

ALASKA LEGISLATURE COMMITTEE FILES, 2003-2004 8672

10966 HOUSE RESOURCES

Cenaliulriit CRSA

Serving the Yukon-Kuskokwim Delta
PO Box 69, Mekoryuk, AK 99630 / 907-827-8748

To the Honorable 23rd Legislature:

Subject: House Bill 143 – Alaska Coastal Management Program

Cenaliulriit Coastal Resource Service Area serves 35,168 square miles of the Yukon-Kuskokwim Delta, the largest refuge in Alaska, comprising 8,993 miles of shoreline, with 39 listed communities. Cenaliulriit has a history dating back to the early 1980's, and is one of the first Coastal Management Plans since 1985.

Cenaliulriit numbers the largest dependents, on a daily basis, to fish and wildlife, than any other part of the State of Alaska. Cenaliulriit has worked hard over the last 18 years to provide program improvement and opportunity of village participation and successful permitting. And to help the permitting process, the program is in its final year of mapping Customary Use Areas of fish and wildlife resources. The preliminary data indicate wide-ranging areas of overlap between villages, in all areas of coastal waters, inland rivers, fresh water areas, headwaters and land mass.

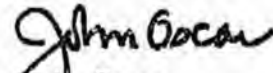
In the Cenaliulriit district, mining operations have not stopped, local infrastructure improvement continues, water and sewer, road, new facilities, and upgrade of bulk fuel facilities, airport improvements, and erosion control, to name a few and operating and permitting successfully.

The Association of Village Council presidents serving 56 villages passed a resolution at their mid-year annual convention requesting the legislature to oppose House Bill 191 and Senate Bill 143. The delegates of the convention were not aware of these new bills and very concerned that it eliminates a concerted effort to provide meaningful opportunity to participate in permitting. The delegates convey that fish and wildlife do not honor postage stamp municipal boundaries.

These bills require proper input from villages that are impacted by this new proposed process under the Department of Natural Resources. We honorably request the legislature to allow for meaningful review and opportunity for communities to assess the proposed changes to the Alaska Coastal Management Program.

Thank you for this opportunity to comment,

Respectfully,


John Oscar
Program Director

HB

192

FRANK H. MURKOWSKI
GOVERNOR
GOVERNOR@GOV.STATE.AK.US



HB192

P.O. Box 110001
JUNEAU, ALASKA 99811-0001
(907) 465-3500
FAX (907) 465-3532
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STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

March 11, 2003

The Honorable Pete Kott
Speaker of the House
Alaska State Legislature
State Capitol, Room 208
Juneau, AK 99801-1182

Dear Speaker Kott:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill designating the Department of Natural Resources (DNR) as the lead state agency in the permitting of resource development projects in this state.

The purpose of this bill is to facilitate and expedite resource development in Alaska. In recent years, the laws governing resource development have proliferated, and there are now more agencies than ever with permitting authority over large projects. Resource development should not be held up by the sheer complexity of government. This bill is intended to alleviate that problem.

This bill would authorize the DNR to lead and coordinate the permitting activities of all agencies with jurisdiction over the project and would repeal existing statutes in AS 46.35 regarding permit coordination. The result of the DNR's efforts as lead agency will be better communication, more efficient permitting, consolidated public process, and stable funding for the state's permitting process.

The repeal of the AS 46.35 provisions necessitates the relocation of unrelated language, specific to Department of Environmental Conservation permit decisions, to more appropriate locations in AS 46.03 and AS 46.04, as set out in secs. 2 and 3 of the bill.

I urge your prompt and favorable action on this measure.

Sincerely,

A handwritten signature in black ink that reads "Frank H. Murkowski".
Frank H. Murkowski
Governor

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES
OFFICE OF THE COMMISSIONER

FRANK H. MURKOWSKI, GOVERNOR

- 400 WILLOUGHBY AVENUE
JUNEAU, ALASKA 99801-1796
PHONE: (907) 465-2400
FAX: (907) 465-3886
- 550 WEST 7TH AVENUE, SUITE 1400
ANCHORAGE, ALASKA 99501-3650
PHONE: (907) 269-8431
FAX: (907) 269-8918

April 9, 2003

The Honorable Hugh Fate, Chair
House Resource Committee
Alaska State Legislature
State Capitol, Room 124
Juneau, AK 99801

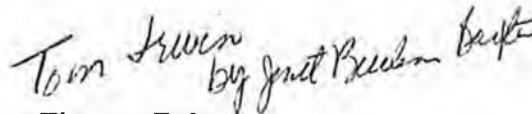
Dear Representative Fate:

I am writing to request a hearing next week for HB 192, an act designating the Department of Natural Resources (DNR) as lead agency for resource development projects. This bill would amend AS 38.05.020(b) to specifically allow DNR to lead and coordinate resource development projects.

Currently DNR is the lead for mining projects. This bill would formally authorize DNR to lead and coordinate the permitting activities of all agencies with jurisdiction over all resource development projects. It also repeals existing statutes in AS 46.35 regarding permit coordination.

Thank you for your consideration. I have also enclosed a copy of the Governor's transmittal letter and a sectional analysis. Please contact Janet Burleson Baxter at (907) 465-4730 if have any questions. You may also contact Dick LeFebvre, Deputy Commissioner of DNR at (907) 269-8432.

Sincerely,



Thomas E. Irwin
Commissioner

Enclosure

FRANK H. MURKOWSKI
GOVERNOR

GOVERNOR@GOV.STATE.AK.US



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

HB 192
P.O. Box 110001
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This bill would authorize the DNR to lead and coordinate the permitting activities of all agencies with jurisdiction over the project and would repeal existing statutes in AS 46.35 regarding permit coordination. The result of the DNR's efforts as lead agency will be better communication, more efficient permitting, consolidated public process, and stable funding for the state's permitting process.

The repeal of the AS 46.35 provisions necessitates the relocation of unrelated language, specific to Department of Environmental Conservation permit decisions, to more appropriate locations in AS 46.03 and AS 46.04, as set out in secs. 2 and 3 of the bill.

I urge your prompt and favorable action on this measure.

Sincerely,

Handwritten signature of Frank H. Murkowski in cursive script.
Frank H. Murkowski
Governor

SB 142/ HB 192

Sectional Analysis

8 April, 2003

Sec. 1 -

This section is simple and self-explanatory.

Sec. 2 & Sec. 3 -

These two sections preserve, rather than change, current law. One of the current statutes to be deleted under Sec. 4, AS 46.35.090, includes this same exemption of ADEC permit decisions from the APA hearing procedures. *See* AS 46.35.090 (e). Sections 3 and 4 of this bill simply transplant that provision to AS 46.03 and AS 46.04, respectively. Detailed procedures governing ADEC's hearings are set out at 18 AAC 15.195 *et seq.*

Sec. 4 -

This section repeals almost all of the current Environmental Procedures Coordination Act, AS 46.35. Enacted in 1977, that Act gave ADEC the role of coordinating the state's authorization of projects requiring multiple permits from different agencies. However, in practice, the Act has seen little or no use. This bill would repeal that Act to reflect that DNR, rather than DEC, should assume the lead agency role. This section also deletes two other provisions in existing law that reference AS 46.35.

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: 1
 Bill Version: HB 192
 (H) Publish Date: 3/12/03

Revision Date/Time (Note if correction): _____ Dept. Affected: Natural Resources
 Title: Designating Dept. of Natural Resources as BRU Resource Development
lead agency for resource development projects Component Development Special Projects
 Sponsor: Rules
 Requester: Governor Component No. 2039

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2003) cost: 36.2

Check this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: *(Attach a separate page if necessary)*

Funding for this legislation is included in the FY04 Governor's operating budget request. Under this legislation, DNR will establish an Office of Project Management and Permitting. This office will lead and coordinate all matters relating to the state's review and authorization of resource development projects. The purpose of the office is to facilitate and expedite resource development of large projects by coordinating and streamlining the permitting activities of all state agencies with authority over a project. To accomplish this DNR is requesting funding to establish the office and develop the program base for an on-going program. DNR is requesting five positions that will serve as project managers and coordinators.

Prepared by: Dick LeFebvre, Deputy Commissioner Phone 269-8427
 Division: Commissioner's Office Date/Time 3/11/2003
 Approved by: Tom Irwin, Commissioner Date 3/11/2003
 Agency: Natural Resources

FISCAL NOTE #1

**STATE OF ALASKA
2003 LEGISLATIVE SESSION**

BILL NO. HB 192

ANALYSIS CONTINUATION

These positions will be responsible for negotiating agreements and managing the overall state project review and permitting activities of all agencies with jurisdiction over a project. These positions will work with other state and federal agencies and local government to facilitate review and permitting.

Funding for the remainder of FY03 (May and June) is requested in the amount of \$36.2. This allows DNR to establish two of the requested positions to get the office started and begin the effort of streamlining the permitting process. Position costs are estimated at \$7.8/month per position for a total of \$31.2. Additional start up costs for space and computers are estimated at \$5.0.

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB 192
 () Publish Date: _____

Revision Date/Time (Note if correction):
 Title DNR lead for Resource Development Projects

Dept. Affected: DEC
 BHU Administrative Services
 Component Office of the Commissioner

Sponsor Rules
 Requester House Resources

Component No. 633

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
-------------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2003) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This bill will have no fiscal impact on the department.

Prepared by: Mary Siroky, Legislative Liaison
 Division Statewide Public Services
 Approved by: Kurt Fredriksson, Deputy Commissioner
 Agency Department of Environmental Conservation

Phone 465-5355
 Date/Time 4/14/03 11:18 AM
 Date 4/14/2003

HB

1966

Sponsor: Representative Ethan Berkowitz

SPONSOR STATEMENT

House Bill 196

“An Act relating to carbon sequestration; and providing for an effective date.”

This bill provides the basis for Alaska's participation in the growing global market for carbon sequestration credits – a market that could provide the state upwards of \$450 million in revenue (based on extrapolations from current trading).

Carbon sequestration is the use of measures that increase the retention of carbon in the land or the oceans with the effect of offsetting carbon dioxide emissions from other sources. In order to offset carbon production, carbon producers can use carbon sequestration measures as a mitigation method. These measures translate into credits. Consequently, a new commodity market has evolved.

The bill responds to increased interest in slowing or reducing the levels of carbon dioxide and other greenhouse gases in the atmosphere. International agreements such as the Kyoto Protocol establish a limit on the amount of carbon that can be emitted into the atmosphere. Even if the U.S. does not sign the Protocol, in order to conduct business with signatory countries, U.S. companies will need to either reduce their carbon emissions below the baseline established in the Kyoto Protocol or obtain carbon sequestration credits to offset the amount that exceeds the established level.

Agricultural, forest and soil management practices and restoration of degraded habitat and wetlands have the potential to increase carbon sequestration on land. With Alaska's large land base and forested areas, the state could substantially profit from carbon sequestration credit trading.

The state must answer many questions before Alaska can enter the carbon credit market. This bill directs the Commissioner of the Department of Natural Resources to investigate and report to the legislature on the potential and the means for the state's participation. An advisory committee is established to assist the commissioner in developing the report. The process is modeled on legislation enacted in Idaho and Nebraska.

