

CS FOR SENATE BILL NO. 287(RES)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SIXTH LEGISLATURE - SECOND SESSION

BY THE SENATE RESOURCES COMMITTEE

Offered: 3/23/10

Referred: Finance

Sponsor(s): SENATORS MCGUIRE, Davis

A BILL

FOR AN ACT ENTITLED

1 **"An Act amending the powers and duties of the Alaska Railroad Corporation related to**
2 **the exercise of authority to purchase, transport, and sell natural gas produced on the**
3 **North Slope for in-state use, and transferring exclusive and primary responsibility for**
4 **the initiation and development of that project to that corporation; and providing for an**
5 **effective date."**

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

7 *** Section 1.** The uncodified law of the State of Alaska is amended by adding a new section
8 to read:

9 **LEGISLATIVE FINDINGS AND PURPOSE.** (a) The legislature finds that

10 (1) by 2018, declining oil flow through the Trans Alaska Pipeline System will
11 seriously diminish state revenue;

12 (2) Cook Inlet natural gas reserves are depleting at a rate that could cause
13 significant short-term shortages for residential and commercial gas users in Southcentral

1 Alaska by 2013;

2 (3) a proposed natural gas pipeline to deliver North Slope gas reserves to the
3 North American domestic gas pipeline grid at a connection in central Alberta will not produce
4 revenue for the benefit of the state before 2020;

5 (4) the state's significant reserves of natural gas should be made available on a
6 priority basis in the state to enhance employment opportunities, expand the state's economy,
7 and supply a significant portion of community energy needs;

8 (5) the Alaska Natural Gas Development Authority is studying a pipeline spur,
9 aggregating in-state demand for natural gas, and facilitating delivery of natural gas and
10 natural gas liquids to Alaskans; and

11 (6) in light of competing demands for future uses of the state's North Slope
12 natural gas reserves, an aggressive effort involving planning, permitting, and coordination of
13 information sharing, of necessary agreements and commitments, and commercial negotiations
14 among interested parties is necessary for completion of construction of an in-state natural gas
15 pipeline that will provide significant direct benefit to the people of the state at the earliest
16 possible date.

17 (b) It is the purpose of this Act

18 (1) to give general direction to the Alaska Railroad Corporation, an agency
19 that enjoys express authority to acquire, construct, improve, maintain, equip, and operate a
20 natural gas pipeline and related facilities for the transportation of natural gas recovered from
21 the North Slope without regard to whether the facilities are or will be owned in whole or in
22 part by the corporation or located on land owned by the corporation, to plan and develop
23 construction of a high pressure in-state natural gas pipeline of appropriate diameter between
24 Alaska's North Slope and Cook Inlet sufficient to provide for the distribution of natural gas
25 for residential and commercial purposes at locations along the pipeline route; and

26 (2) to advance to the point of project sanction an in-state natural gas pipeline
27 that will provide significant direct benefit to the people of the state at the earliest possible
28 date.

29 * **Sec. 2.** AS 42.40.460 is amended by adding a new subsection to read:

30 (l) The provisions of AS 42.40.560(d) prevail over the provisions of this
31 section for the purpose of development of the North Slope natural gas pipeline project

1 described in that section.

2 * **Sec. 3.** AS 42.40.560 is amended to read:

3 **Sec. 42.40.560. North Slope natural gas pipeline.** The corporation may
 4 provide [FINANCING] for the acquisition, construction, improvement, maintenance,
 5 equipping, and operation of a natural gas pipeline and related facilities, **and for the**
 6 **financing of the pipeline project and related facilities,** for the transportation of
 7 natural gas recovered from the North Slope of this state without regard to whether the
 8 facilities are or will be owned in whole or in part by the corporation or located on land
 9 owned by the corporation. **The authority provided by this section is limited to the**
 10 **project popularly identified as the Stand-Alone Pipeline Project, or Stand-Alone**
 11 **Project, that**

12 **(1) proposes to develop a gas pipeline system to transport natural**
 13 **gas, and possibly additional natural gas liquids to markets in the Anchorage bowl**
 14 **area, and the Kenai Peninsula, and to additional customers along the**
 15 **transportation route;**

16 **(2) contemplates the commercial development of two primary**
 17 **sources of natural gas, the Prudhoe Bay Central Gas Facility and the Gubik gas**
 18 **field located in the northern foothills of the Brooks Range, and allows for use of**
 19 **gas from either or both of those gas sources or from any other source of natural**
 20 **gas;**

21 **(3) projects a pipeline system routing generally along the state's**
 22 **existing transportation corridors between the North Slope and Southcentral**
 23 **Alaska, starting from each potential gas source location, making its way to the**
 24 **Trans Alaska Pipeline System and Dalton Highway corridor, generally**
 25 **paralleling that corridor from the North Slope to the vicinity of Livengood, north**
 26 **of Fairbanks, and continuing to the Cook Inlet area, using one of two routes that**
 27 **are the existing transportation corridors between Fairbanks and Cook Inlet: the**
 28 **Parks Highway and the Richardson and Glenn Highways; and**

29 **(4) is compatible but not competitive with the project described in**
 30 **and authorized by AS 41.41 or the project described in and authorized by**
 31 **AS 43.90.**

