

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY -FIFTH LEGISLATURE -FIRST SESSION

BY

Introduced:
Referred:

A BILL

FOR AN ACT ENTITLED

“An Act relating to oversight of North Slope natural gas pipelines by the Regulatory Commission of Alaska under the Alaska Pipeline Act; repealing statutory limitations on the conduct of open seasons for the transport of North Slope natural gas for in-state use; and repealing a requirement that the Regulatory Commission of Alaska treat the regulation of intrastate rates for a North Slope natural gas pipeline as if the pipeline were a public utility.”

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

* **Section 1.** AS 42.06.240(f) is repealed.

* **Section 2.** AS 42.06.230(b) is amended to read:

(b) The commission's jurisdiction and authority extend to

(1) an oil or gas pipeline facility operating in a municipality, whether home rule or otherwise; if a conflict between a certificate, order, decision, or regulation of the commission and a charter, permit, franchise, ordinance, rule, or regulation of **the** [SUCH A] local governmental entity occurs, the certificate, order, decision, or regulation of the commission prevails; and

(2) the intrastate transportation of [NORTH SLOPE] natural gas

through a [NORTH SLOPE] natural gas pipeline to the extent not preempted by federal law, rule, or regulation.

* **Section 3.** AS 42.06.370(c) is repealed.

Purpose

The purpose of this legislation is to remove potential impediments to timely state regulatory approval of a natural gas pipeline delivering North Slope natural gas to in-state users. Currently, AS 42.06.240(f) provides specific directives regarding how the Regulatory Commission of Alaska is to allow access to a pipeline for the transport of North Slope natural gas for in-state use. This provision has never been implemented by the RCA. Both the Alaska Natural Gas Development Authority and the RCA support removal of this provision from Alaska statutes to allow maximum flexibility in designing a regulatory structure for access to the pipeline by shippers that meet market requirements.

Similarly, AS 42.06.370(c) directs that a pipeline transporting North Slope natural gas shall establish rates as if it were a public utility regulated under AS 42.05. The purpose for repeal is to allow maximum discretion in establishing just and reasonable rates to meet public interest requirements.

Regulatory Commission of Alaska
701 West Eighth Avenue, Suite 300
Anchorage, Alaska 99501
(907) 276-6222; TTY (907) 276-4533

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STATE OF ALASKA

THE REGULATORY COMMISSION OF ALASKA

Before Commissioners:

Kate Giard, Chairman
Dave Harbour
Mark K. Johnson
Anthony A. Price
James S. Strandberg

In the Matter of the Proposal from the Alaska
Natural Gas Development Authority to Repeal
AS 42.06.240(f) and AS 42.06.370(c) }

P-05-10
ORDER NO. 2

ORDER CLOSING DOCKET

BY THE COMMISSION:

Summary

We support the Alaska Natural Gas Development Authority's (ANGDA's) proposal to repeal AS 42.06.240(f) and AS 42.06.370(c). We close this docket.

Background

At ANGDA's request, we decided to open this docket to receive comments from interested parties on the impact of ANGDA's proposal to repeal AS 42.06.240(f) and AS 42.06.370(c).¹ We held a public hearing on ANGDA's proposed statutory revisions on September 8, 2005.

¹Order P-05-10(1), *Order Scheduling Public Hearing and Requesting Comments*, dated August 29, 2005.

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Discussion

We received comments from Steve Pratt, Consultant, on behalf of ANGDA, Flint Hills Resources Alaska, LLC; Anadarko Petroleum Corporation; and ENSTAR Natural Gas Company, a division of SEMCO Energy, Inc.

We sent a letter to Governor Murkowski stating, in part, that: Based on our review of the record in Docket P-05-10, we support ANGDA's proposal. AS 42.06.240(f) contains very specific requirements for the timing and substance of intrastate capacity commitments made in connection with a North Slope natural gas pipeline. We believe that detailed requirements of that kind are more appropriately made by regulation, not in a statute. AS 42.06.370(c) is problematic because under it we are required to set rates of an entity which by statute must be certificated under AS 42.06 as though it were an entity certificated under AS 42.05. We believe that requirement raises uncertainties that should not be interjected into the rate setting process.