Though the carbon credit market is growing, it is a limited market. If Alaska fails to prepare now, we may miss this unique opportunity - and miss out on millions in revenue.

For more information:

http://www.fe.doe.gov/coal_power/sequestration/sequestration_terrestrial.shtml

<http://www.carbon.unl.edu/carbunde.htm>

Alaska State Legislature

House of Representatives Minority Leader

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1-888-465-4919 (toll free)
1-907-465-2137 (fax)

Interim address:
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Anchorage, Alaska 99501-2133
1-907-269-0130
1-907-269-0132 (fax)

Representative Ethan Berkowitz District 13

MEMORANDUM

Date: April 5, 2003

To: Representative Hugh Fate, Chair
House Resources Committee

From: Representative Ethan Berkowitz 

Re: House Bill 196

I respectfully request that you schedule a hearing in the House Resources Committee for HB 196, an act relating to carbon sequestration.

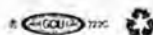
A copy of the bill, a sponsor statement, a sectional summary and additional background material are attached.

There will likely be several people from Fairbanks and Anchorage who wish to testify via teleconference. If you have any questions or need additional information, please call Lisa Weissler at 465-3163.

Thank you.

Attachments.

E-mail: Representative_Ethan_Berkowitz@legis.state.ak.us



Alaska State Legislature
House of Representatives
Minority Leader

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Representative Ethan Berkowitz
District 26

Sectional Summary
HB 196

“An Act relating to carbon sequestration; and providing for an effective date.”

Section 1. Legislative findings that, due to increasing interest in slowing or reversing greenhouse gases in the atmosphere, there is the potential for a carbon credit trading market; the state has the potential to increase carbon sequestration on state and private land; and it is in the interest of the state for the commissioner of natural resources to document the state’s carbon sequestration potential. Specifies legislative intent to enhance the ability of the state to participate in carbon credit trading.

Section 2. Adds new sections to AS 44.37 (Department of Natural Resources).

Sec. 44.37.200. Creates a carbon sequestration advisory committee in the Department of Natural Resources consisting of state, federal and public members. Advisory committee members do not receive compensation but are entitled to per diem and travel expenses. The committee may assist the commissioner in developing reports, recommend policies or programs to enhance the state’s ability to participate in carbon trading, encourage production of carbon sequestration educational and advisory materials, recommend research needs, and review other states’ carbon sequestration programs and policies.

Sec. 44.37.210. The commissioner of natural resources, in consultation with the advisory committee, shall assess state and private land for past carbon sequestration and future carbon sequestration potential.

Sec. 44.37.220. Definitions.

Section 3. On or before January 31, 2004 the commissioner of natural resources, in consultation with the advisory committee, shall prepare a report to the legislature that includes the potential for greenhouse emissions regulation, the potential for development of a carbon trading market, systems or uses that increase stored soil carbon, methods for measuring carbon sequestration, areas of scientific uncertainty regarding carbon sequestration and advisory committee recommendations.

Section 4. Makes the Act effective July 1, 2003.

For questions, contact Lisa Weissler, 465-3163
April 5, 2003

Alaska State Legislature
House of Representatives
Minority Leader

Alaska State Capitol
Juneau, Alaska 99801-1182
1-888-465-4919 (toll free)
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Representative Ethan Berkowitz
District 26

HOUSE BILL 196/SB 144
CARBON SEQUESTRATION
FAQS

Q: What is carbon sequestration?

A: Carbon sequestration refers to the capture and long-term storage of carbon in forests, soils or in the ocean. For example, a tree absorbs carbon dioxide during photosynthesis and uses it to construct its roots, trunk, stems and foliage. In the process, the tree sequesters (stores or conserves) carbon.

In the context of HB 196 and SB 144, carbon sequestration is the use of practices, technologies, or other measures that increase the retention of carbon in vegetation or soil to offset carbon dioxide emissions from other sources.

Q: Why is carbon sequestration important?

A: There is increased interest in reducing the levels of carbon dioxide and other greenhouse gases in the atmosphere. An international agreement known as the "Kyoto Protocol" is an agreement by industrialized and developing countries to reduce emissions of gases that contribute to the greenhouse effect and climate change. Carbon sequestration is a way to reduce greenhouse gas emissions while still enjoying the benefits of fossil fuel use.

Q: How is carbon sequestration a marketable commodity?

Though the Kyoto Protocol has not yet come into force, and the U.S. likely will not sign the protocol, many countries and industries are taking steps to address anticipated emission limits. In order to meet emission targets, a country or industry can purchase emission reductions, such as through enhanced carbon sequestration, by way of emissions reduction trading. Emission reductions are measured in terms of tons of carbon dioxide reduced and are often termed "carbon credits." Europe has already established a carbon credit trading market. In the U.S., a new market called the Chicago Climate Exchange is planning to begin carbon credit trading in the spring of 2003.

Q: How will Alaska benefit from carbon sequestration and carbon credit trading?

Agricultural, forest and soil management practices and restoration of degraded habitat and wetlands have the potential to increase carbon sequestration on land. With Alaska's large land base and forested areas, the state could substantially benefit from carbon sequestration credit trading. The potential exists for Alaska to receive revenues upwards of \$450 million.

Q: How can Alaska participate in carbon credit trading?

A: There are significant questions about how carbon credit trading markets will develop nationally and internationally. HB 196 and SB 144 call for the commissioner of the Department of Natural Resources, with the assistance of an advisory committee, to begin the process of answering these questions and to see that Alaska is able to fully and efficiently take advantage of any opportunities that might arise from carbon trading markets. The potential for Alaska to profit will increase if the state takes immediate action to benefit from emerging carbon markets.

The carbon credit trading market is finite. If Alaska fails to prepare, the opportunity may be lost to other nations or states, such as Idaho and Nebraska, that have already launched carbon trading initiatives.

For additional information, contact Representative Ethan Berkowitz or Lisa Weissler, Legislative Aide, at 465-4919

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB196
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Natural Resources
 Title Carbon Sequestration BRU Management & Administration
 Component Commissioner's Office
 Sponsor Rep. Berkowitz
 Requester (H) RES Component No. 423

Expenditures/Revenues (Thousands of Dollars)
 Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services	50.3	50.3	50.3	50.3	50.3	50.3
Travel	19.6	19.6	19.6	19.6	19.6	19.6
Contractual	9.3	9.3	9.3	9.3	9.3	9.3
Supplies	1.0	1.0	1.0	1.0	1.0	1.0
Equipment	5.0					
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	85.2	80.2	80.2	80.2	80.2	80.2

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	85.2	80.2	80.2	80.2	80.2	80.2
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	85.2	80.2	80.2	80.2	80.2	80.2

Estimate of any current year (FY2003) cost: 0.0
 Check this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time						
Part-time	1	1	1	1	1	1
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This legislation establishes a 14-member Carbon Sequestration Advisory Committee; requires the Department of Natural Resources to provide support for the committee; and requires the Commissioner of Natural Resources to conduct a carbon sequestration assessment and prepare a report for the legislature.

Fiscal impact is outline on page two.

Prepared by: Nico Bus, Acting Director Phone 465-2406
 Division Support Services Date/Time 5/9/2003
 Approved by: Tom Irwin, Commissioner Date 5/9/2003
 Agency Natural Resources

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

BILL NO. _____

ANALYSIS CONTINUATION

Personal Services \$50.3.

This provides for Natural Resource Manager I position (budgeted for 9 months), to provide support to the Advisory Committee and to the Commissioner of Natural Resources with the required assessment and report.

Travel \$19.6

The legislation allows for Advisory Committee members to receive per diem and travel expenses. The legislation does not specify how many times the Committee will meet. For purposes of calculating fiscal impact, it is assumed that 14 members will take two annual trips each, at an estimated cost of \$700 per trip. $\{14 \times 2 \times \$700 = \$19,600\}$. If the Committee meets more than twice a year, more funding would be required.

Contractual \$9.3

Assumes \$5,000 in contractual costs associated with meetings (room rentals, advertising etc.). Also includes \$4,300 for position costs (DNR lease space, phones and computer services).

Supplies \$1.0

General operating supplies for the Advisory Committee meetings and staff.

Equipment \$5.0 (one-time)

One-time computer equipment purchase for Advisory Committee staff position.



TIME

B U S I N E S S I N S I D E B U S I N E S S

Sunday, Mar. 02, 2003

Selling Smoke

On Wall Street, people say anything can be sliced up and traded. A firm called Natsource proves the point

By NINA SOVICH

When Dawn Schrepel, an environmental and energy consultant in Washington, wanted to thank her 10 interns for a job well done, she bought each of them an unusual gift — a ton of carbon dioxide. "They were pretty surprised," she says, laughing. "And it took a little explanation." Schrepel, 33, bought the carbon dioxide not in giant tanks but on paper, through Natsource, an energy brokerage based in New York City.

Natsource trades not only standard commodities like coal and natural gas but also a new currency known as greenhouse-gas credits. These credits represent, in effect, the right to emit a certain amount of carbon dioxide, methane or other gases thought to contribute to global warming. Such credits trade in earnest in nations like Britain and Denmark, which have capped emissions from such sources as factories and power plants. And the credits are trading on an experimental basis in the U.S., as industries anticipate the eventual imposition of similar emission limits here.

Natsource arranged for Schrepel to pay a retail price of \$17 a ton for carbon dioxide that is part of the natural chemistry of a 1,200-acre patch of Illinois grassland in a nature preserve. In return for part of that payment, the land's owner agreed not to burn, pave over or otherwise release that carbon dioxide. Schrepel wryly explained to her interns that buying the credits would help offset the carbon dioxide they emitted by, among other things, breathing.

Schrepel's gift is but a tiny part of a global greenhouse-gas trading industry that is growing rapidly. Between 1996 and 2002, about \$500 million worth of carbon dioxide was traded among companies in the U.S. and Europe. The World Bank's Prototype Carbon Fund, which helps countries preserve forest and reduce CO2 emissions, says the number of greenhouse-gas trades and the volume of gas affected will double this year. Experts predict that the right to emit a ton of carbon dioxide, which costs between \$3.50 and \$6 if purchased in bulk today, will cost between \$7 and \$12 by 2005. That would make the global market for greenhouse-gas credits worth well over \$3 billion a year.

Time Magazine Article

Two events drive this growth: the expectation that the Kyoto Protocol on Climate Change will go into effect this year and require many countries to reduce carbon dioxide emissions by 2008, and the emergence of government-backed emissions-trading schemes in Britain and Denmark. Despite President George W. Bush's assertion two years ago that Kyoto would wither, 2003 looks to be the year the treaty will come to life. Canada ratified it in December, and if Russia joins this year, as its President has promised, the treaty will have enough support to go into effect. It would not bind the U.S., but it could induce U.S. multinationals to reduce emissions by their plants in signatory countries.

Even in the U.S., there is a growing consensus that greenhouse-gas reductions are inevitable. In January, Senators John McCain of Arizona and Joseph Lieberman of Connecticut introduced legislation that would cap emissions and allow rights trading. Thirteen U.S. companies, including American Electrical Power, Dupont and Ford, have joined the new Chicago Climate Exchange. Members volunteer to reduce carbon dioxide emissions in a system that lets them practice trading greenhouse-gas credits while trying to deflect regulation and public criticism.

