conference last
22 year, a representative of the North Slope Borough, and
23 I believe they had, with that gas utility, maybe three
24 to five vehicles, as well.

25 They actually -- it was kind of an interesting

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

SPECIAL HOUSE COMMITTEE RE: OIL AND GAS (February 14, 1994)
JOINT PIPELINE BRIEFING (HCR-12)

1 situation there, because the price of gasoline was far
2 more expensive than the price of natural gas, and you
3 would think that many more vehicles would have
4 converted. But the explanation given at the conference
5 was that the owners -- the people who sold gasoline had
6 a major choice in the decision of what kind of cars
7 were purchased, and that's why they stuck with
8 gasoline.

9 But the utility that controlled its own
10 vehicles, has been running on natural gas for some
11 time, and that's the gas utility fleet there. So the
12 two North Slope gas utilities have it.

13 Mr. Chairman, I had raised my hand when you
14 were asking for questions, and if Jeff is still on the
15 line, I -- perhaps a colloquy between the two
16 departments.

17 Jeff had asked me the other day what
18 additional incentives DEC might be able to come up with
19 to help on this. And as you may be aware, our state
20 implementation plan for clean air is in the Department
21 of Law right now for review. It's a 3,000 page
22 document. It's probably the weightiest set of
23 regulations ever contemplated, much less, had anything
24 to do with developing. But that's what we were
25 required to do, and that's about one-eighth the size of

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

1 Oregon's 20,000 page submission on the Clean Air Act.

2 But anyway, that is in the Department of Law
3 right now for review, and as soon as that is adopted,
4 we have the authority to trigger a mechanism that would
5 allow the Department of Transportation to use some of
6 its so-called CMAC funds to help buy a gas refueling
7 station. And if we do that, I know that -- Jeff, you
8 might want to explain the public-private partnership
9 that you have in mind that could help get some greater
10 refueling facilities in the marketplace.

11 JEFF OTTESEN (VIA ANCHORAGE): Would that be
12 appropriate?

13 CHAIRMAN GREEN: Yes, please go ahead.

14 CHAIRMAN GREEN: The notion is, we could give
15 some of our -- some of our highway funds are dedicated
16 to a purpose called CMAC, or Conjunction Mitigation/Air
17 Quality.

18 How we use that money is controlled by the
19 state implementation plan that Mead just talked about.
20 He needs to adjust this plan to make our spending, in
21 this fashion, legitimate. What then happens -- what we
22 are hoping to envision would be, some form of a joint
23 public-private partnership allowing one or more
24 stations to go in the Anchorage area, that would be
25 available to both public fleets and to private fleets.

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

SPECIAL HOUSE COMMITTEE RE: OIL AND GAS (February 14, 1994)
JOINT PIPELINE BRIEFING (HCR-12)

1 I think, just in kind of a broad brush
2 thinking proposal, or strong (indiscernible) proposal,
3 we're imagining an RFP, which would basically say, we
4 have this much money available to install the system.
5 We are looking for a private partner to come in, make
6 that installation, operate it and maintain it, and to
7 sell the natural gas automotive fuel back to the
8 state's fleet, on a long term basis, at a discounted
9 cost. So that we would recoup that investment.

10 At the same time, those (indiscernible) system
11 would be available to any other user that would care to
12 come in and get refueled.

13 CHAIRMAN GREEN: Thank you. Thank you, Mead,
14 and thank you, Jeff.

15 Representative Kott?

16 REPRESENTATIVE KOTT: Thank you, Mr. Chairman.
17 I would just call your attention to page 2, line 8,
18 where it talks about the number of natural gas vehicles
19 currently in operation within Alaska. And per the
20 testimony of Jeff, I think we can probably make this --
21 tighten it up a little more, and make it a little more
22 palatable to those who would not seemingly think it's a
23 good idea, by, perhaps, offering a friendly amendment,
24 making that number 50 to 100. Since we do have over
25 600,000 registered vehicles in the state, I think it

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

1 would add a little more thrust to the proposal.

2 I'm certainly not wanting to hold this up in
3 this committee, because it does have two additional
4 committees, plus finance, which it probably ought to be
5 away from, but -- I think it would give it a little
6 more teeth in the matter, if we substantiated the
7 number to a higher number.

8 CHAIRMAN GREEN: Do you feel comfortable with
9 that, David, that -- is that still a number that you
10 can live with?

11 REPRESENTATIVE FINKELSTEIN: Actually, Jeff's
12 view is more important. If Jeff thinks it is correct,
13 then that's more correct. I just...

14 REPRESENTATIVE KOTT: I'd offer that as a
15 friendly amendment, then.

16 THE COURT: And the sponsor has no problem
17 with that?

18 (No audible response.)

19 Anybody else have any comment on that?

20 (No audible response.)

21 You're offering that as an amendment?

22 (No audible response.)

23 Okay. That will then read, over 100 natural
24 gas vehicles.

25 REPRESENTATIVE OLBERG: Should we ask for

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

SPECIAL HOUSE COMMITTEE RE: OIL AND GAS (February 14, 1994)
JOINT PIPELINE BRIEFING (HCR-12)

1 unanimous consent?

2 CHAIRMAN GREEN: Beg your pardon?

3 REPRESENTATIVE KOTT: And I would ask
4 unanimous consent of this amendment, with no objection.
5 Don't think about it too long.