We support ANGDA's proposal to repeal AS 42.06.240(f) and AS 42.06.370(c). We attach the February 28, 2006 Commission letter to Governor Murkowski to this order as an Appendix. We close this docket.

STATE OF ALASKA

DEPARTMENT OF COMMERCE
COMMUNITY AND ECONOMIC DEVELOPMENT
REGULATORY COMMISSION OF ALASKA

FRANK H. MURKOWSKI, GOVERNOR

701 WEST EIGHTH AVENUE, SUITE 300
ANCHORAGE, ALASKA 99501-3469
PHONE: (907) 276-6222
FAX: (907) 276-0160
TTY: (907) 276-4533
WEBSITE: www.state.ak.us/rca/

February 28, 2006

The Honorable Frank H. Murkowski
Office of the Governor
Alaska State Capitol, Room 430
Juneau, Alaska 99801-1182

Dear Governor Murkowski:

At the request of Harold Heinze, Chief Executive Officer of the Alaska Natural Gas Development Authority (ANGDA), we internally reviewed, publicly noticed, and received public comment orally and in writing on the revisions to AS 42.06 (Pipeline Act) proposed by ANGDA. ANGDA proposed to repeal AS 42.06.240(f) and AS 42.06.370(c). See attachment.

Based on the record, the RCA supports the proposed revisions by ANDGA to AS 42.06. Both AS 42.06.240(f) and AS 42.06.370(c) were part of changes made to AS 42.06 in 2000 that defined and added special provisions relating to a "North Slope natural gas pipeline." A North Slope natural gas pipeline includes all the facilities of a total system of pipe, including gas processing plants, used to transport "gas that is produced from the area of Alaska lying north of 68 degrees North latitude and that, but for a pipeline subject to regulation under this chapter, had not been committed for sale and delivery in a commercial market due to the prevailing costs or price conditions." (AS 42.06.630(12)).

In addition to defining a North Slope natural gas pipeline and adding the provisions ANGDA seeks to repeal, the 2000 enactment added provisions that deal with the extension or expansion of a North Slope natural gas pipeline (AS 42.06.310(d)) and that permit a North Slope natural gas pipeline to have two classes of service, firm and interruptible (AS 42.06.350(c)). See attachment.

In 2003, AS 42.06.350(c) was amended to make it applicable to all natural gas pipelines rather than only to a North Slope natural gas pipeline. Thus, any natural gas pipeline may now offer firm and interruptible service. If AS 42.06.240(f) and AS 42.06.370(c) are repealed, as proposed by ANGDA, AS 42.06.350(c) (extension and expansion) will be the only portion of statute requiring special treatment for a North Slope natural gas pipeline and the only portion making it necessary to retain the North Slope natural gas pipeline definition and jurisdictional subsections (AS 42.06.630(12), (13), and (14) and AS 42.06.230(b)(2)).

We held a public hearing on ANGDA's proposed statutory revisions on September 8, 2005. We enclose a copy of the transcript from that hearing. At the public hearing,

Steve Pratt, Consultant, spoke on behalf of ANGDA. Mr. Pratt testified that the statutory provisions ANGDA sought to repeal contained ambiguities, which might lead to uncertainty, which translates to risk, and that increased risk translates into increased costs. He stated the provisions unnecessarily limited the discretion of the RCA to act in the public interest. No other person spoke at the public hearing.

We received written comments on the proposed statutory revisions from three entities: Flint Hills Resources Alaska, LLC; Anadarko Petroleum Corporation; and ENSTAR Natural Gas Company, a division of SEMCO Energy, Inc. We enclose a copy of each of those comments.

