

**GOVERNOR'S AGRIMUM TASK FORCE
MEETING MINUTES
June 3, 2005
Kenai Challenger Learning Center**

The Governor's Agrimum Task Force was called to order at 9:00 a.m. by Co-Chair Bill Popp.

Attendees:

Pat Cowan-Wells Fargo Board	Judene Van Cleave-Dir. Nikiski Chamber
George Ford-Past manager Unocal plant	Representative Kurt Olson
Bill Popp-KPB Oil & Gas Liaison	Konrad Jackson-staff to Rep.Olson
Jim Carter-Consultant	Commissioner Edgar Blatchford
Lisa Parker-Agrium	Will Nebesky-DNR
John Coston-Agrium Employee Rep.	Kate Giard-RCA
Dave Carey-Mayor City of Soldotna	Dave Harbour-RCA

Kenai Staff:

Susan Davis-Office of the Governor	Pascale Dilley-DOLWD, Rapid Response
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Attendees by Teleconference:

Corine Geldhof-DOLWD	
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Attendees from the public:

Mark Quiner, Reporter, Penn.Clarion	
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Minutes from the last meeting were reviewed and amended.

Presentations:

Kate Giard, RCA Commissioner:

RCA is a production oriented business, and they haven't focused on that over the past few years. They need to be sympathetic to the needs of the businesses. So, they have a body of five commissioners who have a business background and are more understanding of the needs of these groups. RCA has committed to improving their systems and production by 1/07. They are working internally and externally to improve. RCA is looking at ADR (alternative dispute resolution) which allows negotiations to be done outside the commissioners; this keeps things from going to court for two to three years. If a settlement can be drawn and be kept out of the court, that will work better for all parties.

RCA process and current status of procedures to Cook Inlet oil and gas issues:

- CIGGS, KKPL and Beluga pipeline are the main issues RCA is dealing with regarding the Cook Inlet basin at this time.

- Handouts were provided to explain the dispute procedures. Handouts will be posted to the Task Force web site.
- Explanation given as to the status of pipelines
 - 42.05: Public utility pipeline: may or may not be regulated; tariff issues
 - 42.06: Common carrier pipeline: requires measuring capacities added to be able to determine where the gas is coming from and where it is going.
- Explanation of Agrium's complaint of 10-1-04:
 - RCA accepted Agrium's pleadings against Marathon and Unocal for operating CIGGS in violation of the Alaska Public Utilities Regulatory Act and the Pipeline Act.
 - RCA found good cause to institute an investigation. Pleading cycle process began
 - The State of Alaska, Enstar and Aurora Gas petitioned to intervene in the proceedings.
 - April 22, 2005: RCA found CIGGS a pipeline subject to jurisdiction under AS 42.05, and granted a comprehensive temporary exemption under AS 42.05.711(d) to Marathon and Unocal pending further proceedings.
 - RCA is still considering whether CIGGS subject to regulation under AS 42.06.
 - Negotiations between parties are recommended by RCA.
 - An exemption was allowed for Aurora to utilize CIGGS until RCA final opinion is given.
 - All RCA documentation is available on their web site.
 - Pleading cycle should be complete by this fall.
 - RCA Improvement Initiative: 2005-2007: Web site will be more user friendly after a rebuild of their information system.
- Task Force members questions answered by Kate Giard and Dave Harbour:
 - Q: Jim Carter: When will complaint negotiations be complete?
 - A: 11-05
 - Q: Jim Carter: "Having been one of you folks at one time, I appreciate the comment about 'productivity', and would like to suggest in reviewing the timetable of all that needs to be done, 11/1/05 is when Agrium says they will be closing down". Jim states that the RCA should know more about how the potential shut down at Agrium is affecting the employees and the local economy. He would like to ask that the timeline be compressed so that the decision comes as much in advance of plant closure proposed date as possible.
 - A: Agrium does an excellent job of letting the RCA know exactly of the affects of the impending closure. They don't feel it every day like the people of the Peninsula do, but they are aware. This may not even get to November. There is a reason for the timing of the questions. If they can settle it prior, then it will be all the better.
 - Q: George Ford: If Agrium is successful, then what?

- A: They will file an agreement with RCA; stipulations will be very complex: review will be done for public interest, lawfulness. RCA will rule if all is acceptable.
- Q: Pat Cowan: Can additional parties be added to the complaint?
- A: Period of accepting intervention is over so no other parties can be added.
- Q: Pat Cowan: What about Forest Oil?
- A: They need to petition the RCA if they want to use the pipeline. It is preferable to submit a joint petition or they may end up in an adversarial situation.
- Q: Rep. Kurt Olson: Is there anything the legislature can do to assist the process?
- A: The Governor has authorized RCA to work on improvements to their systems on a “loan” basis. The faster legislation to appropriate funds for the improvements can pass in January, the faster they can get the work done. The other thing the legislature can do is to choose the cream of the crop when selecting RCA Commissioners. If they don’t want to read, work, or don’t have a desire to improve the state then the other commissioners will have the upper hand in the voting process. Also remember that commissioners can’t be removed from their positions until their term is up. Currently all commissioners are very good and willing to work.

