Stranded Gas Hearings

(0409020945 Minutes)

In-State Off-Take Points and Spurline: Cost and Design

Harold Heinze, Chief Executive Officer, Alaska Natural Gas Development Authority (ANGDA), September 2, 2004.

MR. HAROLD HEINZE, Chief Executive Officer of the Alaska Natural Gas Development Authority (ANGDA), advised members that his presentation would mirror Ms. Adair's but would address a much smaller scale. He noted that at the last hearing, members talked about some access and opportunity issues, and some people "raised their eyebrows" over the assertion that these things would work economically. As a result, ANGDA hired some contractors to do some feasibility studies based on some worst case assumptions and came to the conclusion that there are gas off-take opportunities in Alaska worth understanding. He said he would focus on providing gas for a number of different options: electric power plants, propane distribution, and piped gas distribution systems. He also said he would talk about an approach that is on a different scale. ANGDA designed an entirely stand-alone facility to perform those functions and costed it. He pointed out that it is not an optimized design but ANGDA has identified many ways to lower its cost and improve the design. He advised members that they need to immediately start considering that any gas pipeline that runs any major volume down through Alaska will have compressor stations on it. If those compressor stations are 100 miles apart, there would be seven or eight of them. Every one of those stations must perform the function of conditioning the gas. They must make the gas usable as a fuel and, in the process of doing so, will extract products that are valuable to Alaska's citizens. He reminded members that may not be on the scale of a huge petrochemical industry but it is very important for Alaska. He said he would then talk about a spur line into the Cook Inlet area because that represents a major off-take opportunity for Alaska. He gave the following presentation.

> Again, to kind of put it in scale for you, if you go back to the previous presentation, one of the early charts there showed the U.S. propane production at 500,000 barrels a day. If you kind of look around Alaska, how much propane is used in Alaska today, there's no exact number I could find but my best guess is it's probably a little over 1,000 barrels a day of propane is used in Alaska right now. And I went through and I did an estimate just - again, roughly off some previous demand studies that have been done related to gas and I estimated that if you supplied basically the whole interior of Alaska that was not on the highway system or not on the pipeline, in other words on the river system or the disbursed road system, that you'd need something maybe resembling 2,000 barrels a day of propane to do that. So, again, on the scale of the world, we're pretty small.
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> But also just to put in perspective for you, what you didn't hear in the last presentation is how much propane is going down the line. That number is anywhere from 50 to 100,000 barrels a day of propane is going down that line. So what I'm talking about here is a relatively minor extraction of something that's going by. It will not change the economics of anything related to the pipeline but it is important to the economics of Alaska and Alaskans. [end of tape]

MR. HEINZE continued.

> ...on the line. We sized - again, these kind of plants are very common. This is not brain surgery. This is off the shelf stuff. You can call people up and order these parts from a catalog and you can put them on a skid if they are small enough. As a matter of fact, the unit we are looking at here is smaller than any manufacturer really wanted to talk about but we were able, through a little cajoling, to get them to think really small. This facility process is only 10 million cubic feet a day of gas. Again, to kind of put that in perspective for you, Fairbanks would probably use a number two or three times that. Ten million a day would be enough for a large mine development but it would be an overwhelming number compared to any of our smaller communities or smaller opportunities that we would be looking at. In terms of scale, that was about as small as we could get people to kind of think about. And we said okay, we'll stop there, because even if it was too big, you obviously can turn this kind of facility on, run it for a period of time, and when the tank is full, you turn it off and then you turn it back on. You can do that in an operational sense here. Again, there's nothing very magic in all of this stuff here.

REPRESENTATIVE BILL STOLTZE asked Mr. Heinze if he has talked to the Matanuska Electric Association (MEA) because it will be ending its long-term contract with Chugiak in the not too distant future and the Matanuska Valley is the fastest growing part of the state.

MR. HEINZE asked to defer that topic to the spur line discussion. He then continued with his presentation.