Jack Cogen, president of Natsource, couldn't be happier about this trend. Besides trading in energy and emissions credits, Natsource consults with firms that are weighing the idea of operating cleaner. Greenhouse-gas trading and consulting provide only 10% of Natsource's revenue, but the company expects that share to rise to 50% by 2007. "It's a fascinating business opportunity. Can you use market forces to effect environmental and societal goals?" asks Cogen, 46. "Can you put a cost on what was a free resource?"

Cogen thinks you can, and he's not alone. In 1990 the Clean Air Act capped emissions of sulfur dioxide, a major contributor to acid rain, and ordered that they be gradually reduced. The government issued "allowances" to companies and let them trade polluting rights on the open market. A power company that cut its emissions at relatively low cost could sell its leftover emission rights to another utility facing higher costs for pollution control.

Robert Stavins, an economist at Harvard's Kennedy School of Government, estimates that this cap-and-trade system, vs. a system of rigid caps on each firm's emissions, saves U.S. companies about \$1 billion a year in compliance expenses. "It's the most cost-effective way to reduce emissions," he says, "and companies have an incentive to cut pollution so they can sell credits." The Environmental Protection Agency estimates that sulfur dioxide emissions have been halved since 1990 and that Americans save \$50 billion a year in health and environmental costs associated with acid rain.

Expecting that international support for Kyoto will grow despite U.S. government opposition, companies around the world — including U.S.-based multinationals — want to be prepared. Cogen says today's

nascent trading of CO2 credits forces executives to "sit in a room and figure out how to manage, market, verify and account for their emissions. We call it learning by doing."

Some U.S. companies are not just experimenting; they are buying carbon dioxide credits today, at relatively low prices, as insurance against future regulations. World wholesale prices of carbon dioxide credits have jumped more than 600% since 1996, but prices differ from country to country. Kyoto allows credit trading only among signatory countries, and when it became clear in 2001 that the U.S. would not adopt Kyoto in the first round, the price of U.S. credits fell.

Michael Intrator, a managing director at Natsource, believes that the U.S. should have led the way. "America had a massive information advantage," he says. "We understood how cap-and-trade worked because we traded sulfur dioxide. Now we are left in a sea of uncertainty because we didn't ratify Kyoto. The overarching belief is that sometime we will. But by then, we might be at a competitive disadvantage."

Melissa Carey, a climate-change analyst at the Environmental Defense Fund, says that despite all the greenhouse-gas trading under way, it won't reduce emissions until Kyoto takes effect. "Sulfur dioxide was successful," she says, "because there are huge penalties for failing to comply." One Kyoto provision lets industrialized countries fund carbon-reduction projects in developing countries that do not have emission caps. For example, a U.S. utility may find that cutting its emissions is more expensive than planting a carbon-trapping forest in Bolivia. But until Kyoto is ratified, there won't be any independent verification that the forest has been planted.

Another obstacle to wider trading of emissions is nature. Forests burn down. Hurricanes wash away fields. Then there are governments that ignore international agreements and change environmental policies in ways that can radically affect the value of existing emissions credits. Until financial instruments are developed to ensure credits against the ravages of politics and nature, trading greenhouse gases will be a risky business. But the traders at Natsource are betting that multinational firms are also learning about the risks of doing nothing in the face of regulations that they know are coming, sooner or later.

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Opportunities for Carbon Offset Programs in Alaska

by
Tim King
Pacific Rim Regional RC&D,
Spokane, WA

Abstract

Timber salvage and reforestation of disturbed forests in Alaska offers several opportunities for offsetting carbon emissions and marketing emission reduction credits. First, trees killed by the spruce beetle or wildfires can be harvested for production of "bio-fuels" as renewable energy alternatives to fossil fuels. Secondly, the dead biomass is converted to useful energy before it decays, replacing fossil fuels. Finally, returns from salvage and bio-fuel sales can be used for reforestation and carbon sequestration. A major goal of regional and local Resource Conservation and Development Councils in Alaska is to establish producer-buyer partnerships for marketing carbon offset programs.

Key words: Carbon emission reduction credits (CERCs), spruce beetle (*Dendroctonus rufipennis* Kirby) epidemics, forest disturbances, forest health, timber salvage, "bio-fuels," biomass, Resource Conservation and Development Councils, Kenai Peninsula, Alaska, reforestation

Introduction

Presentations at the May 24, 2000 Alaska Reforestation Council's meeting on "Opportunities for Carbon Sequestration in Alaska" from representatives of the American Forest's Global ReLeaf Program, Washington, D.C., the USFS Southern Research Station, Triangle Park, North Carolina, and Edison Electric Institute's UtiliTree Carbon Company, Washington, D.C., indicated that partnership opportunities for market based carbon offset programs are now possible. Regional Resource Conservation and Development Councils (RC&Ds), nonprofit organizations dedicated to improving natural resources for economic and social benefits, support partnership agreements between private and public sectors for marketing carbon offset programs throughout the United States.

The Pacific Rim Regional RC&D Association has recently signed a nonbinding, nonexclusive carbon aggregation agreement with CQuest Ltd. of West De Moines, Iowa, a carbon market brokerage firm for marketing international carbon credits^a. Under this agreement, local RC&Ds with support from their Pacific Rim RC&D Region and their partners work together as a team to establish terrestrial-based changes in land use and land use management for sequestering measurable carbon.

The RC&D Team Concept

The RC&D team concept is a network of carbon producers, sellers, administrators, marketers, brokers, and buyers working to change land uses and land use management for sequestration and storage of atmospheric carbon in the earth's vegetation and soils. The team insures accurate base-line carbon measurements before land management changes, models increases in stored carbon from proposed land use changes, and verifies actual carbon stored for the life of the project from field biomass inventories.

Regional RC&D Associations also assist in establishing State Carbon Advisory Committees for third party carbon credit accounting (verification and registration) to assure non-duplication of carbon sales and accurate sequestration assessments. In support of the team networking process, RC&D Associations may establish Carbon Technology Transfer Centers to provide technical assistance for project development, establish science and research programs for solving carbon sequestration and storage problems, and provide outreach and education on the carbon cycle and climate warming.

Carbon Emission Reduction Credits

Carbon sequestered from partnership projects in land management and use changes would be marketed through services provided by CQuest and other companies as Carbon Emission Reduction Credits (CERCs). CERCs are measured in metric tons (tonnes) of C or CO² equivalent.

All overstocked or understocked forest stands have the potential for improving net carbon sequestration and storage. Carbon sequestered and stored in phytomass is the basis for CERCs. Any stand threatened by disease, insects, or fire has the potential for increasing net carbon storage. The first step is to establish a baseline for capturing carbon by inventorying the carbon stored in the vegetation and soil. The next step is to develop a management plan for increasing tree growth and carbon storage in the live phytomass. Using growth and yield models, the final step is to compare the net change in carbon sequestration between managed and unmanaged stands on the same sites.

New Markets for Alaska's Forest Resources

The Alaska State Division of Forestry (DOF) and Alaska Reforestation Council (ARC) presented many specific examples and studies of severe forest health problems currently affecting Alaska's forests. General discussions addressed how these problems, mainly forest disturbance issues, may be brought on by climate change. Restoration of forests following spruce beetle (*Dendroctonus rufipennis* Kirby) epidemics, wildfires, and other disturbances offer many good projects for land use management change, which could provide carbon offsets for emissions from combustion of fossil fuels and the conversion of forests to agriculture. Teamwork between both private and public sectors in Alaska is needed to plan and implement forest restoration projects for generating CERCs, which in turn, will fund additional intensive forest management programs for sequestering carbon.

On a three day tour of many forest health issues, RC&D, UtiliTree, Global ReLeaf, ARC, and DOF representatives concurred on the immense need and opportunities for carbon offset programs across Alaska. Our first stop was on Kenai Peninsula. Spruce forests, mostly composed of mature Lutz Spruce (*Picea X lutzii* Little), appeared as an expanse of gray-brown dead trees. With only slight increases in summer temperatures of the 1990s, overstocked spruce stands quickly fell victim to competition and moisture stress. Bark beetle populations flourished with the mild temperatures and prime feeding conditions. Scattered stands of smaller diameter black spruce (*Picea mariana* (Mill.) B.S.P.) could not support the beetle's life cycle and were standing alone among the dead stands of taller Lutz spruce. Only a few stands of larger Sitka spruce (*Picea sitchensis* (Bong.) Carr.) dominated the hybrid spruce on the higher, more productive sites. Only the large Sitka spruce appeared to have sufficient health and vigor to withstand the beetle attacks.

The Ninilchik Native Corporation Manager was busy salvaging and marketing dead Lutz Spruce. Proceeds from the timber sales were utilized for site prep and planting. Although these efforts seemed phenomenal in scale to previous restoration efforts, they are only a minute token of the reforestation and management needs in the region. The dead spruce export market was only temporary and finite, and failed to provide sufficient returns for the region's forest restoration needs.

The need to find new markets large enough to handle the dead wood volume without financially breaking everyone from excessive competition was apparent. Bio-fuels, a renewable energy replacement for fossil fuels, are a major opportunity for marketing dead wood. Bio-fuel options range from wood-fired gasifiers and steam electrical production plants to new technologies in ethanol production from cellulose.

The technology for converting wood waste to steam and electrical energy is very basic. Production costs per kilowatt range nationally from \$0.06-\$0.12. In the Pacific Northwest where hydroelectric power is abundant and cheap, converting wood to steam and electrical power is not competitive. Nevertheless, wood is still converted to electricity commercially in northeast Washington. When touring the Copper River Area, we learned that electricity was approximately \$0.50 per kilowatt-hour with the state subsidizing up to \$0.30 per kilowatt using fossil fuel energy sources. Wood to steam and electrical energy conversion appears to offer multiple carbon offset opportunities. First, wood is an alternative energy source for fossil fuels. Second, the dead spruce is converted to energy before it decomposes into carbon dioxide and water via respiration of heterotrophic microbes. Third, returns from the sale of the wood for electricity can be used for putting forests back into wood production for carbon sequestration to offset wood fire and fossil fuel emissions.

The carbon offset opportunities from the sale of dead wood and the pure economics of producing electricity for 25% of current costs provide savings both to the public and state. Inexpensive power also means new jobs and manufacturing opportunities, which also utilize the abundant local natural wood resources.

The Sealaska Native Corporation of southeast Alaska has been working with Arthur Daniels Midland (the owner of patents on cellulose to ethanol conversion) and the Environmental Protection Agency on converting bio-fuels and wood waste to ethanol production in the Ketchikan area. One ethanol production plant at Ketchikan could provide the full gasohol needs of the Anchorage area. Alaska is the domestic leader in fossil fuel production, and needs to examine the possibility of becoming one of the nations major sources of bio-fuels.

Summary and Recommendations

Alaska's forests need a great deal of management to improve their health, and to reduce the impact of natural and human-caused disturbances. Funding for forest management and protection is imperative. Carbon offsets and bio-fuels production are sources of funding for which Alaska has both the need and resources.