6 CHAIRMAN GREEN: Any objection to that change?

7 REPRESENTATIVE GARY DAVIS: Good observations.

8 CHAIRMAN GREEN: If not, so ordered.

9 REPRESENTATIVE KOTT: And, Mr. Chairman, I
10 make a motion, I would move this out of committee, with
11 unanimous consent, as amended, to the next committee
12 referral, which is Resources. I think this is a good
13 idea. We've ridden this horse around the corral for a
14 long time, and it's time to open the corral door and
15 let it loose.

16 CHAIRMAN GREEN: Any objection?

17 (No audible response.)

18 So ordered.

19 REPRESENTATIVE FINKELSTEIN: Thank you, sir.

20 CHAIRMAN GREEN: Yes, sir.

21 While the document is being circulated, I
22 would like to now introduce Jerry Brossia, of the
23 Pipeline Coordinator's Office, who will give us an
24 overview, and hopefully we will introduce his federal
25 counterpart, John Santora.

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

SPECIAL HOUSE COMMITTEE RE: OIL AND GAS (February 14, 1994)
JOINT PIPELINE BRIEFING (HCR-12)

1 MR. BROSSIA: Thank you, Mr. Chairman, and
2 members of the committee. I am Jerry Brossia, the
3 State Pipeline Coordinator. And with me here today is
4 my counterpart on the federal side, Mr. John Santora.
5 He is the authorized officer for the Bureau of Land
6 Management, and Rob McWhorter, of our office, is also
7 here.

8 Again, I think you recognize Mead Treadwell,
9 of the Department of Environmental Conservation, is
10 here today. And we have a couple of folks with
11 Alyeska, Paul Richards, and Mr. Rob Shoaf, that might
12 be able to answer questions.

13 First of all, I do have some prepared notes
14 here that I will hand out to anyone who wants a copy of
15 those.

16 I think sometimes, as we go through life, it's
17 hard to make my priorities your priorities. And one
18 thing I am pleased about is, you have the interest in
19 hearing a little bit about the Alyeska Pipeline.
20 Because, to me, the Alyeska Pipeline is one of the most
21 important assets that Alaska has. It represents
22 symbolically, the steel backbone of our economy. It
23 affects each and every one of us, if, for some reason
24 that pipeline were to be shut off.

25 And each year Alyeska employs 1800 people, or

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

1 so, and they have an operating budget of some half
2 billion dollars.

3 Tonight I would like to briefly talk about the
4 Joint Pipeline's Audit of Alyeska Pipeline Service
5 Company. And before I start, talk a little bit about
6 the Joint Pipeline Office.

7 It's kind of an old idea in industry to form
8 partnerships, and joint ventures, and things, but it is
9 a new idea to government. And over the last four years
10 we have formed a series of objectives to essentially
11 strengthen our relationship with state agencies and
12 federal agencies, to share resources, knowledge -- kind
13 of pull together, if you will, to work our way through
14 difficult problems.

15 Quite often the situation in government is a
16 big tug of war where we all fall in, and one sort of
17 shark, or another, in the water, to capitalize on that.

18 In this case, I believe the Joint Pipeline
19 Office is working as a team. We have a number of state
20 and federal agencies in the office. The Department of
21 Natural Resources, the Department of Labor, the
22 Department of Environmental Conservation, the
23 Department of Fish and Game, the Governor's Division of
24 Governmental Coordination is also in the office.

25 On the federal side, the key lead agency is

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

1 the Bureau of Land Management, and then the main
2 federal regulatory agencies in that office are the
3 Department of Transportation's Office of Pipeline
4 Safety, and the Environmental Protection Agency. We
5 also have a member of the U. S. Fish and Wildlife
6 Service in the office.

7 The idea of audits of the Alyeska Pipeline is
8 not new. We have, for some time, taken an in depth
9 look at a variety of problems. We've looked at various
10 weld records, we've looked at corrosion, air issues,
11 oil spill plans, and so on.

12 There are other audits that have gone on as
13 well at Alyeska Pipeline Service Company. You may have
14 recently heard that the owners conducted an audit of
15 Alyeska. And it's our intent, as well as the other
16 government agencies intent, and Alyeska, to put all of
17 the audit findings on the table, categorize them, sort
18 them, and try to work through them in one single
19 process.

20 One might ask, "Well, why do you guys do all
21 these audits?"

22 Because we had a lot of allegations. We had
23 allegations from people inside the company,
24 whistleblowers, if you will. We had allegations from
25 United States Congress, and they held hearings, as you

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

1 well know, and it essentially caused us to take a very
2 close look at the operations of the pipeline.

3 One of the main issues that you will
4 repeatedly hear are Alyeska has management problems,
5 they have quality assurance problems, and they have
6 some hardware problems. Now, what does that mean?

7 The quality assurance is essentially a way of
8 establishing what your criteria are for anything,
9 whether it's building a pipeline or any kind of a
10 product. And then setting up a series of systems, and
11 programs, and check lists, to give you some assurance
12 that the original set of specs and engineering criteria
13 are being met.

14 Now, as one increases the risk of some kind of
15 a catastrophe, be it pipeline rupture, or loss of life,
16 or something like that -- the risk. If it were to
17 increase your assurances, should essentially parallel
18 that, and there should be more assurances in a worst
19 case situation.

20 These audit findings have essentially been
21 based on what is called a "vertical slice" of the
22 pipeline. We looked at Pump Station 1, 6, 10 and the
23 Valdez Marine Terminal. We talked to almost 250
24 employees at Alyeska. We've gone through a lot of
25 records to come up with these findings.