> In terms of the propane issue here, this is a plant that again, you'll see summarized a little later. Again, the economics on this - basically, what we found out, this plant would cost a little more than $10 million. If you work the economics of it, basically you can extract propane under this situation for about 50 to 75 cents a gallon. Now, there are optimizations you could make on this plant. There are a lot of variations on this theme and, for instance, if I looked at the Yukon River, which would have a bigger plant than this, I could keep driving that number down. So the 50 to 75 cents is the upper number per gallon. On a broad feasibility sense, I'd like you to think about the fact that that is a potentially very attractive number to Alaska. In Alaska we pay basically the propane price in Alberta plus the transportation here. If the gas going by here is at some intermediate value compared to Edmonton, then our price would be lower. At 50 cents even, you can afford to be extracting it at some place that's very convenient for you to wholesale from and so there is at least worth understanding here. I'm not claiming this is a done deal but it's worth understanding.

CHAIR SAMUELS asked Mr. Heinze to also address, later in his presentation, the reduction in capacity and whether there will be empty capacity heading south.

MR. HEINZE replied, "You will see on the scale of the things we're talking about other than the gas off-take to come to the Cook Inlet area, other than the spur line issue, there's no issue I'm raising here - it gets lost in the round off, let me put it that way." He then continued.

> We also looked at the same plant because if you have to basically go through the same process to condition the gas for, say, to make a turbine fuel for either powering a pump station or compressors for providing electric power generation, or providing local distribution of gas, you have to go through these same basic processors. If you look at the front end of this plant, it's identical. All I've taken out here is the idea of reinjecting the gas and now I'm using the gas beneficially. And again, we looked at this plant. The economics are very attractive and, frankly, if I took credit for having both gas available for use and propane, now the price per unit on both of those goes down. So, again, I can improve on this.
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> What we don't know at this point is - and we suspect only because the information, frankly, is not available to us, is that at every compressor station, there would be something that looked like this. Our engineering expertise says that to run a compressor station, you've got to do something like this at every compressor station. But, since we've never seen the plans or diagrams or process or anything at the stations, we don't know. But that is our engineering judgment at this point.
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> That's interesting because if you already have a large amount of gas that's going to be used to fuel the compressor station and burned in the turbines and pushing that 4.5 billion cubic feet of gas south, that's in itself going to yield a lot of propane. And again, how you look at that cost structure and all those other things is very interesting.

SENATOR SEEKINS asked if the gas must be dehydrated before it is put in the pipeline.

MR. HEINZE said the water vapors are removed to a certain level but ANGDA does not know what that dehydration level is because it has not seen the exact specifications. He pointed out that [the dehydration requirement] could be removed to optimize the facility. If the pipeline specification was low enough it might not be necessary, depending on ANGDA's process design. That process is there to get to the necessary temperatures further in the process. The gas is chilled to a very cold temperature and any water vapor at all at that point creates difficulties. He noted the dehydration step accounts for several million dollars.

SENATOR SEEKINS surmised that if it is not dehydrated, it would produce carbonic acid mixed with CO2, which would eat right through steel.

MR. HEINZE said ANGDA is very comfortable that the water specification would be such that that would not be a worry. He said the problem is that as you went through these facilities, the water temperatures achieved would be much lower. He repeated that for the feasibility study, ANGDA took the worst-case scenario it could think of.

SENATOR LINCOLN recalled Mr. Heinze saying a propane plant at the compressor stations would cost about $10 million and asked if that cost would increase by having the utility gas in there as well.

MR. HEINZE replied:

This is actually a lower cost facility because we don't have to reinject the gas. Because we have a beneficial use for the gas and don't have to reinject it, it saves us the cost of a compressor. Every time I drop a box off of this thing, I think of it as $1 or $2 million shaved off the plant. It's just some pieces of the puzzle we don't have to have there to operate correctly. So this is a much simpler operation in our mind. And so what it argues very strongly is, again, as you look at what we would call a very small facility, for some parts of Alaska it is very large. But, on the other hand, we can make available through these kinds of facilities a fair amount.

For instance, this facility yields 100 barrels a day roughly of propane. So in that sense it is small. But again, we could scale this facility up and achieve much greater economies of scale. Let's say you wanted 1,000 barrels a day at the Yukon River. All this feasibility work says is that might be very attractive because we could beat That 50 to 75 cents a gallon propane, by a lot probably, in a facility designed just for that purpose.