1 * **Sec. 4.** AS 42.40.560 is amended by adding new subsections to read:

2 (b) In the exercise of its authority under (a) of this section for a North Slope
3 natural gas pipeline project, the corporation shall

4 (1) establish, maintain, and operate a subsidiary of the corporation to
5 perform the work described in this section;

6 (2) aggressively pursue the acquisition of all necessary federal permits
7 and authorizations essential for the development and operation of the project;

8 (3) provide monthly reports to the presiding officers of each house of
9 the legislature and to the governor on the corporation's activities relating to the
10 project;

11 (4) initiate a cost study for construction of a gas-to-liquids facility; in
12 the exercise of its authority under this paragraph, the corporation may arrange for
13 essential engineering and design work; and

14 (5) initiate efforts to identify and develop in-state markets for the
15 natural gas to be delivered by the project and, to the extent necessary to ensure the
16 long-term feasibility of the project, work to identify and develop overseas markets for
17 the gas.

18 (c) Subject to AS 36.30.015(e), the board may provide that all or any portion
19 of the project described in this section shall be subject to competitive sealed bid or
20 competitive sealed proposal procedures.

21 (d) To fulfill its obligations under this section, the corporation shall identify
22 all or a portion of a proposed natural gas pipeline transportation corridor:

23 (1) to the maximum extent possible consistent with ensuring the long-
24 term feasibility of the project, the corporation shall make reasonable efforts to locate
25 the proposed corridor between Fairbanks and the Kenai Peninsula on its land;

26 (2) notwithstanding any contrary provision of law, the Department of
27 Natural Resources shall grant the corporation a right-of-way lease under AS 38.35 for
28 the transportation corridor identified under (1) of this subsection if

29 (A) the corporation submits a complete right-of-way lease
30 application under AS 38.35.050;

31 (B) the lease application is made the subject of notice and other

1 reasonable and appropriate publication requirements under AS 38.35.070; and

2 (C) the corporation agrees to be bound by the right-of-way
3 lease covenants set out in AS 38.35.120;

4 (3) notwithstanding any contrary provision of law, a right-of-way lease
5 granted under (2) of this subsection is subject to AS 38.05, except that the best interest
6 findings requirements of AS 38.05 do not apply to a lease made under this subsection.

7 * **Sec. 5.** The uncodified law of the State of Alaska is amended by adding a new section to
8 read:

9 ALASKA RAILROAD CORPORATION: TRANSITIONAL PROVISIONS
10 AFFECTING OBLIGATIONS UNDER AS 42.40.560. (a) Subject to (c) of this section, in
11 discharging its obligations under AS 42.40.560(b)(2), enacted by sec. 4 of this Act, the Alaska
12 Railroad Corporation shall

13 (1) initiate permit and acquisition applications in accordance with the federal
14 permit schedule that was provided to the legislature by the Office of the Governor on or about
15 December 15, 2009;

16 (2) seek letters of intent from buyers and sellers of natural gas to ship gas
17 using the facilities of the project and, from information obtained, by February 15, 2011,
18 define the project parameters that would allow the project to be commercially viable;

19 (3) seek letters of interest from private pipeline construction and operating
20 companies to develop the project; the work under this paragraph should be initiated between
21 November 15, 2010, and shall be completed by March 15, 2011;

22 (4) prepare and submit to the governor and the presiding officer of each house
23 of the legislature, by December 15, 2010, any initial legislation necessary to advance the
24 project;

25 (5) identify or define and submit to the legislature, not later than January 15,
26 2011, the corporation's estimates of any long-lead time cost items or work tasks to achieve an
27 early start-up for the project;

28 (6) prepare a final bankable feasibility document; the work under this
29 paragraph should be initiated by July 1, 2011, and shall be completed by June 30, 2012; and

30 (7) unless otherwise provided in the monthly report required by
31 AS 42.40.560(b)(3), enacted by sec. 4 of this Act, prepare and submit a report at each of the

1 dates set out in (1) - (6) of this subsection to the governor, the speaker of the house of
2 representatives, and the president of the senate.

3 (b) The parties having responsibility for contracts, permit and acquisition
4 applications, and studies in progress on the effective date of this Act entered into by the
5 Office of the Governor or a state agency shall transfer those obligations and initiatives to the
6 Alaska Railroad Corporation. Transfer of those obligations and initiatives may not be
7 unreasonably delayed.

8 (c) The corporation shall cease its activities under this section and AS 42.40.560, as
9 amended by secs. 3 and 4 of this Act, if the corporation receives a communication that

10 (1) the governor, after setting out with particularity the reasons that support
11 the decision, has entered a finding that

12 (A) an agreement has been entered into that will result in construction
13 of the project described in AS 43.90;

14 (B) construction of the project described in this section would prevent
15 initiation and completion of the project described in AS 43.90; or

16 (C) other circumstances warrant cessation of activities under this
17 section and AS 42.40.560;

18 (2) the legislature expresses its approval of the finding of the governor made
19 under (1) of this subsection by concurrent resolution.

20 * **Sec. 6.** This Act takes effect July 1, 2010.