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

1 Originally, again, at Congress' urging, we had
2 a relatively quick schedule to meet. The schedule
3 started the first of September, and we entered into
4 what we call the findings process. That was two months
5 long. It ended in early November, followed by
6 oversight committee hearings. Those oversight
7 committee hearings ended, and we issued a Phase 2
8 contract to come up with some corrective actions,
9 particularly focusing on management problems at Alyeska
10 and their quality program. Currently, we are looking
11 at solutions for the hardware problems.

12 After the corrective actions are identified,
13 then we will be going into the implementation stage.
14 And that implementation stage is going to run until
15 about December of 1994.

16 So essentially, what did we find in this
17 process. We had a number of positive effects that
18 resulted and affects safety -- worker safety,
19 particularly. The effects on pipeline integrity, from
20 vertical supports, and so on. Seismic design of
21 different issues. And we had some environmental
22 issues.

23 Now one of the main issues, I think, that
24 everyone wants to hear about is: "What are you going
25 to do," and "How are you going to fix it," and "What is

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

1 it going to cost?"

2 And I can't really give you definitive
3 answers, but I can tell you the process that we are
4 going through today. And essentially what we are doing
5 is establishing a base line on what the laws, and
6 regulations, and codes, and specs are. And that will
7 become the floor of the minimum amount that Alyeska
8 will have to do to comply with the law.

9 On the other hand, there may be some areas of
10 higher levels of standards that have to be set to
11 enhance the program at Alyeska. And we have recently
12 been going through the drill to decide what those
13 corrective actions are, based on risk and cost
14 benefits. And this phase will probably take us over
15 the next couple months, followed by essentially, again
16 -- we'll come up with the corrective action, and then
17 we will be implementing fixes, and hope to have this
18 implementation stage carried out by December of 1994.

19 The findings have been placed into three
20 different categories, again, based on risk. Class 1
21 being the most severe. They are the kind of problems
22 that break out into management, broadly, and secondly,
23 to hardware problems.

24 Alyeska has suffered, perhaps, from somewhat
25 of a construction mentality, when they should be in

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

1 more of a processing mentality, an operation mentality.
2 I think we all recognized that Alyeska is very good at
3 building pipelines, and very good at moving oil, and
4 they need to get out of a construction mentality and
5 into one of more operations oriented, safety oriented.

6 They have recognized that, and they have had
7 their own series of contractors and auditors that have
8 developed a new philosophy, if you will. Some of you
9 may have read the paper recently, and have seen the
10 article by David Pritchard, where he talks about
11 changing attitude, and I believe that's true. They are
12 changing their attitude there.

13 They are interested in having processes in
14 place that protect workers, and give you some assurance
15 that the blueprints are in place, the engineering
16 process are in place, check lists for inspectors in
17 place, and so on.

18 CHAIRMAN GREEN: Can I interrupt you just for
19 a moment.

20 MR. BROSSIA: Certainly.

21 UNIDENTIFIED MALE: As you discussed Alyeska
22 moving into the operations mentality, or safety
23 oriented mentality. It is my understanding that
24 Alyeska has one of the best safety records of any
25 industry, especially the oil industry. Is that

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

1 basically...

2 MR. BROSSIA: Oh, I think that's true. I
3 think there are things they can do to improve, but I
4 would agree with you, they have an excellent safety
5 record. And they certainly have a good record, as far
6 as keeping the oil inside the pipe.

7 The main hardware issues and big cost items
8 are going to be evolving around electrical problems.
9 And I can't tell you again what the cost would be, but
10 I can tell you, it's a substantial effort. Several
11 hundred workers will be involved with that electrical
12 repairs at the Valdez Marine Terminal, and then they
13 will follow it up through the pump station, so it is
14 going to be a substantial amount of work.

15 There are some other issues, in the way of
16 hardware issues, vertical support members, where the
17 pipe is slid over next to it. It could cause some
18 structural problems, and again we want to do a careful
19 engineering analysis of that before we just go out and
20 put new VSM's in, and do sidebars, and so on.

21 The second type of finding was called a Class
22 2 finding. Examples would be, drawings not in place.
23 Quite often electrical workers will go into boxes and
24 not know what wires are hot and what wires -- whether
25 they're color coded properly, and so on. Fire safety

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

SPECIAL HOUSE COMMITTEE RE: OIL AND GAS (February 14, 1994)
JOINT PIPELINE BRIEFING (HCR-12)

1 programs could be improved at the Valdez Marine
2 Terminal. Some of the emissions at the pump stations
3 aren't being monitored in the relief systems.

4 Class 3 findings. The kind of finding that
5 causes loss of time. Inefficient. They could beef up
6 their training program, to make sure they got the right
7 training for the right job. Alyeska does have a good
8 training program, but in some cases, the right training
9 is not completed for the right individual work.

10 Leak detection. Alyeska, again, probably has
11 a good leak detection system, but it probably can be
12 improved, and they have been working on that for the
13 last year, and they will be working on it to try to
14 improve the accuracy of it, so they could get it down
15 in probably the 1500 barrel size leak right now. It's
16 probably in the 3000 to 5000 barrel size.

17 What have we been doing about all of this? We
18 have essentially tried to verify a lot of work that
19 Alyeska has done. We have brought on a few more
20 people. We hired several consultants to give us
21 technical expertise, so that we know that we are fixing
22 -- or that Alyeska is doing the right fix, if you will,
23 and we will be looking at those fixes, or cost
24 benefits, risk and so on.

25 We stepped up our monitoring program. We

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

1 participated in five or six drills in the last six
2 months, and tried to have a more active field presence,
3 in general.