MR. HEINZE continued his presentation.

Again, I've kind of told you everything that's on that slide already. This was just kind of looking at it - every place you had a power plant, for instance, at North Pole. North Pole was putting in a 60-megawatt plant. It would take a facility about this size to condition the gas for use in that plant probably or some variation of it. You could produce propane there. You could probably produce 100 barrels a day of propane, is all we're saying, as a by-product of doing this. So that's important. We have no understanding of the combination of the pump stations on the TransAlaska pipeline, which are being electrified under their new program and how that might co-locate and co-act with compressor stations located, again, along a gas line. And from our perspective, there might be some wonderful synergies involved in co-locating those major facilities and operations, in which case - again, you would have a fairly large use for gas to fuel the turbines that run the generators that drive the motors that drive the compressors and trunks, so it's logical.

Again, I'm going to continue to emphasize to you that even though we are a small piece of the show, there's 4.5 billion cubic feet a day going down that line and we're talking about here something that's 1/1000th of that. It is very important that we define the ability and where and how those things might happen. I took a crack at it for you here. Again, last time I drew up a broad list. Here's my more definitive list of where I would, at least, see those kinds of points. And it seems to me that you'll notice some of the points I've tried to list were in Canada. And it's, again, my general understanding that this type of a pipeline going through Canada would have to make the revision for this kind of access that we're talking about. Now maybe the law is different there. Maybe something else is different. I don't know. I haven't researched it but it seems to me that we, in our own best interest, ought to be looking at something like that.

And then my final point is I think you ought to put the burden of what I'm trying to talk about here today, frankly, on any project proponent. These are issues and opportunities that are part and parcel of running the system through the public land, as far as I'm concerned, and they need to be addressed as part of the design. We found our ability to do this was very hindered by the fact that there is, for instance, no publicly available information on the composition of the gas that's

going down this pipeline. I mean you just heard a presentation on a whole petrochemical industry and I don't know what the basis of that presentation was. It's not publicly available. I don't even know how to design these facilities for sure.

The other thing you've got to worry about is the tariff issue and, again, I've got to just bring this back up with you because the key to this is physically we can take the gas off. I've shown you a facility that can do it. I've shown you feasibility economics that say it is possible economically to do it. But, it's dead in the water under a tariff structure that discriminates against taking gas off in Alaska. If you don't have a tariff structure that allows us to gain the benefit of being closer to the source, all bets are off. If I have to pay the same price in Fairbanks that I would in Edmonton, the economics don't work and it's that simple.

Again, I would suggest to you that you can include these things in either the grant of right-of-way by the state, or whatever Stranded Gas Act things you do.

Mr. Chairman, I'd like to just take a few minutes and talk about the spur line and some of the issues related to it. Part of the charge that ANGDA was given in Ballot Measure 3 was to look specifically at a spur line to the Cook Inlet area. It was not just to look at an LNG project but also to look at a spur line. Basically, a part of the report that we will be publishing in a week - we did do that and we have basically, again, completed preliminary work on it and I very briefly summarized it here. We did define an alignment for the 140 miles that's shown on these two poster boards behind you. It goes from Glenallen, basically, at the TransAlaska pipeline right-of-way and it leads into a place in Palmer that is basically - I would describe it to you as the place where the highways and the railroad intersect - the Glen and Parks Highway and the railroad and the new overpass and all that. That happens to be the point where you can get to the Enstar 20 inch system, which is the basic piping system in this whole area. And so we'd design that line to go between those two places. It's a high-pressure line. Its cost estimate was about $300 million.

We also hired a financial company to look at the financing of that where ANGDA would be acting as a state-owned utility. The advantage of being a state-owned utility is that basically you can do 100 percent debt financing for a project of this size and you can do it at a very low interest rate - lower than the interest rates that we talked about yesterday in the presentation. For that type of a design we estimated that we could move gas from Glenallen to the Palmer area for about 15 cents/million btu. That's a very low number. It's very difficult to move any gas anywhere in Cook Inlet for that number. Most of the time it's a bigger number than that just within the Cook Inlet area.

