

**Gasline Development****FY2002 Request: \$3,276,600****Reference No: 34773****AP/AL:** Appropriation**Project Type:** Planning**Category:** Development**Location:** Statewide**Contact:** Pat Pourchot**House District:** Statewide (HD 1-40)**Contact Phone:** (907)465-2400**Estimated Project Dates:** 07/01/2001 - 06/30/2003**Brief Summary and Statement of Need:**

This project request summarizes state actions to be taken to facilitate the development of a pipeline for North Slope natural gas. Actions include initiating work on issuing state rights-of-way; collecting data for permitting reviews; development of an overall project labor agreement to provide job opportunities for Alaskans; and review of the 1977 agreement between Canada and the United States, and coordination with the Canadians to insure a collaborative approach.

<b>Funding:</b>	<b>FY2002</b>	<b>FY2003</b>	<b>FY2004</b>	<b>FY2005</b>	<b>FY2006</b>	<b>FY2007</b>	<b>Total</b>
Gen Fund	\$3,276,600						\$3,276,600
<b>Total:</b>	<b>\$3,276,600</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$3,276,600</b>

<input type="checkbox"/> State Match Required	<input type="checkbox"/> One-Time Project	<input checked="" type="checkbox"/> Phased Project	<input type="checkbox"/> On-Going
0% = Minimum State Match % Required		<input type="checkbox"/> Amendment	<input type="checkbox"/> Mental Health Bill

**Operating & Maintenance Costs:**

	<u>Amount</u>	<u>Staff</u>
Project Development:	0	0
Ongoing Operating:	0	0
One-Time Startup:	0	0
<b>Totals:</b>	<b>0</b>	<b>0</b>

**Additional Information / Prior Funding History:****Project Description/Justification:****Introduction**

This budget request includes a spectrum of gasline-related work, all of which is necessary for approval of any gasline application. Allowing the agencies to begin work early in 2001 will allow the state to consider legal, financial and environmental issues, thereby facilitating a timely pipeline right-of-way application review process. Some of the work identified in these budget proposals may be reimbursable by the project sponsor(s) once an application is received. The budget requests will then be superceded by that funding source. Notably, the Departments of Natural Resources, Fish and Game, Environmental Conservation, and Law are most likely to have their reasonable costs associated with processing a gas pipeline application, and monitoring construction filed under the Right-of-Way Leasing Act (AS 38.35.140(b)), reimbursed directly by gas pipeline sponsor(s). In addition, cost efficiencies may be realized as the various state processes for pipeline approval and construction oversight are coordinated.

**Office of Governor****Strategy and Consulting - \$120,000**

The Office of the Governor requests \$120,000 to pay for the services of an expert consultant to assist the state in developing an effective strategy to promote commercial development of Alaska's North Slope gas reserves. The contractor must be knowledgeable not only of Alaska issues and the North American natural gas market, but also world markets as the state considers all of its options for commercializing the vast North Slope reserves. The Office of the

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Governor will contract with a consultant for a sophisticated and independent analysis of the natural gas market, specifically looking at how much the market can handle, how much buyers are willing to pay for gas, and which projects will compete with Alaska gas in the market.

### **Department of Law Legal Representation - \$300,000**

The Department of Law requests \$300,000 to retain expert legal advice in Washington, D.C. and Ottawa, Canada, on the numerous national and international regulatory issues by potential gas development on the North Slope.

The first time a North Slope gas project received serious consideration the regulatory, executive branch and legislative process for selecting and permitting an Alaska gas pipeline took eight years, from 1974 to 1982. The state was active in the entire process not only to promote its project choice but also to obtain legal structures that expedited the selection process, protected the state's right to take royalty gas in-kind in Alaska and its right to impose its own environmental conditions on the right of way over state lands. The state also helped secure tariff and other financial structures that assisted the disposition of royalty gas.

There will be extensive regulatory, executive branch and legislative proceedings in FY2002 in the United States and Canada. The federal government will be examining the environmental impact statements completed on the project and deciding what additional work needs to be completed. The tariff mechanism, subject to the Federal Energy Regulatory Commission (FERC) jurisdiction, needs to be revised to modern financial conditions. FERC also will issue updated terms and conditions for the basic certificate for the Alaska Natural Gas Transportation System (ANGTS).