Flint Hills agreed with ANGDA that the statutes proposed for repeal might create an impediment to the expansion of the intrastate North Slope natural gas market and might also limit the authority of the RCA to protect the public interest. Flint Hills stated that the requirement of AS 42.06.240(f) that shippers provide three-year take-or-pay contracts as proof of intrastate firm transportation commitments is a very heavy burden on the customer. Flint Hills stated that AS 42.06.370(c) would limit the discretion of the RCA and limit the capacity of carriers, shippers, and customers to propose, debate, and develop creative rate models.

Anadarko stated that its understanding was that the proposed revisions would serve to clarify the Pipeline Act and give the RCA greater discretion to resolve intrastate transportation issues on a North Slope natural gas pipeline. Based on that understanding, Anadarko supported ANGDA's proposed revisions.

ENSTAR stated in its filing that it was not ready to comment on the specific proposal. It observed that the interrelationships between the statutory and regulatory provisions that will govern development of North Slope natural gas were not simple. ENSTAR wanted a better explanation from ANGDA of the need for repeal and the consequences for the RCA's regulatory oversight of future gas pipelines.

ANGDA submitted a filing documenting the legislative history of the provisions it seeks to repeal. ANGDA also submitted the remarks of former Alaska Attorney General Charlie Cole on this subject at a July 28, 2004 Legislative Budget and Audit Committee hearing on stranded gas. In those remarks General Cole explained why he believe AS 42.06.240(f) was problematic as applied to possible providers of natural gas to Fairbanks. However, he recommended revision of the subsection rather than repeal.

Based on our review of the record in our Docket P-05-10, we support ANGDA's proposal. AS 42.06.240(f) contains very specific requirements for the timing and substance of intrastate capacity commitments made in connection with a North Slope natural gas pipeline. We believe that detailed requirements of that kind are more appropriately made by regulation, not in a statute. AS 42.06.370(c) is problematic

because under it we are required to set rates of an entity which by statute must be certificated under AS 42.06 as though it were an entity certificated under AS 42.05. We believe that requirement raises uncertainties that should not be interjected into the ratesetting process.

Sincerely,

REGULATORY COMMISSION OF ALASKA

A handwritten signature in black ink, appearing to read "Kate Giard". The signature is fluid and cursive, with a large loop at the end of the last name.

Kate Giard
Chairman

Enclosures: Applicable Statutes
Transcript of Public Hearing
Public Comments

cc: Harold Heinze, Chief Executive Officer
Alaska Natural Gas Development Authority

AS 42.06.240(f)

(f) In addition to other requirements of (a) - (e) of this section, the provisions of this subsection apply to a certificate of public convenience and necessity for a North Slope natural gas pipeline carrier or person that will be a North Slope natural gas pipeline carrier under this chapter:

(1) the person making application shall dedicate a portion of the pipeline's initial capacity sufficient to transport the total volume of North Slope natural gas that has been committed by producers and shippers of North Slope natural gas to tendering for intrastate firm transportation service at the time that the operation of the North Slope natural gas pipeline commences;

(2) upon receipt of the certificate application under this subsection, the commission shall issue a public notice inviting prospective intrastate shippers of North Slope natural gas to file requests for service; a request for service submitted by a shipper in response to a notice issued under this paragraph must include a proof of the shipper's commitment to use the North Slope natural gas pipeline for intrastate firm transportation service, specifying the volume of North Slope natural gas that the shipper will tender for initial intrastate firm transportation service;

(3) in its review of an application submitted under this subsection,

(A) for purposes of evaluating the total volume of intrastate transportation of North Slope natural gas to be accepted for initial intrastate transportation, the commission shall determine total volume based upon written commitments to tender North Slope natural gas for intrastate firm transportation service continuously for a period of not less than three years after the operation of the North Slope natural gas pipeline commences as follows:

(i) each request for service by an intrastate shipper that is a public utility, as that term is defined in AS 42.05.990, for the purpose of furnishing natural gas for ultimate consumption within the state by its customers that individually consume an average annual volume of less than 20,000,000 standard cubic feet of gas per day shall be supported by a written commitment by the public utility that sets out the utility's best current estimate of the average annual volume that the utility will require during the three-year period;