There are, obviously, in terms of the spur line, a lot of issues that are well beyond our control. Obviously there is not gas sitting there right now in Glenallen for me to go pick up. If you want to go to Delta and pick it up there, it's about twice the cost. It's about twice the pipeline and about twice to everything else. We did not work that problem in detail because the pipeline would follow the TAPS right-of-way, which is a well understood pipeline and corridor and there are just no big issues in laying a 24 inch pipe.

As you'll see on the map here, we did lay out a basic route that follows the Glen Highway because the state does have that right-of-way. We do have the ability to lay pipe in that right-of-way. From a technical point of view, there are places that we have identified where it was logical to deviate from that right-of-way and possibly improve the pipelining circumstances. Again, as anybody whose driven the road knows, there are places where the side slopes are pretty steep and where the river kind of comes up against the cliffs and those kinds of things. It would be hard to fit in the right-of-way. It could be done but it would be hard to and we've identified other areas that we'd like to go down.

SENATOR SEEKINS noted that Senator Wagoner was very interested in looking into the routing of a connection into the Palmer area from the Fairbanks area that would follow the Parks Highway and asked if ANGDA looked at such a route. MR. HEINZE said at this point, ANGDA has looked into the record. The

state has information on file sufficient to define a right-of-way from the Fairbanks to Palmer area. ANGDA also found there is no information on the Glenallen "on-in" route so ANGDA will take the step of submitting that right-of-way application. Regarding the study between the two different routes, at this point, ANGDA has formed no opinion that has allowed it to differentiate between the two. ANGDA is aware of advantages and disadvantages to each; the biggest advantage to coming through Glenallen is twofold. First, it would reach the greatest population of the state and, secondly, it is the easiest in terms of right-of-way issues because it follows the TransAlaska pipeline right-of-way through an area that is made up solely of state and private lands. On the other hand, the other route has a definable right-of-way. ANGDA will study that and look at the smaller projects for bringing North Slope gas to the area. SENATOR SEEKINS said it is his understanding that Senator Wagoner believed the possible route from Fairbanks to Palmer did not cross any federal land either; it is all state and private land.

MR. HEINZE said the examples he has seen of that route contained some special state park land and federal parkland. He admitted he does not know whether ways can be found around that at this point.

SENATOR SEEKINS said he saw a relocation to the east side of the Parks Highway, which is totally outside of federal land but other people say it would have to go through the national park.

MR. HEINZE said at this point, ANGDA's preliminary assessment is that the cost to deliver gas either way is very comparable. ANGDA sees no cost advantage to one route over the other, the reason being that even though the Glenallen route is longer, it would be more economically attractive to "ride a longer distance in a big pipe to Delta" and, second, that route already has a right-of-way and road system.

SENATOR SEEKINS asked if the right-of-way from Delta south is already owned and would have to be purchased by the state.

MR. HEINZE said in one of ANGDA's studies about its broader responsibilities under Ballot Measure 3, it determined one of the specifics was to look at the permits and other certificates held by the Yukon Pacific Corporation. ANGDA determined that a large number of those permits are still good and valuable. ANGDA looked at that favorably in that it could buy a federal and state right-of-way held by Yukon Pacific that would go all of the way to Glenallen.

SENATOR DYSON asked if ANGDA anticipates the optimum use of in-state gas will exceed the state's royalty share.

MR. HEINZE said right now, 200 bcf is used in Alaska annually. About half of that amount is used in the LNG export facility on the Kenai, owned by Conoco and Marathon. They currently feed that with their own reserves. He does not know their future intentions. He continued:

> I have no idea, I have no way of knowing what they intend to do in the future on that. For the purposes of these economics, I have made the assumption that what I see today is what I have in the future. Obviously there is a case where they choose to do zero. There is also a case where they choose to expand based on a new and plentiful supply. At least one of the companies I just named is a major owner of gas on the North Slope. If their gas was used in that plant, I presume the state would not take it as their responsibility to supply that gas. Of the remaining 100 billion a year, half of that is roughly Agrium. And, again, I don't know exactly what role the state would play in that. The state might be a seller there or they might buy gas from other people commercially or whatever. I know they are interested in the fact that a spur line like this, hooked this close to a big supply up north, might give them the kind of pricing advantage they feel they have to have in the marketplace to continue to operate. Again, our focus has been much more on them frankly, than trying to build a new industry, because if we can't make their economics work, then again my experience says it's going to be very difficult to do something in terms of greenfield, so we have a lot of incentive to try to make that work.
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> If I could, back to Representative Stoltze's question about the Matanuska area and all that, it is our intention in the spur line that we would put major - we would like others to have major electric

generation facilities at both ends of that spur line. It makes sense that where we take off in Glenallen to have a generating plant - that also wholesales propane. It makes sense to have an electric power plant and other things as we come into the Enstar system.

REPRESENTATIVE STOLTZE asked if an entity that might have the capacity to serve 20 percent of the state's population would provide more justification or impetus and whether that entity would need to "come to the table" formally.

MR. HEINZE said that early in the spur line discussions, he invited every utility, agency, and others to a meeting. MEA did attend that meeting. Since then, people have taken a greater interest in the dialog but that is the choice of each entity at this point. A spur line to this area may be a very attractive proposition for the citizens of Alaska. And while everyone hopes that a lot of gas is discovered in Cook Inlet, the DOE study put a multi-billion dollar price tag on it. Therefore, this alternative must be kept on the table.

SENATOR DYSON said everyone at the table feels responsible to make sure that Alaskans benefit from North Slope gas distribution but the bottom line question is whether the state is able to meet the foreseeable need for home heating and power with its royalty share.

MR. HEINZE said the portion he firmly believes the state is responsible for dealing with is in the range of 50 to 60 billion cubic feet per year. That is a very small amount compared to the state's share of several trillion cubic feet. However, regarding all other in-state uses, the arithmetic becomes a bit more problematic, but that is for commercial and industrial companies that are capable of taking care of themselves. His preliminary review says if ANGDA can bring a large supply to this area at a reasonable price, it makes sense for the industrial users to not only continue but to expand to help their own economics. He then alerted members that in one-week newspapers around the state will produce a 12-page report to the people, required by Ballot Measure 3. ANGDA has distributed 150,000 copies throughout the state for inclusion in all major newspapers in Alaska. He hopes it provides a positive view of what ANGDA can do related to gas use in Alaska. He noted that ANGDA will be powering up a website at the same time that will contain all consultant reports and everything it has done in its first year.

SENATOR SEEKINS asked Mr. Heinze if he is aware of any plans or consideration of a liquids line that would go from the Interior to the Cook Inlet area.

MR. HEINZE said he is not aware of any current consideration but when he mentioned that he looked at the right-of-way information on file with the state, the information was for a liquid line from Fairbanks south. That application was submitted a number of years ago. At that time, the parties were having difficulty discussing the cost of shipping on the railroad. Someone decided it was appropriate to look into alternative economics. He believes that design is legitimate.

SENATOR SEEKINS asked if there has been an ongoing discussion about that possibility.

MR. HEINZE said not that he is aware of but he is not in that business.

REPRESENTATIVE GARA recalled the Wood MacKenzie "folks" said, at the meeting yesterday, that contrary to what others have said, the state has a large window of opportunity to secure an LNG contract if it ships LNG to Valdez. He noted that contrasts with people who have said that time is of the essence regarding that sale. He asked Mr. Heinze to respond. His second concern is that Southcentral will always have an increasing demand for gas and no one knows what will be available in Cook Inlet in 10 years, so the amount that will need to come off of a spur line is unknown. He said five or six years from now, when the gas line is more definite, the Cook Inlet supply will be more definite. He asked if companies that are deciding whether to build a gas pipeline will base their decisions on whether natural gas will be offloaded in Southcentral because of an inadequate amount in Cook Inlet and whether they will have to analyze that now.