Existing and proposed RC&D regions situated across Alaska have the potential to bring together the "TEAM" Internet concept. The Internet concept merges the efforts of local, state, and federal agencies and programs with Native Corporations, the general public, private business, and industry. These entities work together to benefit Alaska, it's people, it's resources, and the world. The time is now; the opportunity is at hand and it is knocking. Will you answer the call?

Notes

^a A carbon credit is one metric ton (tonne) of carbon or CO₂ equivalent that is captured from the atmosphere and stored in plants and organic matter (biomass).



Electric Power R&D ■ Oil/Gas R&D ■ Fuels R&D ■ Oil Reserves ■ Electricity Regulation ■ Regulation

Electric Power R&D

Home > Electric Power R&D > Carbon Sequestration

Carbon Sequestration - Terrestrial Approaches

Carbon sequestration in terrestrial ecosystems is either the net removal of CO₂ from the atmosphere or the prevention of CO₂ net emissions from the terrestrial ecosystems into the atmosphere.

Enhancing the natural processes that remove CO₂ from the atmosphere is thought to be one of the most cost-effective means of reducing atmospheric levels of CO₂, and forestation and deforestation abatement efforts are already under way.

The terrestrial biosphere is estimated to sequester large amounts of carbon (approximately 2 billion metric ton of carbon per year). R&D in this program area seeks to increase this rate while properly considering all the ecological, social, and economic implications. There are two fundamental approaches to sequestering carbon in terrestrial ecosystems: (1) protection of ecosystems that store carbon so that sequestration can be maintained or increased; and (2) manipulation of ecosystems to increase carbon sequestration beyond current conditions.

This program area is focused on integrating measures for improving the full life-cycle carbon uptake of terrestrial ecosystems, including farmland and forests, with fossil fuel production and use. The following ecosystems offer significant opportunity for carbon sequestration:

- **Forest lands.** The focus includes below-ground carbon and long-term management and utilization of standing stocks, understory, ground cover, and litter.
- **Agricultural lands.** The focus includes crop lands, grasslands, and range lands, with emphasis on increasing long-lived soil carbon.
- **Biomass croplands.** As a complement to ongoing efforts related to biofuels, the focus is on long-term increases in soil carbon.
- **Deserts and degraded lands.** Restoration of degraded lands offers significant benefits and carbon sequestration potential in both below- and above-ground systems.
- **Boreal wetlands and peatlands.** The focus includes management of soil carbon pools and perhaps limited

Program Area

- Carbon Capture
- Geologic Storage
- Ocean Sequestration
- Terrestrial Sequestration
- Advanced

SPECIAL REPORTS

- Sequestration Technical Baseline Roadmap - Draft
- Potential for Technology Pacific Northwest Laboratory Report
- R&D Program 1999-2000

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conversion to forest or grassland vegetation where ecologically acceptable.

The program area is being conducted in collaboration with DOE's Office of Science and the U.S. Forest Service of the U.S. Department of Agriculture.

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HB

1988

ALASKA STATE LEGISLATURE

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REPRESENTATIVE VIC KOHRING DISTRICT 14

SPONSOR STATEMENT

HB 198

ROYALTY REDUCTION ON CERTAIN OIL

The goal of House Bill 198, which amends existing statutes in Title 38, is to provide for a narrowly defined and specifically targeted reduction of royalty on oil produced from Cook Inlet fields and platforms as they approach the end of their economic lives. Recent plans to idle two of the 13 current oil producing platforms in the Inlet serve as a reminder of the certainty of the decline and ultimate end of production for these fields.

However, premature abandonment of these fields is not in the state's best interest, as the infrastructure that was created to serve these fields is extensive, and in some cases, irreplaceable. Decreasing the State's royalty share from 12.5% to 5% near the end of field life, improves the economics of these aging platforms. These may result in an extension of production from these platforms of up to 14 months.

Prolonging production will help to achieve several important policy objectives, including use of critical infrastructure to support new exploration or development of adjacent lands, delaying loss of industry jobs and increasing the total amount of oil and gas produced through these aging facilities.

To protect the State's economic interest, royalty reduction to five percent on oil produced from these targeted fields and platforms is designed to occur only when production declines below 1,200 barrels per day for the Dolly, Grayling, King Salmon, and Steelhead Platforms, and to continue at that level only so long as production does not go above that threshold. For any quarter, should production go above 750 barrels per day, the State's royalty share would increase one percent with each additional 100 barrels up to 1,200. Royalty share for production over 1,200 barrels would be 12.5%. For the Granite Point, Anna, Bruce, Baker, Dillon, XTO A & C platforms the royalty reduction is triggered at 750 barrels per day. These trigger production rates generally correspond to the different economics of these two sets of platforms.

By encouraging continued production of marginal fields, HB 198 will benefit the state and local economies through taxation and royalties, encourage future development of new oil discoveries by lowering the costs of industry infrastructure, as well as taking care of job number one -- preserving jobs for Alaskans.

Changes made to SSHB 198 by CSSSHB 198 (O&G)

These changes were primarily technical in nature. They were overlooked in the Sponsor Substitute:

Page 2, line 2...delete [field or]

Page 2, line 30...delete [the field or]

Page 3, line 7...change (vii XTO.B to XTO.C) corrects name of platform

Page 3, line 26...delete [platform], insert field

Page 3, line 29...delete [or platform]

Page 4, line 2...delete [platform], insert field

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Page 4, line 2...delete [platform], insert field

Journal Text



04-28-2003

House Journal

1154

HB 198

The House Special Committee on Oil & Gas has considered:

SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 198

"An Act providing for a reduction of royalty on certain oil produced from Cook Inlet submerged land."

and recommends it be replaced with:

CS FOR SPONSOR SUBSTITUTE FOR HOUSE BILL NO.

198(O&G)

(same title)

04-28-2003

House Journal

1155

The report was signed by Representative Kohring, Chair, with the following individual recommendations:

Do pass (6): Holm, Fate, Crawford, Kerttula, McGuire, Kohring

The following fiscal note(s) apply to CSSSHB 198(O&G):

1. Fiscal, Dept. of Natural Resources

SSHB 198 was referred to the Resources Committee.

Bill Root:

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FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: 1
 Bill Version: CSSSHB 198(O&G)
 (H) Publish Date: 4/28/03

Revision Date/Time (Note if correction): _____ Dept. Affected: Natural Resources
 Title Royalty Reduction on Certain Oil BRU Resource Development
 Component Oil and Gas Development
 Sponsor Kohring, Rokeberg
 Requester House Oil and Gas Component No. 439

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
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						
CHANGE IN REVENUES ()	(220.9)	(358.5)	(591.4)	(589.5)	(561.5)	(485.1)

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2003) cost: 0.0
 Check this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

HB 198 amends AS 38.05.180(f)(5) to permit reduced royalty rates to as low as 5 percent for oil production from submerged lands in Cook Inlet. This royalty reduction would apply primarily to oil produced from offshore platforms and is tied to the daily rate of oil production. While HB 198 will result in a net loss in state revenues, it is expected to extend the field or platform life, thereby increasing future field or platform production and revenues in the out-years beyond what is likely to occur otherwise. Cumulative estimated net royalty revenue lost over the six-year forecast horizon FY 2004-09 is estimated to be (\$2,807) thousand or about (\$468) thousand per year (undiscounted). These estimates include cumulative undiscounted royalty revenue benefits of about \$800 thousand (\$570 thousand when discounted) from field-life extension that could arise as a result of royalty relief of the type offered in HB 198. These fiscal impacts do not consider the broader employment and regional economic effects from extended platform life. Also, field-life extension also provides an opportunity for additional exploration from existing platforms.

Prepared by: Mark D. Myers Phone 269-8802
 Division Oil and Gas Date/Time 4/23/2003
 Approved by: Tom Irwin, Commissioner Date 4/23/2003
 Agency Natural Resources

FISCAL NOTE #1

STATE OF ALASKA
2003 LEGISLATIVE SESSION

BILL NO. CSSSHB 198(O&G)

ANALYSIS CONTINUATION

HB 198 recognizes two broad groups of platforms, distinguished primarily by economic attributes associated with the degree of water handling and water injection. Platforms with major water handling and/or injection include: Dolly, Grayling, King Salmon, Steelhead, and Monopod. When oil production on these platforms falls below 1,200 barrels of oil per day (BPD) for at least one calendar quarter as certified by AOGCC, then the royalty percentage associated with that production would fall from whatever rate applies under the lease to a rate of 5 percent "for as long as the volume of oil produced from the platform remains less than 1,200 barrels a day." If average production from the field or platform that had declined below 1,200 BPD rises above this threshold for a period of at least one calendar quarter, then the bill provides for a schedule of up-ward royalty adjustments to production beyond the one-quarter term.

Platforms that do not presently employ substantial water handling and/or injection include: Granite Point, Anna, Bruce, Baker, Dillon, XTO.A and XTO.C. HB 198 provides for 750 barrels of oil per day as the economic limit rate of production for this group of platforms that would trigger royalty reduction from whatever rate applies under the lease to 5 percent. Royalty percentage upward adjustments, similar to those described under the 1,200 BPD threshold apply when oil production recovers for a sustained period of at least one calendar quarter. Note, the 750 BPD economic-limit rate of production also, applies to the West McArthur River field.

Over the past three-to-four decades, fifteen offshore, oil-production platforms have facilitated oil and gas operations in six offshore oil fields in the Cook Inlet Basin. Oil production on most of these platforms began around 1965-to-1967. The Osprey Platform, owned by Forest Oil, started continuous oil production in December 2002. Oil production from the Spark and Spurr platforms was shut-in in January 1992 and July 1992, respectively. The Dillon Platform, which served the Middle Ground Shoal oil field since September 1967, was shut-in by Unocal in January 2003. At present, twelve platforms support oil-production operations in the Cook Inlet Basin.

Three of the twelve active platforms currently produce oil at daily rates below the 750 barrels of oil per day (BPD) threshold contained in HB 198. These platforms, and the dates that corresponding production fell below 750 BPD are:

Platform	Field	Operator	Gross Production FY2002 / FY2003 (BPD)	Date Production falls below 750 BPD
Bruce	Granite Point	Unocal	619 / 476	July 1987
Dillon	Middle Ground Shoal	Unocal	423 / 374	March 1987
Baker	Middle Ground Shoal	Unocal	723 / 558	June 2002

The royalty revenue loss to the state would be approximately \$1.03 million FY 2002 and \$0.9 million in FY 2003 had HB 198 been in effect during these periods.

FISCAL NOTE #1

STATE OF ALASKA
2003 LEGISLATIVE SESSION

BILL NO.