(ii) each request for service by an intrastate shipper that is not a public utility, as that term is defined in AS 42.05.990 and each request for service by a public utility for the purpose of furnishing natural gas for

ultimate consumption within the state by a customer that individually consumes an average annual volume of 20,000,000 or more standard cubic feet of gas per day, that purchases North Slope natural gas from a North Slope natural gas producer, must be supported by one or more contracts for the purchase of the North Slope natural gas on a take-or-pay basis that extends for a period of not less than three years after the operation of the North Slope natural gas pipeline commences;

(iii) the commission may consider peak volumes specified in the written commitments of North Slope natural gas producers and purchase contracts; and

(B) the commission shall set out in its order granting a certificate of public convenience and necessity the total volume of intrastate North Slope natural gas that the North Slope natural gas pipeline carrier shall accept for intrastate transportation; the total volume may not exceed the volume substantiated by written commitments and contracts that comply with the requirements of this chapter;

(4) if the North Slope natural gas pipeline carrier wants to transport North Slope natural gas within the state in excess of the amount set out in the statement of total volume in the pipeline carrier's certificate of public convenience and necessity, the pipeline carrier may apply for authority to transport a greater volume of North Slope natural gas within the state than the carrier is required by the commission to transport in its order entered under (3)(B) of this subsection; the commission shall grant the authority requested by the pipeline carrier if the commission determines that the pipeline carrier's transportation of a greater volume is consistent with public convenience and necessity.

AS 42.06.370(c)

(c) Rates demanded, observed, charged, or collected by a North Slope natural gas pipeline carrier for intrastate service shall be designed as if that portion of the North Slope natural gas pipeline were a public utility regulated under the provisions of AS 42.05.

AS 42.06.310(d)

(d) The requirement of (c) of this section does not apply to a North Slope natural gas pipeline carrier to the extent that the capacity of the carrier's North Slope natural gas pipeline does not allow for expanded capacity, and does not apply to require a North Slope natural gas pipeline carrier to enlarge or extend its North Slope natural gas pipeline system. However, the commission may require a North Slope natural gas pipeline carrier to

expand, enlarge, or extend its North Slope natural gas pipeline system if, after notice and opportunity for hearing, the commission determines that

(1) a person making a request for expanded, enlarged, or extended service by a North Slope natural gas pipeline carrier has made a firm contractual commitment to the North Slope natural gas pipeline carrier to transport North Slope natural gas; and

(2) the expansion, enlargement, or extension will not result in

(A) substantial injury, including economic injury, to the North Slope natural gas pipeline facility or its customers;

(B) substantial detriment to the services furnished by the North Slope natural gas pipeline facility; or

(C) the creation of safety hazards.

AS 42.06.350(c) [as it read when enacted]

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

STATE OF ALASKA

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

FRANK H. MURKOWSKI, GOVERNOR

1031 WEST 4TH AVENUE, SUITE 300
ANCHORAGE, ALASKA 99501-5903
PHONE: (907)269-5100
FAX: (907)279-8644

October 19, 2005

Hand Delivered To:

Regulatory Commission of Alaska
701 West 8th Avenue, Suite 300
Anchorage, Alaska 99501

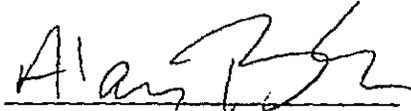
Re: Docket No. P-05-10 – In the Matter of the Proposal from the Alaska Natural Gas
Development Authority to Repeal AS 42.06.240(f) and AS 42.06.370(c)

Dear Regulatory Commission of Alaska:

Per the Commission's request, enclosed you will find an original and 10 copies of
the legislative history of AS 42.06.240(f) and AS 42.06.370(c), prepared on behalf of
ANGDA, for filing in Docket No. P-05-10. Thank you.

