

## **Written Testimony of Harold Heinze (ANGDA) at the FERC 12/03/04 Technical Conference in Anchorage**

I am Harold Heinze, Chief Executive Officer of the Alaska Natural Gas Development Authority (hereafter "ANGDA"). My prior experience includes 27 years with ARCO, including over 10 years at the executive level as the head of both ARCO's Alaska operations and ARCO's transportation operations (pipelines and tankers). I also served as Commissioner of Natural Resources for Alaska Governor Wally Hickel.

### **SUMMARY**

I will speak to 3 aspects of proposed "open season" rules and suggested changes and/or additions to the rules

- The proposed 90 day duration of an initial "open season" period is inadequate and at least 180 days is required to satisfy the due-diligence decision requirements of several potential Alaska customers.
- An information review period of 180 days prior to the start of the "open season" period is needed to correct the current extreme information imbalance and provide all potential shippers an equal opportunity for expert review of the information.
- The required contents of the open season notice should be expanded to fully implement Secs 103(g) & (h) by including specific requirements for:
  1. an initial design basis that includes major intra-state pipeline interconnects at both Fairbanks and Delta Junction (up to 1.0 BSCFPD at each); and
  2. distance based tariffs as part of implementing Sec 103(g).

In my testimony I will provide some background information and a more detailed explanation of the need for FERC to include each of these points in any final "open season" rules it adopts. I will reference my suggestions to the Congressional direction given to FERC over the last few months in regard to the national commitment to make North Slope gas available to US gas consumers.

### **WHO IS ANGDA ?**

ANGDA is a public corporation of the State of Alaska. ANGDA's broad mission focuses on getting North Slope gas to market and assuring that Alaska and Alaskans benefit. The Authority was created through the public initiative process and was supported 2 to 1 in the 2002 general election. I am a State employee (and the only staff member). ANGDA's decision making authority rests with a seven-member citizen Board and our statutory framework grants ANGDA both a bonding authority and the right of eminent domain.

We have finished our first year task of examining the feasibility of an all-Alaskan LNG project and a gas spur line to the Cook Inlet area. ANGDA's "Report to the People" was distributed statewide and is available at [www.allalaskalng.com](http://www.allalaskalng.com).

ANGDA is currently studying various intra-State projects and preparing a rights-of-way application to the State for a gas spur line connecting Glennallen and Palmer. This contract work is targeted to be available in the 2005 and is intended to prepare ANGDA to interact constructively with whatever other North Slope gas to market projects move forward in 2005.

### ANGDA PROJECTS RELATED TO NORTH SLOPE GAS

Two aspects of ANGDA's work plan are relevant to the draft rules being reviewed in this Technical Conference and I will quickly outline them:

1. Alaska gas moved over water in the form of LNG is important to meeting the energy needs of over 100 Alaskan coastal communities, as well as, the millions of citizens in the other West Coast states of California, Oregon and Washington; and
2. Timely Intra-state delivery of North Slope gas to the Cook Inlet area to replace rapidly exhausting gas supplies is a major public concern.

Recent FERC, DOE, industry, and third-party studies amply demonstrate the vital importance of LNG imports throughout the United States. FERC is currently considering several LNG regasification site applications on the West Coast. Our studies and industry consultation indicate that Alaska LNG can be a viable and competitive source of gas in the Pacific Rim area. LNG could be exported from Valdez (an existing major energy port already supplying oil to the West Coast states) and/or from Cook Inlet (using some combination of the existing Kenai LNG export facility and "green field" LNG plants).

As an illustration, the delivery 0.5 BSCFPD (4 mtpa of LNG) from Alaska to the proposed Sound Energy Solution LNG terminal in the Port of Long Beach could be the key to meeting the Los Angeles basin's growing energy needs in an environmentally attractive way. Overland gas pipelines may be bottlenecked and unable to service these millions of gas and electric consumers.

Marine delivery of gas to Alaska communities (over 100) and major Federal installations along the Alaska mainland coast and the Aleutian Island chain has many economic and environmental benefits.