CSSSHB 198(O&G)

ANALYSIS CONTINUATION

Several platforms would be expected to trigger royalty relief under HB 198 during the FY2004 – FY2009 forecast horizon. If the rates of platform production continue to follow the historic patterns of decline, then the rate of production is expected to fall below 1,200 BPD for the King Salmon Platform in August 2004 and Steelhead in April 2005; platform production for XTO.C is expected to fall below 750 BPD in May 2007, as indicated in the following table:

Platform	Field	Operator	Gross Production (BPD) FY2002 / FY2003	Expected Date Production falls below	
				750 BPD	1,200 BPD
King Salmon	McArthur River	Unocal	7,468 / 3,891		Aug 2004
Steelhead	McArthur River	Unocal	1,914 / 1,584		April 2005
XTO.C	Middle Ground Shoal	XTO	1,047 / 1,099	May 2007	

The Dillon platform was shut-in in January 2003 and Baker is subject to imminent shut-in based on representations made by Unocal. These platforms are assumed to be shut-in for purposes of the forward fiscal impact analysis. The value of Cook Inlet crude oil in future years is assumed to be \$20.00 per barrel. The estimated cumulative gross royalty revenue loss is (\$3.6) million undiscounted over the six-year forecast period (equals (\$2.8) million when discounted at 8% per year), based on the difference between expected royalty revenue with and without the provisions contained in HB 198, not counting potential incremental production from extended field or platform life. When the cash-flow impact of royalty reduction under HB 198 is taken into account, delayed platform shut-in is expected for four platforms (including Bruce, described above) during the forecast horizon. The shut-in deferment would range between 2 and 14 months for a given platform. The resulting shut-in delays would generate between 500-to-700 thousand barrels of total incremental production (includes working-interest and royalty), of which approximately one-third would occur in the FY 2005-06 timeframe. The remainder of incremental production would occur during FY 2008-09 and beyond. The cumulative, upside royalty impact of the expected incremental production would range between \$400-to-\$800 thousand, depending on assumptions regarding threshold rates of production, discounting, and timing of ultimate platform shut-in.

Taking all short- and long-run factors into consideration, the overall royalty revenue impact of HB 198 would be approximately (\$2.8) million [(\$3.6) million in royalty foregone plus about \$0.8 million in royalty gain from extended platform life] or about (\$468) thousand per year (net) over the six-year period, FY 2004-2009. Note that these fiscal impacts do not consider the broader employment and regional economic effects from extended platform life.

Union Oil Company of California
Testimony on HB 198
House Resources Committee
May 6, 2003

Mr. Chairman and members of the House Resources Committee--My name is Kevin A. Tabler, Manager of Land and Govt. Affairs for Union Oil Company of California (Unocal) in Alaska. I appreciate this opportunity to be heard today and to present a few comments regarding House Bill 198. As previously testified in earlier Oil and Gas Committee hearings, we are encouraged with the positive atmosphere and efforts made by the Legislature and Administration to craft legislation to encourage further exploration and development and to protect our states most prolific revenue generating industry. We appreciate your consideration of HB 198 which specifically targets those endangered oil fields and platforms which are rapidly approaching their economic life.

Unocal is the predominant operator in Cook Inlet and where our infrastructure base and manpower are best defined. It's also a place where our infrastructure, manpower and capital investments are continually threatened by internal global competition for investment dollars. For the last several years, Unocal has consolidated and restructured its Alaskan operations and focused on becoming the safest lowest cost producer in Cook Inlet. We have, either through purchase and/or exchange of properties, positioned ourselves to have the most cost effective operation possible. The Cook Inlet, with its mature and declining fields, low margin properties, high operating costs and regulatory uncertainty, is a challenging environment in which to stay profitable, let alone risk capital. Cost cutting in and of itself is only a temporary fix. The only sustainable solution to longevity is to increase the reserve base.

Although HB198 will not necessarily increase the reserve base of a field or platform, it will extend economic viability and prolong the utility of the existing infrastructure, leading to the ultimate recovery of more reserves and have an offsetting effect on any reduction awarded. Equally as important is the possibility for royalty reduction to increase the attractiveness for making additional investment in a field which might lead to an increase in the overall recoverable reserve base of that field.

One thing is certain, if the economic viability of the field or platform is left unchecked, shutdown will be accelerated and lead to a lower tax base, unemployment and loss of monetary cycling throughout a community. Such events are beginning to occur with Unocal's recent announcement to suspend production on the Dillon Platform. Layoffs have occurred and it is a short period of time before additional platforms will be suspended.

With mature fields, such as those in Cook Inlet, when royalty relief is justifiable and needed, the volumes of production and corresponding royalty associated

therewith are such that life extension of the facility and that facilities importance to the overall infrastructure is the primary benefit. If you wait until the field is truly uneconomic to qualify, there is little benefit to the state or the producer since royalty relief does not generate enough revenue to significantly extend field life but merely prolong the inevitable.

In reviewing the language of this bill, we appreciate the recognition that different platforms and fields have different thresholds for economic viability. Although each platform is different, we must not lose sight of the overall economics of the Cook Inlet. These economics are extremely sensitive, not only to price but, to the impact of cost sharing. As each platform or facility becomes uneconomic, the remaining facilities must absorb more of the overall costs of the Cook Inlet operation. Such additional costs place an increased burden on the remaining facilities and therefore shorten their life. The time to get relief is when you are still economic and there is potential to extend field life by investing more capital or expense dollars to increase production, or implement systematic process changes if necessary in an operation. With such an extension you have the ancillary benefits of jobs, taxes and the multiplying effect of money in a community. With royalty reduction, it truly is a case of sooner is better than later.

HB 198 is a very specific, clear, concise, automatic and easily understood and administered vehicle for delaying the inevitable elimination of jobs, extending the life of critical infrastructure which will support future development and exploration projects and creating certainty around investment strategies for producers.

In conclusion, we believe the necessity for and utility of HB 198 is well overdue in Cook Inlet and therefore encourage passage out of this committee. I'd be happy to answer any questions

Thank You
Kevin A. Tabler



RESOURCE DEVELOPMENT COUNCIL

Growing Alaska Through Responsible Resource Development

May 5, 2003

Representative Hugh Fate, Chair
House Resources Committee
Alaska State Capitol
Juneau, Alaska 99801-1182

Re: House Bill 198 — Royalty Reduction on Certain Oil

Dear Representative Fate:

On behalf of the Resource Development Council for Alaska, Inc. (RDC), I am writing in support of HB198 — Royalty Reduction on Certain Oil. RDC is a private, non-profit, business association representing individuals and companies from Alaska's oil and gas, mining, timber, tourism and fisheries industries. Our mission is to help grow Alaska's economy through the responsible development of the state's natural resources. HB198 encourages development of Alaska's resources while protecting the interests of the State. The bill deserves your committee's strong support, and we urge you to move it forward.

As you are well aware, many of the oil fields in Cook Inlet have begun to reach the threshold of economic productivity. UNOCAL's recent decision to close two of its Cook Inlet platforms is evidence of this trend. Because the Cook Inlet basin is a maturing oil province, it is appropriate for the State to consider incentives designed to prolong the life of existing fields, protect critical infrastructure and encourage opportunities for future investment. HB198 addresses each of these goals.

HB198 creates a royalty reduction schedule triggered by specific production volume levels — 1,200 barrels per day and 750 barrels per day depending upon the field. By establishing a fixed royalty reduction schedule this legislation provides operators with an economic incentive that is predictable, simple and can be put into place quickly. In other words, it is something companies can count on when making investment decisions. The bill also protects the State by increasing the royalty rate if production from a participating field subsequently increases above either 750 or 1,200 barrels per day.

If passed this bill will generate a host of benefits. Most importantly HB198 will add one to three years of life to several Cook Inlet oil fields. Extended life for these fields will in turn prolong the utility of critical infrastructure and offset the State's reduced royalty share. It is important to note that maintaining Cook Inlet's existing infrastructure may facilitate future exploration, development and production of currently undiscovered reserves. At a

community level HB198 will delay workforce reductions and help maintain the region's property tax base.

Thank you for considering our position on this important piece of legislation. Please feel free to contact me with any questions.

Sincerely,

RESOURCE DEVELOPMENT COUNCIL
for Alaska, Inc.

A handwritten signature in cursive script that reads "Tadd Owens". The signature is written in dark ink and is positioned above the printed name and title.

Tadd Owens
Executive Director

HB

204

STATE OF ALASKA

REPRESENTATIVE
MIKE CHENAULT

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SPONSOR STATEMENT HB 204

In 2000 the Alaska State Legislature amended the Alaska Pipeline Act to make provisions for the operation of a North Slope Gas Pipeline. One of the provisions was to allow for two classes of transportation services, firm and interruptible.

When the 2000 amendments were enacted the North Slope Gas Pipeline was the only gas transportation pipeline in the state proposing to provide such service. There is now a pipeline in the Cook Inlet, the Kenai Kachemak Pipeline (KKPL) that proposes to provide a similar transportation service in its Cook Inlet service area.

In a recent ruling (KKPL) requested the Regulatory Commission of Alaska (RCA) to authorize it to provide these "firm" and "interruptible" services. The commission has yet to issue a final ruling, but has raised the question of whether or not a contract carriage for gas pipelines elsewhere in the state of Alaska was permissible, given the recent amendment that was apparently exclusive to transportation of gas on the North Slope of Alaska.

This legislation is intended to resolve the question raised by the RCA.

The Bill amends the provisions regarding "firm" and "interruptible" service to make them available to any natural gas pipeline carrier operating in the state. It also adds the definitions of a "natural gas pipeline" and "natural gas pipeline carrier".

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: CSHB 204(O&G)
(H) Publish Date: 3/31/03

Revision Date/Time (Note if correction): _____ Dept. Affected: Natural Resources
Title: Regulation of Natural Gas Pipelines BRU: Resource Development
Sponsor: Chenault Component: Oil and Gas Development
Requester: House Oil and Gas Component No.: 439

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
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						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()	**	**	**	**	**	**
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2003) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

HB 204 would modify the Alaska Pipeline Act (AS 42.06.055-.640) to allow for contract carriage on all natural gas pipelines over which the State has jurisdiction. At present, only a pipeline bringing North Slope gas to outside markets can clearly offer contract carriage service. All other gas pipelines under the Pipeline Act must provide service as common carriers.

** It is difficult to predict the effects that this bill might have on revenues, because it is difficult to predict the effects of contract carriage pipelines on gas exploration and development.

Continued on next page.

Prepared by: Mark D. Myers Phone 269-8800
Division: Oil and Gas Date/Time 3/26/2003
Approved by: Tom Irwin, Commissioner Date 3/26/2003
Agency: Natural Resources

FISCAL NOTE #1

STATE OF ALASKA
2003 LEGISLATIVE SESSION

BILL NO. CSHB 204(O&G)

ANALYSIS CONTINUATION

For pipelines that are owned by non-affiliated pipeline companies, contract carriage could reduce uncertainty of future throughput. This would reduce capital costs, which in turn could encourage pipeline construction and facilitate gas exploration and development. However, for pipelines that are owned by affiliated producers, contract carriage may not provide greater assurance of throughput; the pipeline company may know the volumes that its affiliated producer wants to ship. Meanwhile, contract carriage on a pipeline owned by an affiliated producer could potentially be used to impede pipeline access for non-affiliated producers. This could hinder natural gas exploration and development and ultimately result in a negative fiscal impact for the State.