FERC has to resolve the issue of whether investments made for the ANGTS in the 1980s can be carried forward into the rate base of any new project. FERC and other federal authorities have to decide whether other applicants are entitled to be heard at this time or whether the ANGTS statutory preference precludes consideration of those applications.

The Department of Law will assist the Department of Natural Resources in developing right-of-way terms and conditions and coordinating those terms and conditions with other landowners. At a minimum, it is reasonable to expect the Department of Law to assist in advocating state interests to the Department of Interior, Federal Energy Regulatory Commission, Department of Energy, White House, Environmental Protection Agency, Congress, and the national and affected regional governments of Canada. The funds requested will assist the state in that effort.

### **Department of Revenue Fiscal Issues and Travel - \$75,000**

The Department of Revenue requests \$50,000 to contract for an independent analysis of the state's fiscal regime for natural gas development, with particular emphasis on determining what would constitute a fair economic rent for the state and how that might effect a project's overall financial condition. The economics of a natural gas project are much different than that for oil development and production, and the Department needs to ensure that the state's existing tax structure is not a disincentive to commercialization of Alaska's natural gas reserves. The Department also wants to ensure that Alaska receives a fair share of the revenue from its public resource. The contractor will research and analyze how Alaska's fiscal regime compares to other governments with natural gas production, and how best to structure Alaska's economic rent to improve the competitiveness of a North Slope natural gas project in the market.

The Department of Revenue requests \$25,000 for travel and related expenses. Active participation in the effort to encourage, promote and analyze the various proposals for commercialization of Alaska's natural gas reserves will require a fair amount of travel to meet with public officials in Washington, D.C. and Canada, oil and gas producers, pipeline operators, the financial community and potential natural gas customers. It also will be necessary to attend key sessions on natural gas markets to maintain Alaska's presence in the discussions and to protect the state's interests.

### **Department of Natural Resources Staffing at the State Pipeline Coordinator's Office - \$324,620**

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The Department of Natural Resources requests \$324,620 for State Pipeline Coordinator's Office/Joint Pipeline Office staff to perform gas pipeline and pipeline corridor work. A project manager for gas pipeline work and a lead engineer will be recruited. The staff will provide technical assistance to the Governor's Office and the Department of Natural Resources Commissioner, and respond to inquiries from the legislature, to promote the best possible right-of-way and permitting decisions by the state regarding the project. The staff will work with other state agencies and federal and Canadian counterparts to coordinate right-of-way permitting and oversight processes. Staff will also work with project proponents on right-of-way requirements and design engineering efforts. When the SPCO/JPO and applicants enter into a reimbursement memorandum of understanding, costs associated with processing a gas pipeline right-of-way application and monitoring construction will be reimbursed directly by the applicant. This Department budget request will then be superceded by that funding source.

### Department of Natural Resources

#### Advance Work on Land Records, Hydrology, etc. - \$500,000

The Department of Natural Resources requests \$500,000 for the following projects:

- The permit process requires a detailed review and assessment of land title plats and records. Key portions of the Department's record system along the main corridor must be automated to reduce the permitting time. Outdated land records essential for title reports will be brought current. This task includes: all data entry from existing manual plats, adding all outstanding pending actions, performing essential records research and verification, producing check plots and verified final plots. The work also will include all steps necessary to assure electronic public access to these records.
- Application information must be distributed among several agencies and comments must be shared, sometimes with iterations. The Department currently relies on paper copies sent from office to office or, at best, email. This project will automate key portions of the review process to accelerate responses as it moves a cumbersome paper process of duplicating application forms and proposals to an electronic format. Agencies will receive key information via email notification; web-page structure will be used to distribute permit documents; and electronic storage of comments will replace slower paper memoranda. The web site would permit managers to include public access and public comment. This work product would be linked to the Department's Land Administration System and become a useful means to inform the applicant(s) and the public about the permit process.
- Hydrologist funding is needed to complete the compilation and review of existing hydrologic data essential to environmental analyses for permitting a gas pipeline project. This work will be initiated in FY2001 and completed in FY2002. This advance effort will speed the application approval process.