The recent Omnibus Act amendment of Sec 116 of the Alaska Natural Gas Pipeline Act (passed after the issuance of the proposed regulations) expands the definition of "qualified infrastructure project" (g4) to include consideration of Alaska gas supplying Alaska (as part of the "Continental US") and Alaskan LNG supplying other West Coast states to be part of the "system" qualified for Federal loan guarantees.

### COOK INLET GAS SITUATION

The June 2004 Department of Energy study "South-Central Alaska Natural Gas Study" documents the evolution of the Cook Inlet area gas supply situation from plentiful to critical

(less than a 10 year reserve life). The area around Cook Inlet encompassing the Matanuska-Susitna valley, Anchorage, and the Kenai Peninsula is home to two-thirds of Alaska's population and the entirety of the gas-based industrial activities. Gas is used for residential heating and electric power generation. The report discusses the potential of an intra-state gas trunk line connecting with the gas mainline in the Fairbanks area by a route generally within the Parks Highway, Alaska Railroad & electric inter-tie corridor to the north side of Cook Inlet.

ANGDA has studied an alternate trunk line approach ("spur line") that would connect to a gas pipeline following the Trans Alaska Pipeline (TAPS) alignment at Delta Junction or Glennallen. The full documentation of this route, cost estimate and financial information is found under Cook Inlet studies at the ANGDA report website: [www.allalaskaing.com](http://www.allalaskaing.com). This is a comparable route that utilizes the existing TAPS and Glenn Highway rights of way as a link to the Cook Inlet area and provides gas and propane to parts of the Alaska interior not reached by the mainline through Canada.

The critical importance of making North Slope royalty gas available to residents in the Cook Inlet area early in the next decade has prompted ANGDA to file a rights of way application for the Glennallen to Palmer spur line connection to reduce project lead times. ANGDA also will study the potential of the Cook Inlet gas trunk line connection as a "pre-build" over the next 5 years while mainline studies and deliberations continue. See Sec 108(b) and Sec 103(h)(1).

#### ADDITIONAL OPEN SEASON INFORMATION IN ALASKA

##### Secs 103(g) & 103(h)

The final FERC open season rules should include design requirements for two major gas trunk line interconnect points in Alaska covering the range of potential take-off volumes. The additional requirement to identify the tariff to these intermediary Alaskan destinations is necessary because a single system tariff is clearly discriminatory to intra-Alaskan shippers. The Alaska in-state study of gas uses and potential uses should be available and reviewed as an essential data item.

#### TIME FOR REVIEW OF PROJECT INFORMATION

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ANGDA's examination of the current information available to any potential intra-state shipper on the mainline to an Alaska take-off point concludes that there is a totally inadequate basis for a fiduciary responsible consideration or decision on contracting for North Slope gas purchase, shipment, or delivery. The information gap is huge and any catching up will require many months of intense consultant effort. The suggested 180 day period for information review is necessary to assure due diligence standards are met.

ANGDA has identified several major Cook Inlet gas consumers as potential intra-state shippers on a spur line. These include Chugach Electric (an electric generating and distributing co-op), Municipal Light & Power (an electric generating and distributing arm of the City of Anchorage), and Enstar Natural Gas (the gas transmission and distribution company). While there are other major gas consumers in Cook Inlet (generally privately held industrial users) these three potential customers service the public and are regulated by the Regulatory Commission of Alaska (RCA). ANGDA's intra-state gas transmission role is also subject to

RCA jurisdiction (Sec 108) and as indicated in our spur line financing study, a key to favorable financing is driven by RCA approval of a billing pass through for transmission costs into the area.

Multi-year commitments for gas line capacity from the North Slope will be of a magnitude larger than the asset base of the publicly owned companies above. As an example, a multi-year commitment of Chugach Electric (providing power to 120,000 customers) for gas would equal their entire asset base. Decisions of that size and at risk require the maximum amount of due diligence and expert advice. Several entities require a public hearing and notice process (ie, Anchorage Assembly). The RCA would have to put any approval of shipping contract terms through a public hearing and appeal process. ANGDA was unable to document any recent significant contractual commitment or regulatory approval by any of these parties that was accomplished in less than one year and there are several notable examples where the decision took more than two years.