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
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Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

March 20, 2003

SUBJECT: House Bill 204, relating to the regulation of natural gas pipelines under the Pipeline Act (AS 42.06) -- sectional analysis.
(Work Order No. 23-LS0695\D)

TO: Representative Mike Chenault

FROM: Jack Chenoweth
Assistant Revisor of Statutes

Traditionally, natural gas pipelines were regulated as "common carriers." "Common carriers" are public utilities for hire in which the transporter is obligated by law to provide service to all interested parties without discrimination. For a common carrier, if the pipeline capacity is reached, the common carrier must accept all gas tendered for transport and offer service ratably to all shippers in proportion to the amounts of transportable product they offer.

Following recent precedents established for federal interstate regulation of natural gas pipeline facilities, Chapter 56, SLA 2000, modified state regulatory oversight of natural gas pipelines that are planned to carry gas from the North Slope to meet export commitments generally to ensure that restrictions under state common carrier regulations are inapplicable to that gas. That measure speaks to oversight by the Regulatory Commission of Alaska of in-state movement of natural gas. By RCA oversight as a "contract carrier," the pipeline would be regulated in order to sell to its customers only pipeline transportation services. Natural gas as a salable commodity would be separated or unbundled from its transportation. This formal separation of gas from its transmission is institutionalized in "contract carriage."

So that other in-state pipelines may have the benefit of the form of contract carrier regulation established in the 2000 Act for North Slope natural gas, House Bill 204 (1) removes from certain provisions enacted by that 2000 Act limiting references to "North Slope" and (2) adds two related definitions.

Bill section 1. Removal of references to "North Slope" from AS 42.06.350(c), relating to tariff filings with the Regulatory Commission of Alaska, would allow other natural gas pipeline carriers to charge separate rates, on a contract basis, to persons arranging to transport natural gas by pipeline on a "firm" basis and persons arranging to transport on an "interruptible" basis.

Legal Memo re: regulation of NG
pipelines

Representative Mike Chenault
March 20, 2003
Page 2

Bill sections 2 and 3. Definitions of the terms "firm transportation service" and "interruptible transportation service" used in the Pipeline Act are amended to remove reference to "North Slope" in the phrase "North Slope natural gas."¹

Bill section 4 supplies definitions for terms used in the bill sections earlier amended.

JBC:med
03-329.med

¹ Generally speaking, the term "firm transportation service" refers to an assigned pipeline capacity or comparable capacity that can be called upon to serve customer requirements on a reliable basis. It gives the holder of the contract the right to capacity and transportation in the pipeline facility for the entire life of the contract, and allows the holder to request shipment of natural gas up to the maximum reserved capacity.

By contrast, the term "interruptible gas service" indicates that natural gas transportation services may be interrupted or suspended consistent with the terms and conditions of the tariff. It gives, for example, the holder of the contract a right to ship a specified volume of natural gas within a specified period, but the timing of delivery may be determined by the pipeline company according to the availability of the pipeline facility's capacity.

1 We therefore conditionally grant KKPL a certificate of public convenience
2 and necessity. The certificate will be issued when Marathon and a financially
3 acceptable entity on behalf of GIJT file unconditional guarantees for KKPL to construct,
4 operate, maintain and terminate the Kenai Kachemak Pipeline.²⁶

5
6 C. Based on the current record, can we determine whether the proposed pipeline tariff,
7 including the rates, rules and regulations satisfies AS 42.06?

8 Under AS 42.06.250 and 3 AAC 48.620, a pipeline carrier application for a
9 new certificate of public convenience and necessity must contain a proposed tariff.
10 KKPL provided an updated tariff in its testimony.²⁷ The proposed tariff includes
11 separate estimated rates for firm transportation service and for interruptible
12 transportation service. This type of tariff structure is termed contract carriage.

13
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18
19 ²⁶ In its application, KKPL asked for authority to construct additional receipt and
20 delivery points within its defined service area as may be requested from time to time by
21 shippers or other persons. AS 42.06.140(a)(8), however, provides that the
22 "Commission . . . shall require permits for the construction, enlargement in size or
23 operating capacity, extension, connection and interconnection, operation or
24 abandonment of any oil or gas pipeline facility or facilities, subject to necessary and
25 reasonable terms, conditions and limitations. . . ."

26 Therefore, in conditionally guaranteeing KKPL a certificate of public convenience
and necessity, we do not approve KKPL's request for blanket authority to connect
additional receipt and delivery points without further commission review.

²⁷ See T-2, Ex. EJJ-2.

1 Contract carriage has not been previously allowed under AS 42.06. The
2 Alaska legislature, however, recently amended AS 42.06.350²⁸ to allow for contract
3 carriage for the transportation of gas on the North Slope of Alaska. This amendment
4 raises the following legal issue: *Is contract carriage for gas pipelines elsewhere in the*
5 *State of Alaska permissible?* The facts of this case also raise a policy question: *Should*
6 *contract carriage be allowed when a pipeline is owned by affiliates of the*
7 *producers/shippers?* These two issues are of first impression and of sufficient
8 importance to the State of Alaska that on the limited record before us we are unwilling to
9 resolve them at this time.

10
11 ²⁸Sec. 350 of AS 42.06 provides:

12 (a) Under regulations adopted by the commission, every intrastate oil or gas
13 pipeline carrier shall file with the commission, within the time and in the form
14 designated by the commission, all rates, tariffs, charges, classifications,
15 rules, regulations, terms, and conditions pertaining to service provided under
16 the certificate, and shall maintain copies on file at its principal business office
17 and at places designated by the commission, available to, and subject to
18 inspection by, the general public on demand.

19 (b) The commission may reject the filing of all or part of a tariff that does not
20 comply with the form or filing regulations of the commission or that is not
21 consistent with this chapter or the regulations of the commission. A tariff or
22 provision so rejected is void.

23 (c) In its tariff filed with the commission under (a) of this section, a North
24 Slope natural gas pipeline carrier may charge separate rates for firm
25 transportation service and for interruptible transportation service. A North
26 Slope natural gas pipeline carrier

(1) may, in addition, impose a reservation fee or similar charge for
reservation of capacity in a North Slope natural gas pipeline as a
condition of providing firm transportation service; the reservation
fee or charge imposed by the carrier may not include any variable
costs or fixed costs that are not attributable to the provision of firm
transportation service;

(2) may not impose a reservation fee or similar charge for
reservation of capacity in a North Slope natural gas pipeline for
interruptible transportation service.



KENAI-KACHEMAK
PIPELINE PROJECT

Kenai Kachemak Pipeline LLC

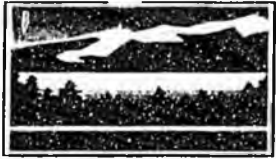
HB 204 / SB 151
**“An Act Relating
to the Regulation of
Natural Gas Pipelines
under the Pipeline Act.”**

A. Ben Schoffmann
Vice-President, KKPL

March 27, 2003

*Testimony of A Ben Schoffmann to Senate Labor
& Commerce and House Oil & Gas Committees*

1



KENAI-KACHEMAK
PIPELINE PROJECT

Kenai Kachemak Pipeline LLC

HB 204 / SB 151

What Does It Do?

- Permits the Regulatory Agency of Alaska (RCA) to approve, should it so choose, the offering of both “firm” and “interruptible” service in a natural gas transportation pipeline under the State Pipeline Act, AS 42.06.
 - Amendments on this concept were made for a North Slope Gas Line in the 2000 Session.
 - A Tool: This bill clarifies that RCA has the authority to grant these two classes of service to regulated gas pipelines elsewhere in the State.

March 27, 2003

*Testimony of A Ben Schoffmann to Senate Labor
& Commerce and House Oil & Gas Committees*



KENAI-KACHEMAK
PIPELINE PROJECT

Kenai Kachemak Pipeline LLC

HB 204 / SB 151

What is Firm and Interruptible Service?

- Firm Service:
 - The Shipper commits to pay a “reservation charge” for a set level of capacity, whether or not it is actually used.
 - The Pipeline guarantees the reserved capacity will be made available as and when needed.
- Interruptible Service:
 - The Shipper only pays for the capacity it actually uses at any given time.
 - The Pipeline makes best efforts to provide capacity, but if the desired capacity is not available for whatever reason (mechanical, over-supply, etc.), these shipments are subject to curtailment or interruption.

March 27, 2003

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KENAI-KACHEMAK
PIPELINE PROJECT

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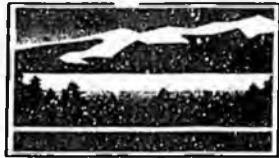
HB 204 / SB 151

Why is This Important?

- It is important to both Pipeline Investors and Potential Shippers.
- **Pipeline Investors:** Provides them with the ability to obtain firm contracts from potential shippers, which help to:
 - economically justify construction and operation of new gas pipelines
 - reduce risk

March 27, 2003

*Testimony of A Ben Schoffmann to Senate Labor
& Commerce and House Oil & Gas Committees*



KENAI-KACHEMAK
PIPELINE PROJECT

Kenai Kachemak Pipeline LLC

HB 204 / SB 151

Why is This Important? – Cont.

- **Prospective Shippers:** Enables them to choose the type of gas transportation service which best aligns with their gas supplies and customer contracts.
 - Firm Transportation
 - Firm sales contracts need the accompanying assurance of firm transportation (interruptible transportation and potential curtailment is not compatible with firm sales commitments).
 - Interruptible Transportation
 - Compatible with interruptible sales contracts.
 - Potential Shippers with undiscovered/poorly defined potential gas supplies need not make financial commitments in advance of proving up gas supplies.



KENAI-KACHEMAK
PIPELINE PROJECT

Kenai Kachemak Pipeline LLC

HB 204 / SB 151 What It Won't Do

- It will not force the RCA to approve these two classes of service for a pipeline in the event it is not considered justified.
- It will not change the "Open Access" status of pipelines under the State Pipeline Act.
- It will not have an adverse fiscal impact on the State.

March 27, 2003

*Testimony of A Ben Schoffmann to Senate Labor
& Commerce and House Oil & Gas Committees*



KENAI-KACHEMAK
PIPELINE PROJECT

Kenai Kachemak Pipeline LLC

HB 204 / SB 151

Why is It Needed Now?

- RCA has raised a question in their December 24, 2002 Order to KKPL as to whether it has the authority to grant “firm” and “interruptible” service for other than a North Slope Gas Line.
- KKPL will file with the RCA to approve KKPL’s Tariff in the second quarter of 2003.
- Two Shippers require, and have committed to pay for, Firm Service on KKPL.

