

Chair, Judiciary  
Chair, Economic Development,  
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Military & Veteran Affairs  
Joint Armed Services  
1292 Sadler Way, Suite 324  
Fairbanks, Alaska 99701  
Phone: (907) 452-1088  
Fax: (907) 452-1146

# Alaska State Legislature House of Representatives



While in Session  
**State Capitol, Room 118**  
**Juneau, Alaska 99801-1182**  
(907) 465- 3004  
Fax: (907) 465-2070  
Toll Free: (877) 465-3004

## Representative Jay Ramras District 10

December 1, 2009

Honorable Sean Parnell  
Office of the Governor  
P.O. Box 110001  
Juneau, Alaska 99811-0001

Dear Governor Parnell,

This letter takes the "long view" just like you, and is a point of view shared by almost all Alaskans. We Alaskans want to see Alaska gas find its way to Lower 48 markets in large quantities in a large pipe. We want to see that monetized value returned to our state's treasury. We hope this economic event happens in the next ten years, as we have been assured by government officials in the Department of Revenue and Natural Resources. In the event our progress is delayed, Alaskans want to know what is our in-state gas supply back-up plan?

What unique event will have to happen, so that we know we are moving forward with a large diameter gas pipeline and what unique event will have to happen so that we know that it is an appropriate time to pursue an in-state solution, based on Alaskan self-reliance? And will we be prepared? Will we have aligned the necessary variables: 1) determined supply and demand; 2) established transportation and conditioning costs; and, 3) found a private sector pipeline company who wants to invest in Alaska?

Securing this critical back-up plan is a matter of prudence, fiduciary responsibility and energy security to Alaskan families and we seem to have taken a backwards step in this process.

It's been more than a week since Harry Noah's announced departure from state service and his work as Alaska's In-State Gas Pipeline Project Coordinator. I appreciate the opportunities you took at various times to meet with Mr. Noah to have him explain the

flow of the project. My hope with this letter is to fill in some of the blank spaces that account for “the rest of the story” as to why Mr. Noah gave notice and announced his upcoming separation from the Governor’s Office as of January 1, 2010.

As you know, I am an advocate of the Stand Alone Gas Pipeline, or as I refer to it: the “Bullet Line.” Last week, I requested oversight hearings from the House and Senate co-chairs of the Resources committees and look forward to an announcement from the committee chairs that these hearings will be scheduled.

In the meantime, frustrated as I am by this negative development in helping to create “Energy Security for Alaskans” by building an in-state pipeline, I took it upon myself to conduct an exit interview with Mr. Noah. The picture I was provided with was unsettling and is in direct contradiction to your expressed wishes and the wishes of most Alaskans. Alaskans have told us over and over, through many forums, polls, letters, and rallies, and at the ballot box, that they want Alaska gas to power their homes and their economies.

On the day Mr. Noah resigned, he told me “Jay, every time I nail down a floor board, Tom and Marty [commissioner and deputy commissioner of the Department of Natural Resources] come right behind me and pull it up.” This characterization is disconcerting to any public official.

My belief is that some government officials are, at a minimum, trying to create barriers and retard the progress of the Bullet Line’s development.

Here are some of the specific concerns that were brought up to me in conversations with Mr. Noah, as well as some data points that I accumulated on my own:

- 1) In Mr. Noah’s PowerPoint dated October 28, 2009, titled “Presentation to the Commercial Working Group,” he indicates on pages 4 and 51 (the following language was lifted directly from his presentation) that he hopes to produce:

**End Point for the State (Page 4)**

- Hopefully, Letter of Intent
  - Buyers
  - Sellers

**Wrap-up (Page 51)**

- Buyers/sellers of gas
  - Could you identify non-commodity price issues that this project needs to address?
  - At the appropriate time it would be useful to know if buyers/sellers of gas are interested in starting discussions about Letters of Intent.

I cite at length from this PowerPoint because it is my understanding from Mr. Noah that a senior policy advisor in your administration stepped in subsequent to this presentation and instructed Mr. Noah, and I paraphrase, that the state is not

interested in brokering transactions between buyers and sellers ... that it could negatively reflect on the state to be seen creating “deals” between buyers and sellers.

If you take a room full of windows, with buyers and sellers in it, and Mr. Noah’s commercial working group was comprised of sellers such as Conoco, BP, Exxon and Anadarko, while the buyers’ group was comprised of Chugach, GVEA, Agrium, Fairbanks Natural Gas, ENSTAR, Barrick, and Conoco’s LNG Export Facility, and you ask these two groups to leave the room—then you might as well force the remaining members of the commercial working group into a windowless room in the basement.