4 In the short term -- it's a bit hard to see,
5 but I think if you follow along in your handout, you
6 could -- we've got sort of a five or six point action
7 plan. We have an audit team that is essentially
8 tracking the design review of each one of these
9 findings. We will then work with Alyeska on approval
10 of the various fixes. We will have an inspection team
11 in the field that will sign off on them, and then they
12 will pass it back, in some cases, to various regulatory
13 agencies for their reviews and approvals.

14 By this time next year, we hope to be able to
15 tell congress, essentially, the status of all these
16 findings, whether they are complete, in progress, or
17 some of them may have regulatory actions that are going
18 on.

19 At this point I would like to turn it over to
20 John Santora, and John is going to talk to you a little
21 bit about the future of the office, and then I will
22 come back and be happy to answer any questions.

23 John?

24 MR. SANTORA: Thank you, Jerry.

25 Mr. Chairman, and members of the committee.

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

SPECIAL HOUSE COMMITTEE RE: OIL AND GAS (February 14, 1994)
JOINT PIPELINE BRIEFING (HCR-12)

1 My name is John Santora. I am a Bureau of Land
2 Management employee, and presently I am the authorized
3 officer for the bureau, with reference to the
4 TransAlaska Pipeline.

5 As Jerry has said to you, the TransAlaska
6 Pipeline System is a vital resource to the state of
7 Alaska, for the continued development of proven energy
8 resources within the state. It is also a vital
9 resource for the consideration of future energy
10 resources within the state of Alaska. And it is our
11 intention, within the Joint Pipeline Office, by lessons
12 earned from these audits, to ensure that the pipeline
13 system is not a contentious issue with regard to public
14 safety, worker safety, environmental compliance, and
15 system integrity, and any consideration of future
16 resource development.

17 To achieve that goal, we have taken steps to
18 focus and look at our existing monitoring program and
19 oversight of the TransAlaska Pipeline System
20 activities, and to strengthen that program, and to
21 improve it, so that we can ensure that the lessons
22 learned, as a consequence of these audits, are not
23 repeated in the future.

24 Some of the things that we have done to
25 initiate that action is, we've initiated and developed

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

1 a memorandum of agreement, which has been signed by six
2 state agencies and five federal agencies. That
3 memorandum of agreement, now, is a formalized method
4 for those people who are in policy level management
5 positions to come together quarterly to discuss areas
6 of concern and consideration, with reference to their
7 oversight and monitoring responsibilities for that
8 TransAlaska Pipeline System. That is the significant
9 step to strengthen the union that has been formed
10 between state and federal agencies, insofar as our
11 joint oversight and monitoring of the TransAlaska
12 Pipeline System.

13 We are also presently reviewing our entire
14 office structure, our organizational structure, our
15 staff composition. We are considering how we can
16 better utilize existing staff, the skill mix that we
17 need permanently within that office, and also, how we
18 can best utilize, in certain situations, consultants to
19 assist and help with very specialized issues, such as
20 seismic concerns, which are now under consideration, as
21 a result of the audit.

22 We have a very positive outlook. We've come a
23 long way in learning how to work together positively
24 and pro-actively. And it is our intention to continue
25 to improve, with the focus on ensuring that that

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

1 pipeline system can never be an issue of contention
2 regarding any future development of Alaskan resources.

3 That's all I have to say. Any questions?

4 CHAIRMAN GREEN: Any questions of either of
5 you?

6 (No audible response.)

7 When this pipeline was constructed, it was
8 kind of put up there as one of the major wonders of the
9 world. It was state of the art. Largest private
10 capital -- and all these superlatives. And for years
11 it seemed to work well. You've got an excellent safety
12 record. You've got all these things. What happened
13 two or three years ago to start this unwinding? This
14 situation with the whistleblowers, and subsequently,
15 all of the problems that you have encountered since
16 then?

17 MR. SANTORA: Mr. Chairman, let me try and
18 answer that question using an analogy, if I may. What
19 you say was true. At the time, the pipeline was a
20 state of the art facility, but it was a first of a
21 kind. That type of pipeline, in the Arctic
22 environment, and in the sub-Arctic environment, had
23 never been constructed anywhere else in the world.

24 The best engineering judgments were applied to
25 those unique new areas of consideration, such as the

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

SPECIAL HOUSE COMMITTEE RE: OIL AND GAS (February 14, 1994)
JOINT PIPELINE BRIEFING (HCR-12)

1 permafrost conditions, the discontinuous permafrost
2 conditions, the construction of an above-ground
3 pipeline, with some very unique designs for those
4 vertical support members, given what type of supporting
5 soils that they were placed in. And all of the other
6 considerations that had to be taken.

7 The tremendous Delta-T that the pipeline
8 operates at, from oil starting out at around 105
9 degrees, now probably around 100 degrees on an average,
10 down the pipeline, and the extreme winter and summer
11 temperatures. As you are well aware, we can have 90
12 degrees in Fairbanks in the summer, and we can see 40
13 below in the winter, and yet that pipe must stay within
14 an operational range, if you will, on a vertical
15 support member. All of those things.

16 But the analogy I want to draw to you is, the
17 freeways in Los Angeles were designed to the best
18 standards, using what they considered, at the time, the
19 best seismic and earthquake designs that they knew of.
20 But times have changed. Technology has improved.
21 Design methods have improved. The methods of analysis
22 of those particular structures and the stresses they
23 will be subjected to, have improved. And as we saw,
24 there was a retrofit program taken as lessons learned
25 from previous earthquakes, to strengthen those facilities.