DAVID W. MARQUEZ
ATTORNEY GENERAL

By:



Alan Birnbaum
Assistant Attorney General

AB/drj

Enclosure

cc: Harold Heinze
Steve Pratt

REC'D
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	Legislative History of AS42.06.240(f) & AS42.06.370(c) (HB 290 - 56 SLA 2000)
	Chapter 56 SLA 2000
	Bill History/Action
	Bill Versions
	A. House Bill No. 290
	B. House Bill No. 290 (O&G)
	C. House Bill No. 290 (RES)
	D. House Bill No. 290 (FIN)
	Committee Minutes
	House Oil & Gas Committee
	1. 1/27/00 Minutes
	2. 2/1/00 Minutes
	3. 2/10/00 Minutes
	4. 2/17/00 Minutes
	House Resources Committee
	5. 2/21/00 Minutes
	6. 3/1/00 Minutes
	House Finance Committee
	7. 3/23/00 Minutes
	8. 3/24/00 Minutes
	9. 3/28/00 Minutes
	Senate Finance Committee
	10. 4/15/00 Minutes
	Committee Bill Files (Printed from Microfiche)
	Recorded Cassette Tapes - Committee Hearings (Total 12 Tapes - not included in binder located in DOL Oil, Gas & Mining Section)
	House Oil & Gas Committee
	1/27/00 Tape 1 of 2; Tape 2 of 2
	2/1/00 Tape 1 of 1
	2/10/00 Tape 1 of 1
	2/17/00 Tape 1 of 2; Tape 2 of 2
	House Resources Committee
	2/21/00 Tape 1 of 1
	3/1/00 Tape 1 of 1
	House Finance Committee
	3/23/00 Tape 1 of 2; Tape 2 of 2
	3/28/00 Tape 1 of 1
	Senate Finance Committee
	4/15/00 Tape 1 of 1

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STATE OF ALASKA

THE REGULATORY COMMISSION OF ALASKA

Before Commissioners:

Kate Giard, Chairman
Dave Harbour
Mark K. Johnson
Anthony A. Price
James S. Strandberg

In the Matter of the Consideration of)
Regulations Classifying Pipelines Based)
upon Differences in Annual Revenue,)
Assets, Nature of Ownership, and Other)
Appropriate Distinctions)

R-05-11

ORDER NO. 1

ORDER OPENING DOCKET AND SEEKING COMMENTS

BY THE COMMISSION:

Summary

We open this docket to seek comments on whether we should establish two or more classes of pipelines under AS 42.06, and the reporting, accounting, and other regulatory requirements that we should prescribe for each class.¹

Discussion

We recognize that the cost of regulation can be prohibitive for small, producer-owned pipelines and that full regulation of small pipelines could discourage exploration and development of Alaska's resources. We should consider simplified

¹ See AS 42.06.620 which states: The commission may by regulation provide for the classification of oil or gas pipeline facilities based upon differences in annual revenue, assets, nature of ownership, and other appropriate distinctions and as between these classifications, by regulation, provide for different reporting, accounting, and other regulatory requirements.

1 regulation if current regulation is unduly burdensome and adversely affects the
2 development of Alaska's oil and gas resources. However, we must balance the need
3 for such regulatory charge with the public interest in open access to pipelines and
4 reasonable transportation rates.

5 At our November 4, 2005, Public Meeting, we decided to open this docket
6 to seek comments from interested persons on whether we should consider regulations
7 establishing two or more classes of pipelines. In particular, we are interested in whether
8 we can ease the burden of regulation on small, producer-owned pipelines that ship only
9 the producer's products, while still adequately protecting the interests of unaffiliated
10 producers, end-users and the public.

11 We seek comments on whether we should establish two or more classes
12 of pipelines under AS 42.06. We also seek comments on the reporting, accounting, and
13 other regulatory requirements we should prescribe for each class and how
14 implementation of comments will encourage development, provide cost-effective
15 regulation, provide open access to pipelines, and allow for reasonable transportation
16 rates while protecting the public interest.

