

Alaska natural gas pipeline project history

Background

In 1976, Congress passed the Alaska Natural Gas Transportation Act (ANGTA) to expedite development of a natural gas pipeline from Alaska's North Slope and provide congressional and presidential participation in the process. The policy steps of the process were completed in 1977.

In May 1977, the Federal Power Commission, now the Federal Energy Regulatory Commission (FERC), recommended a pipeline route along the Alaska Highway through Canada, one of three options. In September 1977, President Jimmy Carter recommended the highway route the commission proposed, and Congress approved the President's decision by joint resolution.

In the winter of 1977-1978, the nation experienced serious problems with interstate natural gas deliveries because of distortions caused by wellhead natural gas price controls. In response to these delivery problems, Congress passed the Natural Gas Policy Act of 1978 and the Powerplant and Industrial Fuel Use Act of 1978.

As natural gas supply and demand began to respond favorably to the revised energy policy, immediate need for the Alaska Natural Gas Transportation System (ANGTS) declined. Natural gas prices softened as a supply bubble developed, which persisted for years in response to wellhead price decontrol. Commercial attention to the Alaska natural gas pipeline

initiative essentially disappeared during the 1980s.

However, sections of the system were constructed. Producers from the province of Alberta, Canadian authorities, and United States and Canadian pipeline companies completed the downstream legs of the ANGTS after the discovery of significant quantities of natural gas in the Western Canadian Sedimentary Basin. The western leg of ANGTS (Pacific Gas Transmission) went into service from Alberta to California in 1981. The eastern leg of ANGTS (Northern Border Pipeline) went into service in 1982.

In the 1980s, the U.S. Maritime Administration authorized a study of marine system options to determine whether there might be commercial opportunities for the U.S. shipbuilding industry. The results indicated that U.S. liquefied natural gas (LNG) sales to Pacific Rim nations generally had greater economic potential than delivering LNG to U.S. West Coast markets, but the Pacific Rim exports were not politically viable given the large energy exports that such options would entail.

U.S. imports of LNG expanded in 1997 at Lower 48 receiving and regasification facilities built during the 1970s. For the first time, U.S. imports of LNG exceeded the approximately 60 billion cubic feet per year exported from Southcentral Alaska (Cook Inlet/Kenai Peninsula gas) to Tokyo. This milestone proved to be an indicator of tightening supply in the Lower 48.

Pipeline project revived

Serious reconsideration of constructing a natural gas pipeline from Alaska's North Slope began around 2000 on both federal and state fronts for multiple reasons, including rising natural gas prices, long-term market projections, environmental and climate concerns, declines in Western Canadian gas production and declines in Alaska oil production.

The 2001 National Energy Plan included a recommendation to expedite construction of a natural gas pipeline from Alaska's North Slope to serve the Lower 48. Also in 2001, an Alaska natural gas interagency task force formed. This task force included the State Department, the Department of the Interior (including Bureau of Land Management and the Minerals Management Service—now Bureau of Ocean Energy Management, Regulation and Enforcement), the Department of Transportation, and the Department of Energy (including FERC).

Then in 2004, Congress passed the Alaska Natural Gas Pipeline Act (ANGPA) that:

- Created the Office of the Federal Coordinator (OFC) as a small, independent agency to coordinate activities of other federal agencies involved in the pipeline project, and expedite and strengthen oversight, transparency and predictability of the project;
- Clarified that one environmental impact statement would be written and used by all agencies and that FERC would be the lead agency preparing it;
- Mandated that need for the project be assumed, and directed FERC to consider any application under the ANGPA or ANGTA;
- Provided for a federal loan guarantee up to \$18 billion (indexed to the consumer price

index from 2004);

- Provided for accelerated tax depreciation (7 years versus 15 years) and an enhanced oil recovery tax credit for the cost of a North Slope gas treatment plant; and
- Established guidance to ensure FERC would regulate the open season capacity bidding procedures so that access to pipeline capacity would be available to parties beyond the three major North Slope producers to promote competition in North Slope natural gas development.

FERC issued a final rule on the open season on Feb. 9, 2005 (FERC Order No. 2005). In an open season, all parties wishing to become shippers can compete for available capacity on a pipeline.

In 2006, former Alaska State Sen. Drue Pearce was confirmed as federal coordinator. Drue Pearce resigned January 2010. The President nominated Larry Persily as her replacement. He was confirmed as the second federal coordinator in March 2010.

In 2006, 16 federal agencies with roles and responsibilities relating to the pipeline signed a Memorandum of Understanding (MOU) to establish a framework for cooperation on the project management. Other relevant agencies were identified and added to the MOU in 2010.