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

1 The ones that were strengthened survived the
2 last earthquake. The ones that had been designated to
3 be strengthened, but they were unable to get to because
4 of budget and other considerations, those failed.

5 Let me suggest to you that that type of a
6 failure contributes significantly to the cost. It is
7 no longer a retrofit now, it is a total removal, which
8 is extremely expensive, and a total reconstruction,
9 which is far more expensive than a retrofit.

10 Let's look at the pipeline. There are areas
11 right now. The pipeline, as it exists, is safe. There
12 is no threat from the pipeline in the given conditions
13 we have today. But if we were to subject the pipeline
14 to its maximum design considerations for seismic, given
15 some of the lessons we've learned now, there is a
16 question with regard to certain supports and certain
17 other physical features on the line, as to whether it
18 would be prudent to strengthen those, because they do
19 not, at this time, appear to be seismically capable of
20 withstanding the accelerations that they would be
21 subjected to.

22 If we make reasoned retrofits now, and we
23 should, God forbid, have another seismic event of that
24 magnitude in the state of Alaska, I would suggest to
25 you that the remedial actions that might have to be

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

1 taken would be far less than if we left the conditions
2 as they are. Because the state of Alaska, for
3 instance, could not do well if we had to shut the
4 pipeline down as a result of some seismic event, for
5 six months, before we could repair it, as opposed to
6 maybe a month. That would be the difference.

7 Think, again, of the work that is going to
8 have to be done in the Los Angeles area because of that
9 seismic event, as opposed to the work that would have
10 been done if they had the means, and were able, within
11 a reasonable time frame, to retrofit those facilities
12 that were so severely damaged.

13 So the design, Mr. Chairman, was good. The
14 design, presently, is good for existing conditions, but
15 we have identified certain areas that need a...

16 (Tape 94-6 - Side 2)

17 MR. SANTORA:... isn't good economics.

18 CHAIRMAN GREEN: You mentioned the word
19 "costs," and that brings a real sensitive nerve to the
20 surface with the state. It's indicted that for every
21 dollar spent, the state, in fact, spends 25 percent on
22 that. What do you foresee as the cost? Can you
23 project what the cost might be, both -- and is that 25
24 cents on a dollar a reasonable figure?

25 MR. SANTORA: The 25 cents, I would have to

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

1 defer to Jerry. To answer your question about costs,
2 we just started now to get the data in regarding those
3 concerns. The QTC audit that was done by the Bureau of
4 Land Management, was a very narrow vertical slice, just
5 to look at areas, and see if there was any places where
6 there were concerns. And there were areas of concern
7 identified.

8 The owner companies have now launched their
9 independent audit. That is an all-encompassing audit.
10 It will cover all the pump stations and all facilities
11 at the Valdez Terminal, in addition to pipeline related
12 facilities, such as the valving that is up and down the
13 line, to determine what areas are of concern and need
14 to be considered.

15 Phase 2 is underway. It's not complete. To
16 try to answer your question would just be a guess.
17 And, respectfully, I won't guess.

18 CHAIRMAN GREEN: Is it big, or is it
19 reasonable?

20 MR. SANTORA: Within the order of magnitude of
21 what that facility encompassed when it was originally
22 constructed, and where it is, we intend it to be
23 reasonable. We intend it to be reasonable. They're in
24 business. That is a business. Any decisions you make
25 must be made with a sense of business. You just don't

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

1 spend money without considering the consequences of
2 that investment that you are making, and how it will
3 effect your business. If you don't do that, you are
4 going to be out of business, and we do not want to see
5 the pipeline company out of business. It is, again, a
6 very vital resource to this state, and its future.

7 CHAIRMAN GREEN: Well, where I was kind of
8 going with this, and -- if the federal mandates, which
9 -- yeah, it supplies oil to the United States --
10 perhaps the federal view of what might be necessary
11 could vary with what perhaps the Pipeline Coordinator's
12 Office might find, especially considering the fact of
13 how vitally the throughput of the Alyeska line is to
14 the state of Alaska. Proportionately significantly
15 more important to Alaska than it is to the federal
16 government.

17 MR. BROSSIA: I would like to try to answer
18 something. My answer is a bit different than John's,
19 on how did the situation get to where it is, in light
20 of the original construction project.

21 And my analogy is an airplane. And you can
22 fly that airplane as long as you want to maintain it,
23 and that's the way the TransAlaska Pipeline System is
24 going to be made. And several years ago the
25 administration made the decision that we wanted the

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

1 pipeline maintained at its maximum design capacity. So
2 that means the airplane can be 30 years old, or it can
3 be 50 years old, but it is maintained properly.

4 Now, why did we get to where we are with the
5 rush of construction, and the intensity of
6 construction. A lot of things to run an operating
7 pipeline were never done. The as-built drawings
8 weren't completed. A good operating pipeline has,
9 essentially, what is called an equipment list, or a Q
10 list, if you read this report. And a Q list is nothing
11 more than a list of all the components that make up
12 that system, from pumps and wires, and stacks, et
13 cetera. And each one of those pieces, then, are
14 entered into a predictive maintenance list. And those
15 predictive models, then, can tell you, compliance
16 checks, maintenance schedules, life cycle of components
17 and parts, and so on. And those processes were never
18 put in place. And as one maintains this old airplane,
19 it becomes very important to know which pumps and which
20 parts, et cetera, need to be maintained if you are
21 going to keep the thing running for a long time.