17 Comments must be filed by 4 p.m., January 13, 2006, with reply
18 comments due January 27, 2006. We request that commenters reference Docket
19 R-05-11. Since this is a regulations proceeding, commenters are not required to serve
20 their comments on the other entities set out on the service list of this Order. We will
21 post copies of all filed comments on our web site.

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STATE OF ALASKA

ALASKA NATURAL GAS DEVELOPMENT AUTHORITY

FRANK H. MURKOWSKI, GOVERNOR

411 WEST 4TH AVENUE
ANCHORAGE, ALASKA 99501
TELEPHONE: (907) 257-1347
FACSIMILE: (907) 646-5005

May 24, 2005

FILE COPY

Kate Giard
Chairman, Regulatory Commission of Alaska
701 West Eighth Avenue, Suite 300
Anchorage, AK 99501-3469

Re: Statutory Changes to AS 42.06

Dear Chairman Giard:

As you know, the Alaska Natural Gas Development Authority (ANGDA) is reviewing the feasibility of constructing a pipeline to transport natural gas to various users, including Alaskan consumers. Should construction prove feasible, ANGDA anticipates applying to the Regulatory Commission of Alaska (RCA) for a Certificate of Public Convenience and Necessity. Since certification is required prior to commencing construction, any delay in certification could prove detrimental to the project.

Our review of AS 42.06 has raised concerns that the Commission may not have at its disposal the tools required to efficiently process our application within the statutory six-month time frame. Therefore, ANGDA would like to work with the RCA to advocate statutory changes that increase the RCA's discretion in streamlining certification proceedings for jurisdictional natural gas pipelines owned by the state that transport North Slope natural gas. The proposed changes, which we will be considering at our June 27th meeting, are detailed below. ANGDA invites the RCA's input regarding any concerns with these changes that we hope you will join us in advocating.

We consider this a matter of some urgency since Governor Murkowski has indicated that the Alaska Legislature could have the matter of moving North

Slope gas to market before it within a few months. We believe that these issues could and should be part of any special session that is called.

1. Grant the RCA discretionary authority to exempt a pipeline owned by the state, or a public corporation owned by the state, from any provision of AS 42.06. Currently, full regulation of pipelines is mandatory under AS 42.06.140(a)(1) regardless of any public interest determination the RCA might make with respect to any particular applicant, circumstance, or statutory provision. We believe that RCA forbearance authority will allow the Commission to fit its regulatory regime to the dictates of individual circumstances while effectively meeting public interest requirements.

2. Exempt pipelines owned by the state, or by a public corporation of the state, from AS 42.06.240(f). In addition to being unclear as to how it might be implemented, which could lead to delay in and of itself, this section of the statute specifies criteria the RCA shall use in determining the maximum and minimum amounts of gas a pipeline transporting North Slope natural gas shall be authorized to transport. ANGDA, considering the needs of potential shippers as well as potential financiers, needs the flexibility to propose to the RCA its own rules for determining whom it will transport gas for, how much gas it will transport, the terms and conditions for offering various levels of service, and how each type of offered service will be defined. ANGDA and the RCA should have the authority to rely on input from market participants to make these determinations rather than relying on what we believe to be obsolete statutory dictates.

3. Repeal AS 42.06.370(c). This provision requires that the structure of prices charged by a pipeline transporting North Slope natural gas be designed as if the pipeline were a distribution utility regulated under AS 42.05. ANGDA financial goals and optimal just and reasonable rate design may differ from a typical gas or electric distribution utility. ANGDA and the RCA should have maximum flexibility to design rates to meet public interest goals. It is unclear to us why flexibility in rate design for a North Slope natural gas pipeline should be more restrictive than that applying to other pipelines.

Chairman Giard, we appreciate your assistance in helping us to advance the goals of the Stranded Gas Act as well as Ballot Proposition Number 3 that brought ANGDA into existence. The ANGDA Board has expressed its interest in meeting with representatives of the RCA to discuss these proposals further.