Removing the private sector from the room pushes the project into the dark.

This takes us to Mr. Noah’s second issue.

- 2) “I came here to do a project, not write a report,” is what Mr. Noah has told me over and over. One of the principal obstacles to overcome in developing the Bullet Line is the cost of transportation. Mr. Noah indicated that his team of engineers reviewed the Cost of Service figures provided previously by Enstar and generated their own numbers and arrived at a cost of service that approximated \$2.50 p/mcf for a 500 million cubic feet per day, 24-inch pipeline. If capacity volume increased to 650 million cubic feet, this cost could decline to \$2.00 p/mcf. Mr. Noah indicates that when he provided these figures to a senior policy advisor, that official’s response was, and I paraphrase again, that the figures should be audited by engineers at DNR. He went on to suggest that the engineers working for Mr. Noah and Mr. Noah himself were “biased” in their calculations.

This would in fact lead to the state auditing itself—and the inference Mr. Noah drew was that because the numbers came in at too attractive of a price, the integrity of his team’s engineering credibility was being challenged.

One of the subjects that came up when we were having the AGIA legislative hearings in the Terry Miller gymnasium in Juneau, on July 7, 2008, many months prior to Mr. Noah’s being retained by the Governor’s Office to work on in-state gas, there was a press conference called announcing that there would be a partnership between the parties of ANGDA and Enstar to build an in-state gas pipeline. The goal stated at that press conference was that an in-state line would and could be in service as early as 2013.

Regarding the joint venture involving the Palin administration, ANGDA, and Enstar, Deputy Commissioner Marty Rutherford said, more than 39 minutes into the event, "It's simply bringing all the forces together to ensure that Alaskans get our gas sooner and as cheaply as possible."

We all know the partnership fizzled, but when Mr. Noah was retained, I did not understand his mission to have deviated from the deputy commissioner's concise statement.

Why would a senior administration official insist that the state audit itself?

- 3) The third issue Mr. Noah brought to my attention was the cost of treating the gas from the North Slope. We all know that creating an in-state line is a matter of matching supply with demand at a reasonable and attractive cost. That aggregate cost is composed of:

gas at the wellhead + gas conditioning + transportation + local distribution costs.

The gas conditioning plant for the large diameter line that we all hope will be built sometime in the first third of this century is likely to cost approximately \$4 billion or more. In a conversation last week with Dr. Mark Myers at the Resource Development Council meeting, the state's AGIA coordinator explained to me that for an in-state line's gas treatment plant (GTP) it would be hard to scale down the costs. These facilities are expensive, he said, and that a GTP to condition one-tenth the gas of a large diameter line would cost significantly more than one-tenth the price of the large diameter GTP. You cannot equally scale down size and cost, he said.

Hence, you can imagine my displeasure at learning that Mr. Noah had approached the producers (Conoco, BP, Exxon) about using, expanding, or augmenting the equivalent of a shared-services agreement with the GTP already in place on the North Slope. Mr. Noah was told "yes" by the producers that they would entertain a dialogue about the state sharing the use of the existing GTP (which provides the 500 million cubic feet of gas per day already consumed on the North Slope in order to keep the massive Prudhoe Bay basin infrastructure powered). Then Mr. Noah was told by a senior administration official, and again I paraphrase, that "no" this is not in the state's interest to share infrastructure with the producers, and that it would compromise the State of Alaska.

- 4) Mr. Noah then came up with an alternate theory on how to deliver dry gas inexpensively to Alaska residential and commercial users.

We all understand the superior quality of Cook Inlet gas, as it is dry enough that it can be consumed without any conditioning. This is not the case with Prudhoe Bay gas as it contains 12 percent CO<sub>2</sub> and has significant levels of H<sub>2</sub>S (hydrogen sulfides). This is precisely why Prudhoe Bay gas must have a GTP for either a large diameter line or a small diameter line.

However, Pt. Thomson gas shares more of the properties enjoyed by Cook Inlet gas, as it contains only 4 percent CO<sub>2</sub> and has no H<sub>2</sub>S. According to Ward Whitmore, one of the team members working for Mr. Noah, this gas can be transported and consumed with either no or minimal conditioning. When Mr.

Noah approached Exxon, as the operator of Pt. Thomson, they indicated an interest in having a dialogue about making Pt. Thomson gas, in limited quantities, available to an in-state gas pipeline.