22 So I think Alyeska -- you should ask this
23 question of Mr. Shoaf -- I think Alyeska has bought
24 into the idea of these management processes, equipment
25 lists, and predictive maintenance models, and field

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

SPECIAL HOUSE COMMITTEE RE: OIL AND GAS (February 14, 1994)
JOINT PIPELINE BRIEFING (HCR-12)

1 checks, and as-builts, and so on, because they want to
2 maintain it, too. They have a hope. And after the
3 throughput declined in 1988, from 2.1, it's been going
4 down, and they don't want it to go down, and their
5 attitude should not have that kind of decline to it,
6 also. So they want to maintain it. They want to do a
7 good job. And the same hope that the state has, and
8 that's to bring future oil to market. So we can't get
9 there from here if we don't maintain it, is the short
10 list.

11 As far as the 25 cents, I'm not sure it is
12 precisely 25 percent, it might be 23 percent. It's
13 really a question for the Department of Law, and they
14 regulate the tariff under, I believe, Alaska Statute
15 41. But the concept is, the well head value of the oil
16 is an average of west coast, east coast, and I'm not
17 sure what else is in that basket that makes up the
18 total spot price. But the well head is a total spot,
19 minus cleaning and hydras costs at the field, minus
20 transportation costs. And that deducts down to the
21 well head value of oil.

22 So, yes, Alaska loses money as the tariff goes
23 up, the well head value comes down. As well as in the
24 taxation side of things. And I, quite frankly, don't
25 know the details of how, as the expenses goes up, that

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

1 affects the tax. But in theory, those two combined,
2 come up to about a loss to the state in revenues of 23
3 to 25 percent.

4 The ultimate decision maker in those areas,
5 would be the Federal Energy Regulatory Commission.
6 Alaska disputed the additional costs several years ago
7 for corrosion repairs. It is my understanding that we
8 would dispute any unreasonable costs in this operation.
9 So, again, I can sit here and say, "We don't want to
10 pay, but we want it fixed." And the ultimate judge on
11 that will be the Federal Energy Regulatory Commission.

12 CHAIRMAN GREEN: I think you answered a
13 question I was going to ask, that the state has about
14 12.5 percent of royalty, and yet pays about 25 percent
15 -- or, would lose 25 percent. It's through the tax
16 portion that makes that balance?

17 MR. BROSSIA: That is my understanding, and
18 that is a Department of Revenue question.

19 CHAIRMAN GREEN: Sure. Okay. You used an
20 airplane as an example. Now, we've got this 747 in
21 Alaska. How does the oversight of that 747 compare
22 with, maybe, a 727 or a Piper Cub, and the other little
23 planes that are out there? I mean, there is pipelines
24 all over the Lower 48. Do they have anything near this
25 kind of scrutiny?

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

SPECIAL HOUSE COMMITTEE RE: OIL AND GAS (February 14, 1994)
JOINT PIPELINE BRIEFING (HCR-12)

1 MR. SANTORA: No. It's my understanding that
2 the Office of Pipeline Safety, which is the main
3 regulator of pipelines in the United States, has about
4 175,000 miles of liquid pipe in the Lower 48, and about
5 3 million miles of gas pipes. And there is no pipeline
6 in the United States that receives the intense scrutiny
7 of this pipeline. And there is no other pipeline that
8 has developed some of the technologies that are used on
9 this pipeline, in the way of smart pigging, and devices
10 to look for corrosion, and so on.

11 So the short answer is, no. There is no other
12 pipeline that I know, that has the scrutiny.

13 CHAIRMAN GREEN: Is that just because of the
14 volume that's handled?

15 MR. SANTORA: That is the answer that has been
16 given. Twenty-five percent of the nation's domestic
17 crude, as you know, flows through that pipeline, and
18 because of it, it has a national security interest, and
19 the government has decided that it needs more scrutiny.

20 CHAIRMAN GREEN: If you didn't have this Joint
21 Pipeline oversight group, what do you think the
22 government might do?

23 MR. BROSSIA: Well, first of all, there would
24 be as many as eight, or 10, or 12 different agencies
25 looking at the pipeline. And one of the topics that

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

SPECIAL HOUSE COMMITTEE RE: OIL AND GAS (February 14, 1994)
JOINT PIPELINE BRIEFING (HCR-12)

1 have been addressed under the proposed Presidential
2 Task Force, is new legislation. So I guess, if we did
3 not have the Joint Pipeline Office, the biggest
4 potential would be for new federal legislation to
5 create an oversight group.

6 CHAIRMAN GREEN: So it is definitely to our
7 advantage -- "our," being the state's advantage, to
8 have what we've got in place?

9 MR. BROSSIA: I believe so, yes.

10 John, do you want to elaborate on that?

11 MR. SANTORA: No. I would have to agree with
12 Jerry's assessment.

13 One of the criticisms that, in the past,
14 before we had the Joint Pipeline Office, that was
15 levelled, was that we were a splintered group of
16 various regulatory and oversight agencies, and that we
17 did not coordinate our activities at all, therefore, we
18 were not as effective, or, in some people's eyes,
19 ineffective in achieving the expected oversight of the
20 TransAlaska Pipeline System.

21 Being aware of that concern, we -- Jerry and I
22 proposed, and were successful in starting to develop
23 the concept of a Joint Pipeline Office. I have to
24 suggest to you, I don't think there is another one
25 anywhere in the United States, where the state and the

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

1 federal government have been able to cooperate on a
2 pro-active basis, with regard to a facility of the
3 complexity and magnitude of the TransAlaska Pipeline.