Stranded Gas Hearings
(0407281315 Minutes)

Access to Capacity for Alaskan Communities

Charlie Cole, Board of Directors, Alaska Gasline Port Authority, July 28, 2004.

MR. CHARLIE COLE, Board of Directors, Alaska Gas Pipeline Authority, said he wanted to talk about the Gas Act's provisions at Fairbanks.

I have to say preliminarily that I have some hesitation about speaking critically, you might say, about an item of legislation that passed the legislature by a vote of 20 – 0 in the Senate and 38 – 0 in the House. Obviously, any bill that passes the Alaska Legislature with votes like that has strong support and is viewed by informed legislators as good legislation for this state. So, with that caveat and that reservation, I want to speak a little bit today about the effect of that bill as I see it on Fairbanks and other Interior communities and in a sense, communities down river.

One, Alaska is cold and Fairbanks is, on occasions, very cold. It is one of the restraints on growth that we have in Alaska and we'll always have in Alaska – is the cold weather. With that given, low cost economic energy is vital for the economic development of, certainly, Interior Alaska and, as we have seen, how vital and how beneficial that has been to the Anchorage area. But, Fairbanks has not had that benefit and Fairbanks continues to struggle economically as respects quality of life for the high cost of energy there.

So, if one looks to the future of Fairbanks, if Fairbanks is going to have any economic growth... it must have cheap economic energy to offset the costs of living there.

The second given is that these Alaska resources should be primarily for the benefit of Alaskans. Isn't that what Governor Murkowski said? He said one of the fundamental purposes of the use of these resources of Alaska should be to benefit Alaskans.

Senator Seekins would know at times in Fairbanks when it's 50 degrees below zero, we have people there who buy 50 gallons of fuel oil to heat their house, to keep it from freezing, because that's all they can afford, if you can believe that. One of the givens for the Fairbanks community is we really need gas. There's only one place we're going to get that gas and that's off this gasline, if it's ever built. Presumably, it's going to be built.

Also, if we want to keep the military bases in Fairbanks – you know those base closure proceedings come up every once in a while. One of the criticisms we talk about keeping Eielson and Fort Wainwright there is how much it costs to keep those bases open. If we're trying to reduce the defense budget, maybe we're trying to, I'm not really sure that we are, but if we are, we've got to reduce the cost of power and heating at those bases. So, that should, in my view, be given as a policy.

So, what did the Stranded Gas Act do for Fairbanks in that regard? Given I think those unanimous policies – lets just read what AS 42.06.240 says in that regard.... starting with section (f).

In addition to the other requirements of (a) through (e) of this section, the provisions of this section shall apply to a certificate of public convenience and necessity for a North Slope natural gas pipeline carrier or a person that will be a North Slope natural gas pipeline carrier under this chapter.

(1) The person making the application shall dedicate a portion of the pipeline's initial capacity sufficient to transport the total volume of North Slope natural gas that has been committed by the producers and shippers of North Slope natural gas to tendering for intrastate firm transportation service at the time that the operation of the North Slope natural gas pipeline commences.

(2) Upon receipt of the certificate application under this subsection, the [RCA] shall issue a public notice inviting prospective intrastate shippers of North Slope natural gas to file a request for service. A request for service submitted by a shipper in response to the notice issued under this paragraph must include a proof of the shippers commitment to use the North Slope natural gas pipeline for intrastate firm transportation service, specifying the volume of North Slope natural gas that the shipper will tender for initial intrastate firm transportation service.

(3) In its review of an application submitted under this subsection:

(A) For the purpose of evaluating the total volume of intrastate transportation of North Slope natural gas to be accepted for initial intrastate transportation, the [RCA] commission shall determine the total volume based upon written commitments to tender North Slope natural gas for intrastate firm transportation service continuously for a period of not less than three years after the operation of the North Slope natural gas pipeline commences as follows (the RCA has to determine the total volume based upon written commitments (before the certificates of public

convenience and necessity are issued and before pipeline construction begins – day one):

(i) Each request for service by an intrastate shipper that is a public utility, as that term is defined by statute, for the purpose of furnishing natural gas for ultimate consumption within the state by its customers that individually consume an average annual volume of less than 20 million standard cubic feet of gas per day shall be supported by a written commitment by the public utility that sets out the utility's best current estimate of the average annual volume that the utility will require during the three-years period.