The concept of a 90 day open season (no matter how many non-binding open seasons proceed it) is totally inadequate for responsible public decision making by potential Alaska shippers. Disadvantaging the Alaska public of the benefits of North Slope gas because commitments can not be made fast enough is unfair, discriminatory, and counter to the Congressional intent of the Alaska Natural Gas Pipeline Act. Providing at a minimum a 180 day period for the initial open season commitment decision may be workable if FERC under its MOU with the RCA is able to define other accommodations that allow Alaskan gas users equal access.

### OTHER IMPORTANT ISSUES

In the interest of time I have not discussed at this Conference several related issues of importance to Alaska, Alaskans, and ANGDA. We are supportive of the testimony of other Alaskans on these matters and would be available for additional dialogue with FERC.

- Access to the mainline of new gas sources in Alaska
- Fair treatment of future new gas users in Alaska
- Local community access for gas and/or propane along the mainline
- Consideration of compressor station location and design to maximize the compatibility with TAPS pump stations and local citizen energy needs

I offer a sincere “Thank you for taking the time to come to Alaska” and “Thank you for listening to our concerns”.

**PROPOSED AMMENDMENTS to regulations  
from Harold Heinze, CEO Alaska Natural Gas Development Authority.**

The following are suggested changes to the Commission's proposal to amend Part 157, Chapter 1, Title 18, Code of Federal Regulations to add Subpart B as follows:

1. Sec. 157.31(a) by inserting after "Canada" and before "." "or a system including a liquid natural gas project to transport liquefied natural gas from Southcentral Alaska to the West Coast states."

2. Sec. 157.34(a) by striking "30" and inserting "180".

3. Sec. 157.34(a) by adding two new sentences at the end: "The public shall have 60 days from the date of notice to provide comments to the Commission as to whether the contents of the notice meet the requirements of Sec 157.34(b). Within 90 days from the date of notice the Commission shall review the public comments and either accept the notice as adequate according to Sec 157.34(b) or reject the notice because it has not met the requirements of Sec 157.34(b).

4. Sec. 157.34(b) by adding new subsections 18, 19 and 20:

"(18) A copy of the applicant's study of Alaska in-state needs including tie-in points for in-State access required by Sec. 103(g) of the Alaska Natural Gas Pipeline Act."

"(19) A description of Alaska in-state pipeline tie-in points with capacities stated for each tie-in point."

"(20) A tariff structure for Alaska in-state tie in points or a distance based tariff structure that would allow the public to determine the tariff at each in-state pipeline tie-in."

5. Sec. 157.36(c) by striking "90" and inserting "180" and by striking "notice of the" and by striking "is given" and by inserting "commences" after "season".

## **BRIEF RATIONALES**

The rationales for these proposed changes are discussed in written and oral comments submitted at the December 3 Technical Conference in Anchorage by Mr. Harold Heinze and those comments are incorporated herein. Following are brief rationales using the numbering system employed above.

1. Expanding the definition of “Alaska natural gas transportation project” to include a system involving a liquid natural gas project from southcentral Alaska to the western states to conform the proposed regulation with the amended definition in Sec 116 of the Alaska Natural Gas Pipeline Act. The definition was expanded by Congress by amendment through Section 114 of the 2005 Omnibus Appropriations Bill (passed after the issuance of these proposed regulations).

2. Extending the period of time between notice and the open season will give interested parties sufficient time to review the content of the notice and determine whether they will want to participate in the open season. At present there is a lack of information available to the public about all aspects of the proposed projects.

3. A 60-day notice and comment period followed by acceptance or rejection of the notice by the Commission will insure that the notice requirements are properly met and foreclose future issues concerning the adequacy of notice that might arise during the open season period.

4. Adding specific notice requirements for publication of the applicant’s study of in state access needs, in-state tie in points, and in-state tariffs reflects the importance placed by Congress on in-state access issues expressed in section 103(g) of the Alaska Natural Gas Pipeline Act. Potential in state users will need this information to participate in an open season.

5. Expanding the open season period from 90 days to 180 days will allow in state utilities and other less sophisticated in-state end users sufficient time to study the notice provisions and participate in the open season process. There is very limited information on potential projects in the public domain and public and semi-public entities need adequate time to respond to the FERC process.