4 And I would agree with you, Mr. Chairman, I
5 think it is in everyone's interest, that we make that
6 type of an arrangement successful and work.

7 CHAIRMAN GREEN: Let the record reflect that
8 Representative Sanders got here about 10 minutes to
9 6:00, or 5:00, or something like that.

10 REPRESENTATIVE SANDERS: Ten minutes to 5:00
11 is better.

12 CHAIRMAN GREEN: Sorry. Yes.

13 REPRESENTATIVE SANDERS: No, it was about ten
14 minutes to 6:00.

15 UNIDENTIFIED MALE: Is it 10 minutes to 6:00
16 or 5:00?

17 CHAIRMAN GREEN: Ten or five minutes to 6:00
18 is what I meant.

19 If there is a difference of opinion on
20 expenditures, as you had indicated, Jerry, there could
21 be, is there an authoritative structure within the
22 oversight committee?

23 MR. BROSSIA: What we hope to do -- right now
24 John and I are the same size dog. He takes as big a
25 bite out of me as I do out of him. So, to resolve that

1 issue, we created this memorandum of understanding with
2 the state and federal government, and it would be
3 elevated up to cabinet level on the state side, and a
4 number of the federal heads on the federal side, and
5 they would argue it out.

6 I don't foresee that happening, quite frankly,
7 because, we have a lot of arguments. I wouldn't say we
8 didn't, but usually we have been able to work
9 everything out in the last four years. And sometimes
10 it takes a while. But we have reached an agreement in
11 the past with this process on one oil spill program,
12 one corrosion program. Those are two very big
13 programs.

14 So I would anticipate amicable agreement on
15 corrective actions. But in the event that we can't, we
16 have set an elevation process up.

17 MR. SANTORA: I would like to add to Jerry's
18 view, that with the memorandum agreement, and the fact
19 that we have these policy level people who have signed
20 on that agreement, which is an intent to work together
21 cooperatively and pro-actively. You would not see a
22 unilateral decision made. There would be a vehicle,
23 and there is a vehicle for discussion. And I,
24 personally, would urge your strong support of the
25 continuation of that agreement, and a participation of

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

SPECIAL HOUSE COMMITTEE RE: OIL AND GAS (February 14, 1994)
JOINT PIPELINE BRIEFING (HCR-12)

1 those policy level people in that agreement. I think
2 it's to everyone's interest, because it is the first
3 time for that office, we had that kind of vehicle where
4 we could bring those folks together and we can discuss
5 areas of concern, and there will be no unilateral
6 decisions made. They must be discussed. I think it
7 is to everyone's advantage to do that.

8 CHAIRMAN GREEN: Now, at the Dingell hearings
9 back in Washington, the owners -- at least three of the
10 owners -- the bulk of the owners, in other words -- the
11 majority ownership -- that's better -- was very
12 cooperative and indicated that they were going to do
13 everything reasonably in their power to cooperate.
14 Have you found that with your oversight, that you sense
15 that same feeling of cooperation of the owners?

16 MR. BROSSIA: Yes.

17 MR. SANTORA: I would support that.

18 CHAIRMAN GREEN: Now there were some
19 allegations that there was corrosion in the pipeline,
20 and there was, you know, the news media about the
21 stress situations in Atigun Pass. Is it your feeling
22 that those issues are being -- because you indicated
23 there wasn't any. The pipeline is safe. There isn't
24 any immediate danger. Those issues, to your
25 satisfaction, are being handled?

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

SPECIAL HOUSE COMMITTEE RE: OIL AND GAS (February 14, 1994)
JOINT PIPELINE BRIEFING (HCR-12)

1 MR. SANTORA: As you, I think, are aware,
2 eight and a half miles of the pipe was replaced at
3 Atigun Pass. Alyeska has an annual program to inspect
4 the pipe in several different ways, for corrosion. We
5 are a part of that program, and we believe that we have
6 a very good understanding of where corrosion is on the
7 pipe, how severe it is, and we're moving towards
8 remedial repairs, in a very cooperative way, with
9 Alyeska right now. That is the entire office, both the
10 regulators within the office, as well as the right-of-
11 way agency. So I believe we are working cooperatively
12 to resolve corrosion.

13 Now, that's not to say that there is not
14 corrosion of the pipe. But, at this point in time, we
15 don't know of any corrosion that presents a safety
16 related problem.

17 CHAIRMAN GREEN: And the last question I would
18 have is, sometime toward the end of last year -- maybe
19 a little earlier than that, even, but certainly toward
20 the end of last year, there were some problems
21 developed with the remote sensing valves, the safety
22 valves. And it appeared, in some cases, that that was
23 not just a natural phenomena. I haven't heard anything
24 more. Was that just a happenstance? Do you feel there
25 was, maybe, disgruntled employee, or whatever? That's

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

1 not a concern safety wise?

2 MR. BROSSIA: It is a safety issue, and there
3 are about 160 valves on the pipeline. About a third of
4 those are what you refer to as "remote gate valves,"
5 and they are essentially operable out of the Valdez
6 Marine Terminal.

7 The reason that the valves exist, of course,
8 is they have a systematic and orderly shutdown of the
9 pipe. If one were just to cut the flow off, you could
10 create a hammer, like, you get in your water faucet,
11 and you could literally blow the pipe out of the water
12 and rupture it. So it's important to essentially
13 control the orderly shutdown of the pipeline.

14 Several things have happened: Alyeska did a
15 trend analysis. They had several of those motors and
16 valving regulating devices that did age, needed
17 maintenance, needed repairs. And I think they found
18 some 30 or 40 valves that needed upgrades, and they
19 worked on that.

