



December 15, 2010

The Honorable Sean Parnell
Governor, State of Alaska
P.O. Box 110001
Juneau, AK 99811-0001

Subject: Report on the In-State Natural Gas Pipeline Project

Dear Governor Parnell:

The purpose of this letter is to provide a status report on the efforts underway to produce a Project Plan for an in-state natural gas pipeline.

HB369 established the Joint In-State Gasline Development Team and Alaska Gasline Development Corporation (AGDC) to deliver a Plan by July 1, 2011, that would bring gas to Southcentral Alaska by 2016. Section 11 of HB369 obligates AGDC in three areas; the status of work in those three areas is as follows:

(1) Seek letters of intent from buyers and sellers of natural gas to ship gas using the facilities of the project and, from information obtained, define the project parameters that would allow the project to be commercially viable;

Engaging buyers and sellers in a commercially viable Alaska Stand Alone Gas Pipeline Project depends on three critical elements:

- Proving the economic viability of the project investment and the commercial requirements, including the requirements of an industrial anchor necessary to ensure the pipeline operates at 100% capacity through the first 20 years of operating life.
- Determining a practical project schedule to ensure delivery of gas as needed based on the latest forecasts of Cook Inlet supply.
- Procuring a Builder/Owner/Operator to participate in the next phase of project development and fund the project subsequent to a successful open season.

Large industrial users (“industrial anchors”) are needed to increase the volume which would reduce the cost of service to existing consumers and power utilities. As a result, analysis is required to identify the economic feasibility of projects involving gas to liquids (GTL), liquefied natural gas (LNG), and natural gas liquids (NGL). To this end, AGDC is:

- Conducting an economic feasibility and market study of GTL potential. Work is underway by Hatch, Inc., and the results of the analysis are expected in February, 2011.
- Conducting an economic feasibility and markets study of LNG export potential. Work is underway with Science Applications International Corporation (SAIC), and the results are expected in March, 2011.
- Conducting an economic feasibility and markets study of NGL potential. Work is underway with R. W. Beck, and the results from this work are expected March, 2011.

The economic feasibility of these potential projects is pivotal to AGDC's next planning phase and will be essential to determine the commercial viability of the Project. This information is also critical to planning and developing strategy for moving the Project to the next stage of development. A summary of the economic viability of GTL, LNG, and NGL will be integrated and presented in a report to the legislature by March, 2011. AGDC anticipates using the results from this work to help formulate recommendations for 2011 legislation.

Other ongoing work involving economic analysis includes the following:

- AGDC has developed and published a request for proposal to secure the services of a qualified organization to complete a comprehensive financing plan for the Project. Responses are due January, 2011.
- AGDC is participating with the Alaska Department of Natural Resources in a study expanding understanding of the depletion of Cook Inlet gas supply. This study will help determine the optimal timing for construction and Project execution.
- AGDC has engaged Independent Project Associates (IPA) to review the current phase of the Project, assess the current activities, and help develop a logical schedule that meets the needs of Southcentral natural gas users and maximizes the likelihood of successful project execution.

(2) Seek letters of interest from private pipeline construction and operating companies to develop the project;

Since assuming responsibility for the Project in July, 2010, AGDC has met with numerous pipeline Builder/Owner/Operators (BOOs) to obtain feedback on their level of interest as required in HB369.

To date, AGDC has met with more than ten potential participants capable of operating and executing the Project. The Boo's were presented with the following key questions:

- Does the In-State Natural Gas Pipeline Project fit their business portfolio?
- Does their firm see any significant barriers to their future participation?
- What are the key commercial elements required in this project to enable their participation?
- At what stage of Project development would they want to enter into an ownership/partner role on the Project?

AGDC has met with the following organizations: Anadarko Petroleum Corporation, OneOK Partners, The Williams Companies, Conoco Phillips, BP Exploration Alaska, ExxonMobil Production Company, ATCO Pipelines, Enbridge Incorporated, El Paso Pipeline Group, MidAmerican Pipeline Group, and Kinder Morgan Energy Partners, Ltd. We anticipate meeting with them regularly over the next two quarters to update them on the Project progress. We fully expect each BOO participating at this stage to provide a letter of interest or disinterest before July 1, 2011. Anadarko and OneOK are not participating in the Project update phase.

(3) Prepare and submit to the governor and the presiding officer of each house of the legislature, by December 15, 2010, any initial legislation necessary to advance the project;

Because the work in progress is anticipated to provide information that will impact the direction and forward strategy for the Project, AGDC has determined it is premature at this time to draft legislation governing the Alaska Stand Alone Gas Pipeline Project. AGDC intends to approach the legislature during the 2011 session with a report and recommendations for legislation required to ensure the Project moves forward to completion.

Thank you for your continued support and interest in the progress of the Alaska In-State Natural Gas Pipeline Project. Attached is a project summary that AGDC has published and updates continuously as a way to explain the Project to interested parties. Please call either 907.330.8452 or 907.277.4432 with any questions on information in this report or to request more information on the Project.

Respectfully submitted,



Dan Fauske
Chair, Joint In-State Gasline Development Team

cc: The Honorable Mike Chenault, Speaker, House of Representatives, State of Alaska
The Honorable Gary Stevens, Senate President, State of Alaska
Joint In-State Gasline Team Members