March 27, 2003

*Testimony of A Ben Schoffmann to Senate Labor
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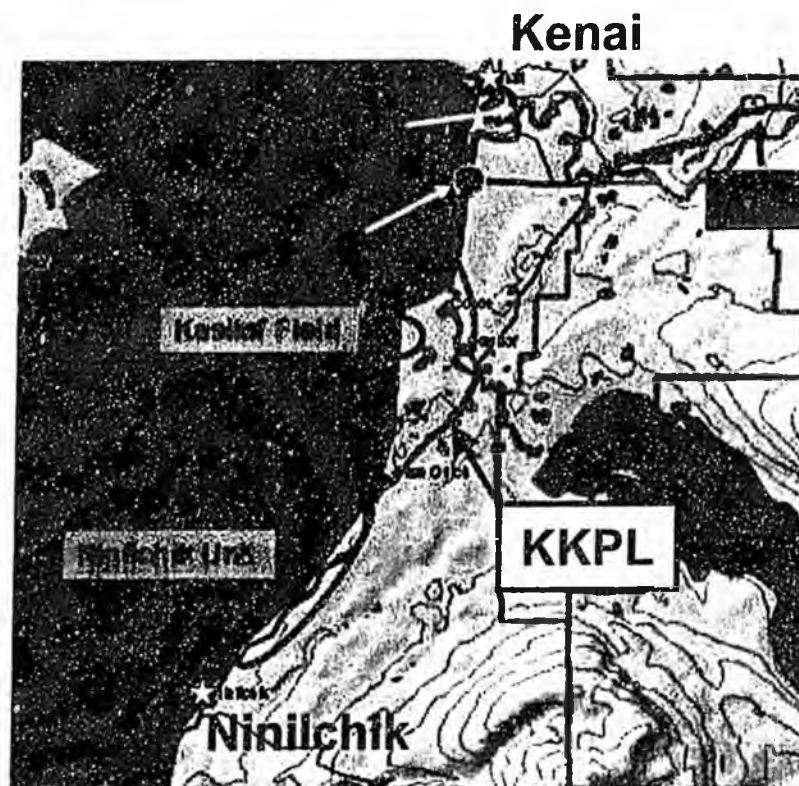


KENAI-KACHEMAK
PIPELINE PROJECT

Kenai Kachemak Pipeline LLC

What is KKPL?

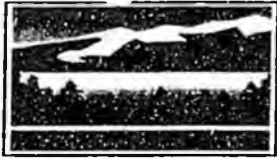
- Owned by an Alaska Limited Liability Company
 - Marathon (60%)
 - Unocal, through GUT (40%)
- New \$25 million, 33-mile, 12-inch diameter Gas Transmission Pipeline.
- Connects newly discovered gas to existing Cook Inlet gas pipeline and market infrastructure.



Kenai Peninsula

March 27, 2003

*Testimony of A Ben Schoffmann to Senate Labor
& Commerce and House Oil & Gas Committees*



KENAI-KACHEMAK
PIPELINE PROJECT

Kenai Kachemak Pipeline LLC

KKPL Facts

- June 2002: Held “Open Season” for potential shippers
- Two Shippers made “firm” commitments
 - Total of 300 BCF of gas over 15-years
 - Marathon ~ 180 BCF
 - Unocal ~ 120 BCF
 - Total Peak Committed Rate is 90 MMCFPD (in year 4)
- Required a 12-inch diameter pipeline
 - Nominal operating capacity ~ 130 MMCFPD
 - Expansion is possible

March 27, 2003

*Testimony of A Ben Schoffmann to Senate Labor
& Commerce and House Oil & Gas Committees*



KENAI-KACHEMAK
PIPELINE PROJECT

Kenai Kachemak Pipeline LLC

KKPL Facts – Cont.

- Received RCA Temporary Certificate of Convenience and Necessity under AS 42.06 on January 9, 2003.
- Construction is in Progress.
 - Started in January 2003.
 - Contractual Target In-Service Date is 11/1/03.
 - Construction is ahead of schedule by ~ 2 months.
- RCA Tariff Filing is required at least 90 days before Commencement of Commercial Operation.
 - KKPL tentatively plans to make this filing in late April.

March 27, 2003

*Testimony of A Ben Schoffmann to Senate Labor
& Commerce and House Oil & Gas Committees*

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KENAI-KACHEMAK
PIPELINE PROJECT

Kenai Kachemak Pipeline LLC

HB 204 / SB 151

Impacts to State of Alaska

- Pro-Development, without providing a “handout”.
 - Provides stability to potential pipeline investors if firm capacity is committed.
 - Provides gas suppliers with flexibility to match transportation service to gas supplies (proven or prospective) and sales contracts (firm or interruptible).



KENAI-KACHEMAK
PIPELINE PROJECT

Kenai Kachemak Pipeline LLC

HB 204 / SB 151 Conclusions

- **Provides a Tool:** Clarifies RCA's Authority
 - They have the ability to approve, should they choose, a Two-Tiered Transportation Service (as for the North Slope Gas line) for Natural Gas Pipelines under the Pipeline Act.
- **Has a Purpose:** Encourages Investment
 - Meets the needs of Pipeline Owners who require economic justification and minimization of risk for their investments.
 - Helps Potential Shippers align their transportation service with their gas supplies and gas sales contracts.
 - Retains "Open Access" provisions of the Pipeline Act.
- **Meets a Need:** The issue will shortly be before RCA

March 27, 2003

*Testimony of A Ben Schoffmann to Senate Labor
& Commerce and House Oil & Gas Committees*

12

HB 204 / SB 151

Application Already Limited to Intrastate Pipelines

- 1) AS 42.06 is sufficiently clear that the Pipeline Act, as it currently stands, already is limited to pipelines within the State of Alaska.
 - a) First, the whole of the Pipeline Act (AS 42.06) is limited to intrastate pipelines.
 - i) While AS 42.06.140 (a)(1) does not limit itself merely to “intrastate” pipelines, the provisions of AS 42.06.150 and 42.06.230 (a), combined with federal preemption law related to the federal Natural Gas Act, have that effect.
 - ii) Under court cases interpreting the Natural Gas Act, the FERC is clearly given exclusive jurisdiction over gas pipelines flowing interstate gas and the states are preempted from regulating any portion of a gas pipeline engaged in that business.
 - iii) The effect of these cases, combined with AS 42.06.150, is to carve out jurisdiction over interstate gas pipelines from the RCA, leaving the Commission with jurisdiction only over intrastate gas pipelines.
 - b) Second, AS 42.06.350 (c), the specific provision being amended, is specifically limited to intrastate pipelines
 - i) AS 42.06.350 (c) applies only to a “tariff filed with the commission under (a)” of that section.
 - ii) AS 42.06.350 (a), in turn, applies only to “intrastate oil or gas pipeline carrier[s].”
- 2) Further changes appear to be unnecessary and should be avoided for fear of creating unanticipated side effects and concerns from other parties.

HB 204 Oil & Gas Committee
Comments & Questions Arising During Discussion
(from Hearing on 3/27/03)

1. Does the language make it clear that this legislation addresses “in state” carriers? (Rep. Fate)

AS 42.06 is sufficiently clear that the Pipeline Act, as it currently stands, already is limited to pipelines within the State of Alaska.

- a) First, the whole of the Pipeline Act (AS 42.06) is limited to intrastate pipelines.
 - i) While AS 42.06.140 (a)(1) does not limit itself merely to “intrastate” pipelines, the provisions of AS 42.06.150 and 42.06.230 (a), combined with federal preemption law related to the federal Natural Gas Act, have that effect.
 - ii) Under court cases interpreting the Natural Gas Act, the FERC is clearly given exclusive jurisdiction over gas pipelines flowing interstate gas and the states are preempted from regulating any portion of a gas pipeline engaged in that business.
 - iii) The effect of these cases, combined with AS 42.06.150, is to carve out jurisdiction over interstate gas pipelines from the RCA, leaving the Commission with jurisdiction only over intrastate gas pipelines.

- b) Second, AS 42.06.350 (c), the specific provision being amended, is specifically limited to intrastate pipelines.
 - i) AS 42.06.350 (c) applies only to a “tariff filed with the commission under (a)” of that section.
 - ii) AS 42.06.350 (a), in turn, applies only to “intrastate oil or gas pipeline carrier[s].”

Further changes appear to be unnecessary and should be avoided for fear of creating unanticipated side effects and concerns from other parties.

2. Would like to look at and compare statutes regarding “common carrier” regulations. (Rep. Rokeberg)

The gas producing states (Oklahoma, Texas, and Louisiana) and the federal government all have different statutory schemes to deal with the transportation of natural gas on pipelines. However, each of those schemes, in one form or the other, permit gas to be transported on a firm and interruptible basis. Firm and interruptible gas transportation is common throughout the lower 48 and has benefited both gas producers and gas consumers.

3. Keep fair - Open Season provision that allows everyone an opportunity to use pipeline carrier services as needed. (Rep. McGuire)

KKPL conducted a reasonable and fair open season that gave all potential shippers an equal opportunity to use KKPL's services under exactly the same terms and conditions. KKPL had an extensively advertised open season process lasting from December 2001 to June 2002. The open season was advertised for 4 consecutive weeks in the Anchorage Daily News and Alaska Petroleum News. Notices were also sent to all Kenai Peninsula leaseholders and potentially interested state officials. The RCA was advised of plans and given the opportunity to comment and influence KKPL's open season in a number of meetings prior to and during the open season process.

Moreover, RCA has broad authority in the governance of pipelines under AS 42.06. RCA could be reasonably expected to exercise that authority to make certain a reasonable and fair "open season" for firm and interruptible services was followed by any prospective owner seeking approval for a Certificate of Convenience and Necessity as a requirement for receiving such approval.

4. Fiscal Note commentary – How can this legislation impede exploration? (Mark Myers – Div. of O&G)

This comment was made with respect to the issue of producer-affiliate ownership of a pipeline. The DNR contended that, in general, "contract carriage" was positive, as it "could reduce uncertainty of future throughput" and "reduce capital costs." The result would be to "encourage pipeline construction and facilitate gas exploration and development." On the other hand, DNR also stated that "contract carriage on a pipeline owned by an affiliated producer "could potentially" be used to impede pipeline access for non-affiliated producers" and "hinder natural gas exploration and development". We believe that affiliate ownership has promoted, not hindered, development of oil and gas resources in Alaska. Without affiliate ownership, newly discovered resources might be left in the ground because no unaffiliated pipeline company has been willing to bear the risk and cost of constructing a new pipeline to transport Alaska oil and gas resources.

There are three key points to be made about affiliate ownership:

- a) The RCA ("Commission") already has sufficient authority to prevent any favoritism or gaming:
 - i) AS 42.06.320 prohibits any pipeline from "mak[ing] or grant[ing] an unreasonable preference or advantage to any person or subject[ing] any person to an unreasonable prejudice or disadvantage." The Commission could prevent any such favoritism or gaming as creating an unreasonable preference or advantage. If it finds that any exists, it has the power under AS 42.06.330 to take remedial action, including reallocating any capacity that the pipeline may have previously allocated to its affiliate by contract or otherwise.
 - ii) AS 42.06.310 (c) provides the Commission with the power to require a pipeline to "extend or enlarge its pipeline or storage facilities provided the

extension or enlargement shall be found to be reasonable and required in the public interest and that the expense involved will not impair the ability of the common carrier or public utility to perform its duty to the public." The Commission could exercise this authority to require KKPL and other such pipelines to provide additional capacity to new shippers if it found that KKPL was refusing to do so for unreasonable reasons (such as protecting its affiliates).

- b) The Legislature already has dealt with this issue and the same result should be applied to KKPL.
 - i) It is clear that any North Slope gas pipeline would involve affiliate ownership. That fact did not prevent the Legislature, however, from enacting the 2000 amendments to AS 42.06, providing such a pipeline with the right to provide firm and interruptible service. This was likely because the Legislature found that the other provisions of AS 42.06 already provided the RCA with adequate authority to remedy the situation in the event the Commission found that the relationship resulted in any unreasonable preferences or advantages. There is no reason to apply a different approach to KKPL and other intrastate gas pipelines.
 - ii) Similarly, FERC does not prohibit or discriminate against producer-affiliate pipeline ownership in pipelines it regulates.