MR. HEINZE said in regard to the second question, ANGDA has made certain assumptions as to size, cost, volume and other factors and showed the low number of 15 cents per million btu. If that same line

moved half the volume through it, the cost would be 30 cents per million btu. If half the volume came all the way from Delta, the cost would be 60 cents per million btu. He explained:

> If we are delivering into this area gas priced at the North Slope that's based upon a transportation distance to Chicago, and we're this much closer, even at 60 cents from Delta here, that is a price lower than the world price. We have some advantage. Again, I don't know if it's $1.00, I don't know if it's $1.50, but it's a number. And again, we can see that clearly in our work.
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> What's also very clear is that while we don't know how much will be found in Cook Inlet, we do know it will be expensive. And again, I'll just go back to the statistics. DOE estimated [that] to find reserves to sustain this area would take $5 or $6 billion worth of exploration investment. Why wouldn't you look at a few hundred million dollars for a pipeline as a viable alternative? And again, that's the arithmetic we're lead to is that you don't, fortunately, have to decide right now which way you prefer or whatever, and certainly the spur line does not change the course of the big pipeline and all those other things. We're prepared to tack the spur line into wherever we can find the gas. In the ultimate, you'll see in this report, one of the projects we suggest looking at into the future is frankly going all the way to the North Slope to just supply this area and a bullet line. However difficult that sounds to you at this point, that may be a viable alternative from an Alaskan perspective - that may be attractive. Again, remembering that the advantage of getting gas to tidewater anywhere is that not only do we go through our communities in the Interior, but once we have it to tidewater, we can deliver it to coastal communities, which again, in essence reaches 99 percent of our population. If you can go down the rivers, you go down the highway system, and you can go on the coastal marine transport, you can reach just about everybody in Alaska one way or another.
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> So, that's kind of the feel we have for the spur line is that I've had producers or people looking at drilling in Cook Inlet and asked me whether they should drill. And I said can you get a good price? And if they answer yes, I say why wouldn't you drill? What are you worried about me for? On the other hand, I wouldn't sit around and wait for ten years to see if we do build a pipeline in and then expect you're going to get the same prices then that you can once there is a large supply hooked to the area.
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> On the flip side, about this report, again, not to steal its thunder, this is a feasibility at best report - okay? And what we looked at was in terms of the specific LNG project we were asked to look at 2 bcf/day to Valdez basically. Did we see things about it that said stop, don't work on this anymore, quit, this is a bad idea and the answer was no. If anything, we found encouragement frankly. And, for instance, Wood MacKenzie was one of the people, you'll see, was working this. And they, in particular rate, in a cost sense, all the LNG projects in the world. And I mean I will break it to you - it doesn't steal our thunder that we are not one of the low cost ones. But, on the other side of it, we're not so far out the top that it's silly for us to think about an LNG project. For instance, the example I use - the easiest one to understand is Shell Oil Company, a major knowledgeable player in the world, a mega-major, developed a place called Sakhalin, facing a lot of similar challenges to what we face here. If you go to the rudimentaries of that economic decision they made, our decision is probably actually more positive than theirs, I would contend. So, if they thought it was okay to go ahead, that tells me we need to understand our project better and that's all this report says is understand it better.
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> At the same time, it also has become clear from the consultive reports we've gotten back in trying to understand these projects, that Alaska clearly has some issues. We have some competitive disadvantages. We don't have workers that are brought in from Bangladesh. We don't pay third world wages here. So our labor component on a project that may involve 30 or 40 million man hours of labor is a pretty big factor in this thing and it may affect, somewhat, our competitiveness. And that's something we need to understand because again, I would hope that you all realize that if we were able to design the project in a way that it better fit the Alaska labor pool, such that even if we did have a lot of extra money in the project but it was money that you were comfortable was being spent in Alaska, that might not be all bad. If instead of doing something in one year we took

five years to do it and made it happen in that way - that might be considered good by some people. Again, we have to do those kinds of factors in it.

We are going to be, because of that, looking at other variations of the theme than we were given in Ballot Measure 3. We are going to look at smaller, more Alaskan sized projects and with some other variations that we think might help the competitiveness of the project.