### Department of Natural Resources

#### Gas Supply Study - \$210,000

The Department of Natural Resources requests \$210,000 for a geologic study of the supply side of the gas pipeline initiative to ascertain the possible volumes of natural gas resources (free, associated, coal bed methane, hydrates) that might be present in petroliferous basins along proposed gas pipeline routes. These gas resources, incremental to North Slope gas reserves, represent potential additional economic development and gas pipeline throughput and supply for in-state use and export to the selected markets. The resulting information will improve the quality of engineering and economic analysis of the proposed project, and will provide information helpful for determination of preferred oil and gas leasing/licensing programs.

### Alaska Oil and Gas Conservation Commission

#### Reservoir Study - \$500,000

The Alaska Oil and Gas Conservation Commission requests \$500,000 to evaluate the effects of natural gas sales on greater ultimate oil recovery from the Prudhoe Oil Pool. This is necessary to carry out the Commission's obligation to prohibit physical waste of oil and gas and achieve greater ultimate recovery of those resources. The AOGCC needs to know what effect gas sales will have on oil recovery and what options may be available to lessen any potential negative

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effects on oil production. It is critical to identify and understand issues associated with gas cap sales versus continuing gas cap injection. The AOGCC does not have the current resources to conduct this study.

Gas that is proposed for sale is currently being reinjected to maintain reservoir pressure to increase ultimate oil recovery. In general, maintaining reservoir pressure will lead to an increase in ultimate oil recovery. In the Prudhoe Bay Field, reservoir pressure is maintained through a combination of gas reinjection and water injection. In general, the lower reservoir pressure that may result from gas cap sales instead of the current gas reinjection could reduce ultimate oil recovery. We propose a study to evaluate how to most effectively and efficiently achieve greater recovery of both oil and gas.

### Department of Labor and Workforce Development

#### Local Hire - \$50,000

The Department of Labor requests \$50,000 to ensure that the supply of qualified labor required by the gas pipeline is sufficient to meet the demands for the project. The Department will conduct occupational supply and demand analyses to identify potential "skill gaps" in Alaska's labor market.

The Department in FY2002 will refine the skills gap analysis using the additional data elements collected during FY 2001 and will identify occupations with shortages of trained Alaska workers. The Department then will assist with the development of strategies to close the projected skill gap. Strategies may include the identification of "training gaps" and the development of career information products that encourage Alaskans, of all ages, to consider the shortage occupations.

### Department of Environmental Conservation

#### Environmental Permitting and Monitoring - \$600,000

The Department of Environmental Conservation requests \$600,000 to proceed with updating environmental impact studies for the Alaska Highway gasline route, reviewing the state right-of-way application and reviewing the overall project design for compliance with statutes and regulations. The Department will provide pre-application assistance and permitting for major air pollution sources, such as compressor stations, and perform site-specific reviews for camp and other discharges that take into account specific discharge and receiving water characteristics. Stormwater pollution prevention plans, excavation dewatering, monitoring requirements and construction camp mobilization plans will be developed. Specific wastewater permit language will be negotiated for each discharge, and site inspections carried out to verify compliance. Certification of NPDES permits and negotiation and coordination of permit stipulations and monitoring requirements with other agencies and the applicant will also be needed. The Department will also provide permit assistance for activities related to the planning and design of drinking water, wastewater, solid waste, and food preparation facilities and review potential pesticide use.

### Department of Fish and Game

#### Environmental Permitting and Monitoring - \$600,000

The Department of Fish and Game requests \$600,000 to ensure the protection of fish and wildlife resources and habitats for pre-construction and construction phases of a natural gas pipeline system. The proposed work program is designed to begin preparation of a state right-of-way lease. Tasks may include:

- A wetlands evaluation program.
- Analysis of the effects of a chilled gas pipeline on stream crossings.
- Evaluation of any route modifications.
- Field assessments to verify/update past fish and wildlife resource data and to note new conditions.
- Coordination with the Department of Natural Resources to begin formulating lease stipulations.
- Development of an annotated bibliography of information relevant to the proposed route.
- Field inspection of proposed stream crossings and material sites.
- A conceptual plan to address wildlife mitigation.
- Evaluation of revegetation techniques north of the Brooks Range.
- Evaluation on the gas pipeline impacts to subsistence activities.