MR. COLE emphasized that a written commitment gives the sense of something that is binding and obligatory, but after reading the next sentence, it may not mean contract.

(ii) Each request for service by an intrastate shipper that is not a public utility, as that term is defined by law, and each request for service by a public utility for the purpose of furnishing natural gas for ultimate consumption within the state by a customer that individually consumes an average annual volume of 20 million or more standard cubic feet a day, that purchases North Slope natural gas from a North Slope natural gas producer must be supported by one or more contracts for the purchase of the North Slope natural gas on a take or pay basis that extends for a period of not less than three years after the operation of the North Slope natural gas pipeline commences.

MR. COLE explained that means that anybody who wants this natural gas, if it is not a public utility or it is a public utility with more than 20 million standard cubic feet per day, you have to reach a contract now to buy natural gas from the carrier on a take or pay basis. Fairbanks has no natural gas distribution system or facilities for converting natural gas to electrical energy; so, who in Fairbanks would enter into a contract like this, he asked. He didn't know how such a project would be financed and supposed that it would be impossible.

CO-CHAIR OGAN interrupted to say that LNG is being shipped from the Matanuska Valley to Fairbanks at \$7 per thousand CF and it wouldn't take too much to set up a turbine to turn the natural gas into electricity.

MR. COLE responded that it wouldn't be very practical to enter into a contract now without knowing what rates the RCA will set and approve as just and reasonable. Fairbanks needs a whole distribution system for homes to be heated and no one knows what that would cost and no one would finance it. However, he noted that was only part of the dilemma. The next section says:

(iii) The RCA may consider peak volume specified in written commitments

of the North Slope natural gas producers and purchase contracts; and

(B) The commission shall set out in its order granting a certificate of public convenience and necessity the total volume of intrastate North Slope natural gas that the North Slope natural gas pipeline carrier shall accept for intrastate transportation.

MR. COLE said that means the certificates of public convenience and necessity shall say the total volume of intrastate gas may not exceed the volume substantiated by written commitments and contracts that comply with the requirements of the chapter. Commitments have to be in place, then the RCA in the certificate of public convenience and necessity says, "You've got to send out X, but you can't ship any more for intrastate transportation."

He emphasized that it gets worse:

If the North Slope natural gas pipeline carrier wants to transport gas in excess of the amount set forth in the statement of total volume of the pipeline carrier's certificate of public convenience and necessity, the pipeline carrier may apply for authority to transport more.

MR. COLE explained that means the carrier has to see if it can get authority to do that.

We're looking at a gasline that's going to potentially be running by Fairbanks for the next 30 years. How are we ever going to, for example, entice anyone else to come to Fairbanks and utilize this natural gas for a petrochemical facility? What about supplying natural gas to Fort Wainwright? Converting those bases? And how are we going to furnish natural gas to Eilson Air Force Base? Once, ten years down the road, it then becomes up to the gasline to decide whether they want to increase the intrastate capacity for Fairbanks. And I'm not talking just about Fairbanks and Eilson and Fort Wainwright, I'm talking about Tok, I'm talking about Delta Junction on the way down the Highway, but I'm also talking about the development of propane facilities to be able to ship propane down river to these other communities. I mean, once you do this, [it] is locked in. Then it's up to the pipeline, itself, to decide whether it wants to increase the capacity – and that's over the next 10, 20 or 30 years or maybe 50 years.

This is legislation, which I think is ill-advised, if I may say. That's a little strong for people who voted 58 – 0; I realize that. But, I think for the reasons I've given you, this Legislature should take a look at it and decide whether it needs to be revised. Probably 90 percent of what you hear in these hearings you have no control over. It's under the control of FERC.