SENATOR LINCOLN said she is anxious to read the ANGDA report and is pleased to hear about the potential take-off locations he listed. She believes that Alaskans must look at what this project can do in terms of delivering some of the by-product of the gas line to the people, not just solely the bottom line of extracting the gas for export to the Lower 48. She noted she is extremely encouraged to see how the take-off points might affect the smallest villages, not just the most populated areas of Alaska.

SENATOR HOFFMAN asked Mr. Heinze to expand on how 99 percent of communities can benefit and whether that will be from the state's royalty share.

MR. HEINZE said ANGDA took a hard look at the fact that Alaska has a small population that would not use a huge amount of energy, compared to the amount that would be shipped to the Lower 48. He said he was trying to draw attention to the fact that a pipeline route that goes through the Interior, down the highway system and intersects with the Yukon River, would reach a large number of people. But, to take that further to bring gas to anywhere on the coast, a compressed natural gas facility could be built so that it could be barged to communities of any size. ANGDA and a contractor are looking at that possibility, especially in the smaller communities, of providing a barge mounted gas supply with a large gas driven electric turbine generator next to it where the village plugs in. He cautioned that is not something that would instantly happen throughout every coastal community in Alaska, but it might within a generation. Regarding the state's role, he said to the extent that ANGDA makes a margin, it has not faced up to what it would do with that margin but it might provide an interest-free revolving loan fund.

SENATOR SEEKINS said if the line was brought in, it would eventually become dominant and have to be designed for expansion. He asked if that wouldn't have a chilling effect on exploration.

MR. HEINZE replied in reality, if a pipeline were brought in with a large supply at a certain price, his decision to drill would be based on that price. He couldn't expect to command a higher price. Different companies have different economics, however. It would discourage some, but not others. Because the state has had a surplus supply for many years, it has enjoyed very low prices, about $2.50 MBTU wholesale or about half of what the world price is right now. He estimates that price will rise with more exploration money. If the spur line were brought in at a cost of $300 million that would drive the prices back to what they are today. If one translates that into potential disposable income of residential families, it would equal $100 million a year of additional disposable income.

SENATOR SEEKINS said the demand for that pipe would increase quicker than if there was still a competing force trying to find additional gas sources.

MR. HEINZE said the linkage here will supply a generation or two with a plentiful supply. If some of the bigger numbers presented by Mark Myers (Director, Division of Oil and Gas) were realized on the North Slope, they are talking about many generations of Alaskans.

SENATOR KIM ELTON said he had a comment about the report that he wanted Mr. Heinze to respond to.

It would have been helpful to have a presentation or a document from you on what those findings or the elements of the report would have been, because we've gathered yesterday and today a great number of people with certain levels of expertise and it would have been great to toss the findings that you have into that mix to get their reaction. So, I'm frustrated that you don't want to steal the thunder of a report that is going to be printed in the newspaper in the next week. If it's going to be printed next, you know what the report says.

MR. HEINZE apologized, but said the reality is that he had to make a choice. He would have loved to

have the release at this meeting, but he didn't have control over both of their timelines.

> I assure you that all of you as legislators will be given advance copies tomorrow. Every one of you will receive that. We certainly respect the fact that as a number of the important leaders of our state, that you need to know what this looks like before it is widely available. On the other hand, Ballot Measure 3 was an initiative of the people; this is a report to the people and we felt that the proper approach was to find a way to let everybody know at one time and, frankly, not let any one segment of the media gain some advantage or control over what the message was. We carefully thought through a 12-page report and we wanted the message to be holistic and go out and let everybody see it at once.... I will also clarify to you that the report is not a bottom line. The report simply says, 'Here's what we found out and here's what we think needs to be done going forward. I honestly see the report more as a start than a finish of anything....

CHAIR SAMUELS said the committee set the parameters on topics that would be discussed and he had no idea that Mr. Heinze's report would be coming out next week.

SENATOR ELTON observed:

> Having been in the news business, I can tell you that if you don't have every comma in place two weeks before publication date of something like this - and it would have been very, very helpful to have those findings so that we could toss it into the mix – I'd be stunned I guess if they don't know where every comma is in their report at this point in time.