20 Secondly, they also put a new gearing device
21 into those motors to close them slowly, so that they
22 can't shut down in four minutes. They are now going to
23 close in eight. So that they are taking that
24 precaution.

25 And, thirdly, they are going to renovate the

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

SPECIAL HOUSE COMMITTEE RE: OIL AND GAS (February 14, 1994)
JOINT PIPELINE BRIEFING (HCR-12)

1 whole communication control system. I can't really
2 talk to the details of that, but I know that an RFP
3 will be going out in the near future to upgrade the
4 telecommunications system.

5 CHAIRMAN GREEN: One other question I might
6 have for Mr. Santora. Recently the BLM director has
7 left his office. What is the plan there, as far as his
8 replacement, and his working with this whole process?

9 MR. SANTORA: A gentleman by the name of Mr.
10 Mike Donbeck (ph) has been designated by the secretary,
11 to be the acting director. It is my guess that we will
12 not see a permanent replacement until sometime,
13 probably, the end of August or first of September.
14 It's an appointed position, appointed by the president,
15 with concurrence of the senate. And it looks like now,
16 it probably won't happen until late in the summer, but
17 you can always be fooled.

18 CHAIRMAN GREEN: Are there any other questions
19 about the -- yes?

20 REPRESENTATIVE GARY DAVIS: Mr. Chairman,
21 thank you.

22 Every project that is built, and probably
23 every piece of machinery that is built, has a somewhat
24 life expectancy and a maintenance plan to it. Is all
25 that still in place, or is the life expectancy of the

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

SPECIAL HOUSE COMMITTEE RE: OIL AND GAS (February 14, 1994)
JOINT PIPELINE BRIEFING (HCR-12)

1 pipeline, quantities of flow, major maintenance
2 problems that were assumed to happen. Is there any
3 major hits anyplace? Of course, if there is,
4 hopefully, more opportunity or more oil finds on the
5 Slope, to maybe double the expected life of the
6 pipeline or the facility, if that should happen. Is
7 that part of any plan now to, how to accept that and
8 prepare for it? See how optimistic I am.

9 CHAIRMAN GREEN: Good man.

10 MR. SANTORA: I think you are actually -- I
11 heard at least three or four questions there. Starting
12 with the last one first. I think that Alyeska is, and
13 the owner companies are thinking about a future plan
14 for TAPS. I can't tell you what that future plan is.
15 I can be hopeful, as you are, of what it might be, but
16 it's something you maybe more appropriately, should ask
17 Mr. Shoaf.

18 But as far as, are there any hits, I think,
19 from the State's perspective, the only real hit we
20 thought would be under better control, would be the
21 corrosion.

22 When the pipeline was originally built, we
23 thought that it had an adequate coating, and then they
24 put a tape on it, and then they put a cathodic
25 protection. We thought that would be good enough.

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

1 So if there was any hit or surprise, it came
2 in the area of corrosion, which there has been a fairly
3 significant amount of money, probably 400 or 500
4 million had been spent on that in the last few years,
5 and that's a number out of the newspaper, so I'm not
6 sure how accurate it is.

7 It has been a substantial number, and there is
8 still a fair amount of work to be done over the next
9 five years or so. But I think most of the corrosion is
10 now under control, but that's the main hit.

11 As far as the future plan, you might want to
12 ask Mr. Shoaf.

13 CHAIRMAN GREEN: Please join us.

14 MR. SHOAF: My name is Rob Shoaf. I work for
15 Alyeska in Anchorage. I've been working recently on
16 some of the audit processes that Jerry and John have
17 described to you. Just to answer that one question.

18 As Jerry said earlier, we are trying to
19 maintain the system, so it could transport all the
20 available oil. And as John said, we would like to
21 maintain the system, so that it is not an issue in
22 decisions about what oil is available to transport.

23 What that means in practical terms is, we do
24 have programs for maintenance of the pipeline itself,
25 and of the systems that move the oil through the

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

1 pipeline. They are designed to provide a high degree
2 of reliability. But for the current levels of
3 throughput, which are around 1.7 million barrels a day,
4 but also with the maximum established capacity of the
5 system, which was 2.1 million barrels per day.

6 Obviously, in the future we have to continue
7 to look at that, and we talked to the state about it,
8 but at the moment, that's what we are doing.

9 CHAIRMAN GREEN: I know with a car, if you got
10 this new car and it's pretty resistant to any kind of
11 corrosion, then you begin to get little pits. It seems
12 like the corrosion, then, accentuates the --
13 accelerates, perhaps, is a better word.

14 You feel that you've got the corrosion in the
15 pipeline under control. Is this through a treatment.
16 Is it cathodic protection, or corrosion inhibitors that
17 go in the oil, or...

18 MR. SHOAF: Well, I'll start and then Jerry
19 can supplement it, from his perspective. But we really
20 approach the problem from two perspectives. The
21 corrosion on the mainline pipe itself is external. We
22 have coatings on the pipe where it is below ground, to
23 try to minimize the potential fork erosion, and that is
24 supplemented by a cathodic protection system, which is
25 intended to avoid the processes of corrosion itself.

H & M Court Reporting, Inc. • 1843 Scenic Way • Anchorage, Alaska 99501
(907) 274-5661 • Fax (907) 277-3992

SPECIAL HOUSE COMMITTEE RE: OIL AND GAS (February 14, 1994)
JOINT PIPELINE BRIEFING (HCR-12)