Once again, Mr. Noah was told by a senior administration official, and I paraphrase, that the state has significant ongoing litigation with Exxon over remaining Pt. Thomson leases and that any discussions about allocating this gas supply would potentially compromise the state's litigation.

This approach is theoretical only and will take months to work through, along with research on an Amine Plant in Fairbanks that would make the gas suitable for residential and commercial consumption in the Interior. Then there would be implementation of a Ryan-Holmes CO<sub>2</sub> separation plant downstream that would allow for the use of CO<sub>2</sub> from the Bullet Line potentially for enhanced oil recovery in Cook Inlet.

Alaskans should not be precluded from being the beneficiary of every option, no matter how complex. We used to call this "good old fashioned American (Alaskan) ingenuity." Now we seem to call it the policy of: "Alaska No."

- 5) Finally, we come to the concept espoused by both the outgoing federal pipeline coordinator and the natural resources deputy commissioner, which is the data point I am providing for this letter—the closure of the Conoco LNG Export Facility. Alaska has enjoyed "old partner" status with Japan for more than 40 years and has an export license through the U.S. Department of Energy to export up to 100 bcf of LNG per year. This year, Conoco estimates they may export only 35 bcf of gas, primarily, if not exclusively, in the summer when there is no pressure on the Cook Inlet gas basin.

DNR is considering not pursuing an extension of this export license when it expires in March, 2011, and this policy position was paraphrased in a November 8, 2009, editorial in the *Anchorage Daily News* with remarks attributed to DNR's deputy commissioner.

Meanwhile, in a meeting with the federal pipeline coordinator last April that was attended by Senators Wagoner, Huggins, and McGuire, Senate President Stevens, and me, we were told that Alaska should go to the FERC and apply for a regasification certificate for the Conoco LNG Export Facility and begin to import gas while Alaskans waited for the construction of the large diameter gas pipeline.

Senator Huggins pushed away from the table and said Alaskans would not stand for natural gas to be imported and that it should get all of us elected officials at the table unelected if we participated in such an intolerable policy decision.

With regard to the Bullet Line effort, the State of Alaska must have an industrial-anchor customer, and though Mr. Noah has been having productive conversations with Agrium, the restart of that facility is not assured. Therefore, the Conoco LNG facility is the only

certain industrial anchor that can be counted on to bring demand up to levels that would make the transportation tariff affordable for residential and commercial Alaskan customers. If you take away the Conoco LNG export permit, then you have effectively killed the Bullet Line.

So, to recap, here are the findings of my conversation with Mr. Noah:

- 1) Mr. Noah was discouraged in his efforts to create commercial transactions between buyers and sellers of gas.
- 2) Mr. Noah, working directly for the Governor's Office, was to have his figures for a transportation tariff (cost of service) audited by another government agency, DNR.
- 3) Mr. Noah approached the producers about their existing GTP to bring down conditioning costs for Alaskans, and he was subsequently discouraged by state officials who indicated that he would be required to "build his own" GTP.
- 4) After Mr. Noah engaged in preliminary dialogue with Exxon about using Pt. Thomson gas that might not require as much conditioning, he was discouraged by state officials who would place litigation strategy above the best interests of Alaskans.
- 5) DNR and the federal pipeline coordinator, both in the press and in meetings with policymakers, advocated for the cessation of the LNG export license that has been in place for 40 years, thereby eliminating a potential and necessary industrial-anchor customer for the Bullet Line.

Ultimately, the issue is not personalities—we are all quite aware of the backbiting that goes on between rival agencies within state government. Rather, I would ask you to look into these issues and then tell Alaskans what is the policy and what is the timeline as they relate to support for the Stand-Alone Gas Pipeline Project. There seems to be an underlying theme among some of the people in DNR and elsewhere that the small diameter gas pipeline is the enemy of the large diameter gas pipeline. As such, this is not a matter of personalities, but state energy policy.

A solution that simply solves Southcentral's energy needs or delivers large volumes of gas many years from now, but ignores the dire energy predicament of so many other Alaskans is shortsighted. We need a solution for in-state gas that benefits the maximum amount of our citizens.

Alaskans need gas. Southcentral is facing brown-outs as early as this winter, while Fairbanks, we are told (by Legislative Research), is the largest-coldest community in the circumpolar globe still tethered to diesel. As a representative from Fairbanks, I know there are nearly 100,000 people stranded without affordable energy in the Interior, and this does not take into consideration those rural communities that could potentially be served by "a North Slope Borough to Kenai Peninsula Borough" small diameter gas pipeline. Many rural communities would benefit as well—as would mineral resource prospects like Donlin Creek and the International Tower Hill Prospect near Livengood. We can create jobs for families and enhance Alaska's economy with energy infrastructure like a Bullet Line. With your backing, its success is far more likely.