State actions and AGIA

Since construction of the trans-Alaska oil pipeline in the 1970s, every Alaska governor has tried to spur construction of a major natural gas pipeline. The gas pipeline project has grown in importance for the state in recent years as North Slope oil production has declined. In 1998 the Alaska Legislature passed the Alaska Stranded Gas Development Act (SGDA) to encourage North Slope producers to bring the natural gas to market. The State of Alaska negotiated terms of a contract under SGDA with the three major

producers until 2006, when then-Gov. Frank Murkowski proposed amendments to the SGDA to conform the law to the draft contract his administration negotiated. The Alaska Legislature rejected the amendments and the contract that year.

In 2007, the Alaska Legislature enacted the Alaska Gasline Inducement Act. AGIA allowed a successful applicant state reimbursement of 50 percent of its qualifying pipeline-development expenses through the initial open season and 90 percent thereafter. The reimbursements are capped at \$500 million. In exchange for the AGIA license, the applicant had to agree to a number of “must haves” including rolled-in pipeline tariffs, an aggressive development schedule, an open season in 2010, proceeding through full licensing by the FERC, and a commitment to use project labor agreements with unions. The AGIA is a financial partnership with the State of Alaska and does not give the licensee an exclusive right to permits or state rights of way.

TransCanada’s AGIA proposal was the only one deemed complete by the state. On Aug. 1, 2008, the Alaska Legislature approved TransCanada as the state licensee and on Dec. 5, 2008, the AGIA license was formally signed by the governor and issued to TransCanada. On April 23, 2009, TransCanada applied to FERC to initiate the pre-file process with the agency. FERC granted the request on May 1, 2009. TransCanada held its open season in 2010 and continues to negotiate terms of open season precedent agreements with potential project shippers. The AGIA license requires TransCanada to file a complete application with FERC in October 2012 for a certificate to build and operate the pipeline. On June 15, 2009, a partnership between TransCanada and North Slope producer ExxonMobil was announced (referred to as the Alaska Pipeline Project), which said it expects to deliver its first shipment of gas to market in 2020. More information can be found at the

Alaska Pipeline Project’s website.

Denali—The Alaska Gas Pipeline, a joint venture of North Slope producers ConocoPhillips and BP, was established in April 2008 to compete with the TransCanada project. Denali entered the pre-file process with FERC in 2008 and conducted an open season in 2010. In May 2011, Denali announced it would no longer pursue development of the project due to lack of interest from potential customers.

The project in Canada

Besides 803 miles of pipeline in Alaska, the project would span 972 miles in Canada, with the pipeline ending at the British Columbia-Alberta border. The Canadian section already has some key government authorizations. Foothills Pipe Lines Ltd. is the project sponsor in Canada. Foothills is a TransCanada subsidiary, and it originally received the critical Canadian construction certificate, a land easement in the Yukon Territory, and other authorizations in the late 1970s and early 1980s. Foothills works with the Northern Pipeline Agency, a Canadian federal agency, to coordinate the permitting, construction and operation of the project in Canada. The project underwent environmental and socio-economic reviews in Canada initially. To update that work from 30 years ago, TransCanada/ExxonMobil has been conducting summer field seasons in Canada.

Recent developments and the environmental impact statement

On Aug. 1, 2011, FERC announced it would prepare an environmental impact statement on the Alaska portion of the TransCanada/ExxonMobil gas pipeline project.

On Jan. 13, 2012, TransCanada/ExxonMobil filed 11 environmental reports on the pipeline corridor, called draft resource reports. FERC requires project applicants to provide these

reports, which detail and discuss the project's potential impact on soils, vegetation, streams, lakes, wetlands, water quality, wildlife, fish and other resources. The final reports, expected in October with the TransCanada/ExxonMobil application to FERC for a pipeline certificate, will get used by FERC as it prepares the environmental impact statement.

In January and February 2012, FERC began government-to-government consultations with

Native Alaskan tribal entities along the pipeline corridor and held seven public scoping meetings across Alaska to help define what environmental effects the impact statement will consider. FERC is working with other government agencies on the environmental review. The agency will solicit public comments again when its draft environmental impact statement is ready, which could come as soon as late 2013.



For more information, please visit our website: www.arcticgas.gov

Contact information:

Larry Persily, Federal Coordinator
(202) 478-9755
lpersily@arcticgas.gov

General Questions:

info@arcticgas.gov

Locations:

OFC Washington, DC
1717 H St. NW, Suite 801
Washington, DC 20006
(202) 478-9750

OFC Alaska
188 W. Northern Lights Blvd., Suite 600
Anchorage, AK 99503
(907) 271-5209