- c) Allowing, rather than prohibiting, affiliated pipelines to provide firm and interruptible service will result in quicker development of the State's gas resources.
 - i) It is clear that the primary source of capital for the construction of new gas pipelines will come from the oil & gas companies developing the resources that have been discovered. Other than for the pipelines owned by Enstar/APL – which declined to build KKPL – all of the other gas pipelines in the State have been built by affiliated producers.
 - ii) Gas producers are interested in exploring for and developing new reserves if they believe that they can assure the ability to deliver those reserves to market. If producers are not able to obtain that assurance, they will invest their capital in other locations.
 - iii) If gas producers in the State are prevented from arranging for firm transportation (and, thus, firm markets) through affiliated pipelines, less capital will be committed to the State. This is because the producers will be unable to arrange for firm transportation. The producers will be prevented from providing it for themselves and no other non-affiliated entity is stepping up to fill the gap. The producers will take their capital elsewhere, to more secure environments.
 - iv) There is no reason for such a result, where the RCA already has been given adequate authority to regulate against any abuses it might find. By providing affiliated producers with the opportunity to arrange for firm transportation (as long as they do not abuse the privilege), the Legislature will be encouraging additional investment in Alaska.

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Aurora Gas, LLC

www.aurorapower.com

April 9, 2003

The Honorable Mike Chenault
Alaska House of Representatives
State Capitol, Room 432
Juneau, AK 99801-1182

RE: **An Act Relating to the Regulation of Natural Gas Pipelines under the Pipeline Act
Senate Bill 151 / House Bill 204**

Dear Mr. Chenault,

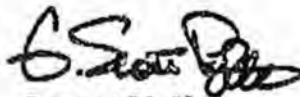
Aurora Gas, LLC and its marketing affiliate, *Aurora Power Resources, Inc.* ("Aurora"), support Senate Bill 151 and House Bill 204. As a producer and marketer of natural gas, *Aurora* understands how critical infrastructure is to the ultimate development of natural gas reserves in Cook Inlet. Additionally, we are in favor of rate structures that provide flexibility and can be tailored to the needs of various entities seeking to transport gas on regulated pipelines. We are in favor of having the option to choose between firm and interruptible transportation rates on pipelines. As we understand the legislative revision, it will provide clarification as to the Regulatory Commission of Alaska's ability to approve such rate structures for pipelines in the Cook Inlet.

Although the Cook Inlet basin has been explored and produced for over forty years, the development of associated infrastructure is not very mature. As a result, producers will be the most likely entities that own, and financially back, the construction of new pipelines. *Aurora* understands this and is comfortable that the regulatory process will sufficiently protect the interests of third parties seeking to access these pipelines.

Aurora Gas would not avoid exploring and developing acreage in the vicinity of producer owned facilities. However, *Aurora* can and would substantially discount the value of exploring and developing acreage with no infrastructure whatsoever.

For these reasons, *Aurora* supports Senate Bill 151/House Bill 204. Please do not hesitate to contact me directly, should have any questions on this matter.

Sincerely,



G. Scott Pfoff
President

GSP: djn

10333 Richmond Avenue, Suite 710 • Houston, Texas 77042 • (713) 977-5709 • Fax (713) 677-1347
1029 West 3rd Avenue, Suite 220 • Anchorage, Alaska 99501 • (907) 277-1005 • Fax (907) 277-1006



KENAI-KACHEMAK
PIPELINE PROJECT

Kenai Kachemak Pipeline LLC

HB 204 / SB 151
**“An Act Relating
to the Regulation of
Natural Gas Pipelines
under the Pipeline Act.”**

A. Ben Schoffmann
Vice-President, KKPL

April, 2003

*Testimony of A Ben Schoffmann to Alaska State
Senate and House Resource Committees*

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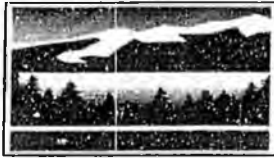
KENAI-KACHEMAK
PIPELINE PROJECT

Kenai Kachemak Pipeline LLC

HB 204 / SB 151

What Does It Do?

- Permits all natural gas transportation pipelines within the State to file a tariff with the RCA offering both “firm” and “interruptible” service (“contract carriage”) under the Alaska Pipeline Act, AS 42.06.
 - Amendments on this concept were made for a North Slope Gas Line in the 2000 Session.
 - This bill clarifies that other regulated gas pipelines elsewhere in the State also may offer these two classes of service.



KENAI-KACHEMAK
PIPELINE PROJECT

Kenai Kachemak Pipeline LLC

HB 204 / SB 151

What is Firm and Interruptible Service?

- Firm Service:
 - The Shipper commits to pay a monthly “reservation charge” for a set level of capacity, whether or not it is actually used.
 - The Pipeline guarantees the reserved capacity will be made available as and when needed.
- Interruptible Service:
 - The Shipper only pays for the capacity it actually uses at any given time.
 - The Pipeline makes best efforts to provide capacity, but if the desired capacity is not available for whatever reason (mechanical, over-supply, etc.), these shipments are subject to curtailment or interruption.



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Why is This Important?

- It is important to both Pipeline Investors and Potential Shippers.
- **Pipeline Investors:** Provides them with the ability to obtain firm contracts from potential shippers, which help to:
 - economically justify construction and operation of new gas pipelines
 - reduce risk

April, 2003

*Testimony of A Ben Schoffmann to Alaska State
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Why is This Important? – Cont.

- **Prospective Shippers:** Enables them to choose the type of gas transportation service which best aligns with their customer contracts and gas supplies.
 - Firm Transportation (FT)
 - Firm sales contracts need the accompanying assurance of firm transportation (interruptible transportation and potential curtailment is not compatible with firm sales commitments).
 - Interruptible Transportation (IT)
 - Compatible with interruptible sales contracts and/or uncertain supplies
 - Potential Shippers with undiscovered/poorly defined potential gas supplies need not make financial commitments in advance of proving up gas supplies.



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HB 204 / SB 151 What It Won't Do

- It will not change the “Open Access” status of pipelines under the State Pipeline Act.
- It will not have an adverse fiscal impact on the State.
- It will not have an adverse impact on “smaller shippers” or those without an ownership position in the pipeline.

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Is Producer-Affiliate Ownership an Issue?

- Pipeline Owners in Alaska are mostly Public Utilities & Producer Affiliates
 - These entities have the capital and incentives to construct new pipelines
 - Other PL developers have no incentives to invest in the current environment
- Producer Affiliates can't "Lock Out" Smaller Producers
 - Existing law provides remedies
 - Prohibits unreasonable discrimination (AS 42.06.320)
 - Permits RCA to reallocate usage to remedy discrimination (AS 42.06.330)
 - Authorizes RCA to require capacity expansions (AS 42.06.310(c))
 - RCA can take additional steps
 - As the FERC has done, require an Open Season as a condition of a determination that a proposed pipeline serves the public convenience and necessity
 - Under an Open Season a pipeline offers access on the same terms to all shippers (affiliated and non-affiliated) before it can be constructed
 - Does not require any additional statutory authority
 - FYI, KKPL held an Open Season
- Other statutes and agencies do not think producer-affiliation is an issue
 - 2000 Amendments providing for "firm" and "interruptible" service for North Slope Gas Pipeline did not prohibit or discriminate against ownership by producer affiliates
 - FERC has not prohibited or discriminated against producer-affiliate ownership

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Pipelines, Regardless of Ownership, Are Good for Business

- Gas Business Drivers:
 - 1) Gas Supply (or access to land & prospects)
 - 2) Gas Sales Contracts (demand & price)
 - 3) Costs (exploration, development, & production)
 - 4) Infrastructure (access to & cost of transportation)
- New pipeline projects will encourage investments by other potential producers:
 - As “Open Access” Infrastructure moves closer, business hurdles of stranded gas are overcome
- More pipeline throughput is good for everyone:
 - Shipper cost of service per unit is reduced
 - Owners’ revenue stream is more stable and predictable

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Why is It Needed Now?

- RCA has raised a question in their December 24, 2002 Order to KKPL as to whether RCA has the authority to grant “firm” and “interruptible” service for other than a North Slope Gas Line.
- KKPL will file with the RCA to approve KKPL’s Tariff in the second quarter of 2003.
- After holding an extensively publicized Open Season, two Shippers require, and have committed to pay for, Firm Service on KKPL.

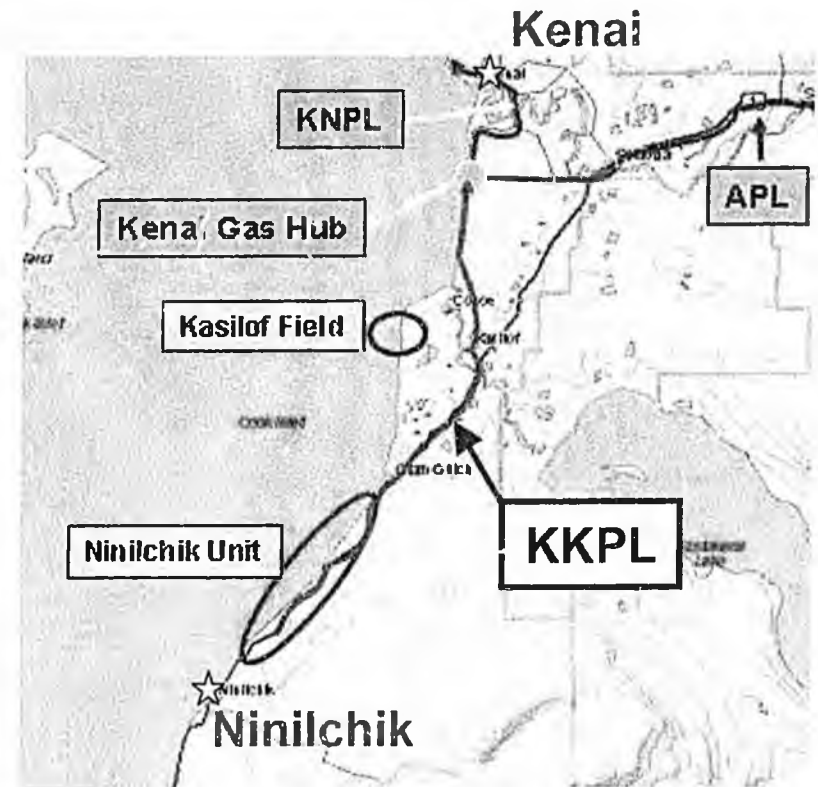


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What is KKPL?

- Owned by an Alaska Limited Liability Company
 - Marathon (60%)
 - Unocal, through GUT (40%)
- New \$25 million, 33-mile, 12-inch diameter Gas Transmission Pipeline.
- Connects newly discovered gas to existing Cook Inlet gas pipeline and market infrastructure.



Kenai Peninsula

April, 2003

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