According to my conversation with Mr. Noah, his plan, in rough terms, incorporated natural gas at the wellhead at \$2.00 + \$1.00 in gas conditioning (engineering work that is ongoing and will require four to six months to prove up) + \$2.50 in transportation. He and his team theorized that with the right blend of residential, commercial, and industrial customers, that gas could be delivered to Cook Inlet for between \$5 and \$6 p/mcf, especially by year two or three after the Bullet Line's construction. This project deserves to be explored and fleshed out—it's good for Alaska.

Why did Mr. Noah feel compelled to leave a position which he had approached with passion, professionalism, and private-sector-like zeal? I assure you from the conversations he and I had, it was not to go back to Oregon to work on the cherry orchard. Rather, it was frustration and disappointment that senior public officials were intermittently involving themselves by derailing progress in the Bullet Line project.

When I first began to serve in the Alaska Legislature, there was great debate over whether the producers were warehousing gas. By injecting themselves into Harry Noah's and the team's critical path, ironically, officials with DNR and elsewhere are potentially embargoing gas and warehousing it away from Alaskans by not allowing the Stand Alone Gas Pipeline Team to do its work.

The events surrounding Mr. Noah's departure have so far created more questions than answers. The Bullet Line project is at risk. I encourage you to meet personally with Harry Noah, Mike Metz, and Ward Whitmore, key members of the Stand Alone Gas Pipeline Project team. Make your own assessment of their efforts, unfiltered by competing interests.

As a policymaker, as a resident of the energy-challenged Interior, and as an Alaskan, I ask you to articulate a bold plan that refocuses the vast human resources under your direction toward creating the opportunity for near-term energy infrastructure construction and "Energy Security for Alaskans."

Mr. Noah did not depart because of his dissatisfaction with his own team. Nor does it appear that you yourself caused the dissatisfaction that led to his departure. One must conclude then that there are unelected bureaucrats that caused his departure.

There appears to be a problem in the middle—and that's not where the state's energy policy is supposed to be made.

Consider the language used by former state Senator Gene Therriault in a recently published article in *Alaska Dispatch* ("No shortage of backup plans for Alaska's gas"):

"The in-state gas concept hit a wall recently with Noah's abrupt resignation. Parnell's senior policy adviser on in-state energy, former state Senator Gene Therriault, told a group of resource development professionals last week that the governor remains committed, but cushioned expectations. 'I assure you, the

governor is committed to continuing to do the necessary work,' Therriault said. 'There are some that already jumped to conclusions...that in fact the bullet line is our salvation.' He doesn't know where the basis for that argument comes, he said, and pointed to the end analysis of how much gas will cost, delivered, for a final say on the project's economics."

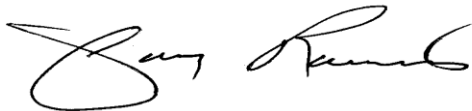
In the November 27, 2009, edition of the *Fairbanks Daily News-Miner*, just a few days ago, you were quoted as saying, "For me, it's about jobs and families. I'm definitely taking the long view."

Governor, I agree with you.

All Alaskans need an energy plan. The Bullet Line, if economic, would create jobs, create energy security, lower the cost of living, and simultaneously raise the standard of living for Alaskans. Because of this concern, and with the unique conditions surrounding the in-state coordinator's resignation, Alaskans want to know what your approach is to protecting our in-state gas supply back-up plan.

Thank you for looking into this matter.

Sincerely,



Representative Jay Ramras  
District 10

JR/jwp

cc: Mr. Jerry Gallagher  
Mr. Gene Therriault, Senior Policy Advisor of Energy, Office of the Governor  
Senator Gary Stevens, Senate President  
Representative Mike Chenault, Speaker of the House  
Senator Lesil McGuire, Co-Chair Senate Resources Committee  
Senator Bill Wielechowski, Co-Chair Senate Resources Committee  
Representative Craig Johnson, Co-Chair House Resources Committee  
Representative Mark Neuman, Co-Chair House Resources Committee  
Representative Bryce Edgmon, Co-Chair House Special Committee on Energy  
Representative Charisse Millett, Co-Chair House Special Committee on Energy