Discussion of RCA Presentation:

- Dave Harbour stated that Kate put in lay terms what a difficult and legal process this is. This is more information on regulation of the lifeblood of the Kenai Peninsula economy than many have heard in the last ten years. If a section of the state is interested in Economic Development and it is predicated on regulated information, the elected officials may want to get involved and intervene so they can represent the public interest in their area.
- Pat Cowan said the information presented makes him feel better about the situation.
- Lisa Parker said that in order to reduce the amount of paper needed, she will forward weekly reports (part of the RCA complaint process) to Susan Davis to be distributed to the members. The reports are available from the RCA by subscription as well.

Commissioner Edgar Blatchford:

States he is getting up to speed on the mission and work of the task force. He will keep the Governor updated and offer advice on how the administration can best help in this situation. He met with Lisa Parker last week at the Agrium plant. He also plans to assign the DCCED economist to work with Will Nebesky on the domino affect of Agrium’s closure on the local economy.

Will Nebesky, DNR:

Will stated that he would be happy to address any questions regarding the analysis that Bill Popp presented at our last meeting. He says that DNR has looked closely at the royalty gas issue and tried to turn over every stone, but if there are any areas the task force feels they would like to address he will be happy to discuss. He is happy to connect with Commissioner Blatchford's staff as well. From an economist's view, most of the market's attention is focused on efficiency-supply and demand. One can add the element of compassion to the calculation and see what the market will allow.

Dave Carey says he appreciates Will's use of the word "compassion". We have a concern that there will be a domino effect if Agrium closes. He asked that Will use proactive compassion.

Will Nebesky commented on reducing the amount of throughput in the infrastructure, it will still have a fixed cost, altered operating cost configuration, swing the cost of gas, all else equal, will see scale economic affects of actually lifting the cost of gas. Smaller throughput will cause the cost of the remaining users of the gas to have to pay more. Complicated question; task force may want to consider this study, bring on a petroleum engineer to evaluate the implications of drawing away the consumption of the Agrium facility. SAIC study, Enstar indicated there wouldn't be much impact on their gas issues.

Bill – can we count on the DNR to help with this?

Will – will make some inquiries.

Pat – what would the extension of the gas be should Ag have to shut down.

Will – reserves assigned to Ag (follows Sale of RIK gas, Location of Cook Inlet Gas fields and production) current production levels at 38 bcft / year, 20% of total production in the inlet currently. Reserves slide, McArthur River hold 200 cft of gas, approx 1 years reserves, utility gas for power and space heating is a smaller portion of that total consumption in the CI Gas Basin. Enstar gas demand is less than 30 bcft/year, this rep 5-6 years of consumption

Lisa Parker– based on the request proposals is to run one gas one Urea, 1 bill cft per year, reducing use of gas (capacity 53 b cft per year), 2005 – 39bcft consumption. Plants use 2/3 and Enstar uses 1/3.

Will Nebesky- 2010 – extremely aggressive for north slope gas line. Alaska Authority Spur line, no idea on when that may happen

Pre production period 3 – 5 years, Nenana

Bill - Enstar proposal currently exploring pipeline from CI basin to nenana,

Will - KPL pipeline good example, 3 – 5 year timeline

Conceivably DOT right of way from here to Fairbanks (?)

Lisa – gas storage, what is permit process of gas storage on state lands

Will – will look into, a little bit out of his area, believes there is a project in place, this would be a new thing it's entirely possible that a storage facility may have few impediments and may fall into the right of way authority of the DOT agreement.

If Agrium is unsuccessful in their negotiations and storage is available, then the remaining gas suppliers will be able to use the storage during the non-peak usage times.

George Ford stated that if Agrium has to close, there is a concern that the gas they were consuming would be shipped out of the area and is concerned about the consumer's needs.

Will Nebesky said that gas will go to parties willing to pay. Utility and power consumption usage is the highest price in the basin usage as we would expect, so expects it would naturally flow to utility and consumer usage as gas purchased or delivered directly to marketers or producers of gas. If another industrial user enters the picture, they would have to find sources of supply to work within the existing structure of gas producer commitments. If Agrium should close and then reenter this market, or another new user enters this market at a later date, gas supply would be dependent on contracts that are in place at that time.

Will Nebesky said they are keeping a close eye on the gas production vs. the usage and demand of the gas, particularly during the peak months. On positive note, Unocal and others are looking at the feasibility of storage of gas during the less demanding months to help with the capacity needed during the peak months.

George Ford asked if there is a minimum that needs to be produced out of the field (Swanson River) to use and store in order not to be considered new use of refuge.

??? Lisa Parker stated that the fields are operating 365/24. If Agrium shuts down and there is no absorption of the gas no longer being used, production in these companies will have to be slowed down and they may end up realizing a reduction in the recovery of gas. Task force may want to make a recommendation to the governor of wanting to see the State of Alaska do.(?)

Lisa Parker stated that over the last three years she has had the opportunity to work closely with Will and DNR. The people, and particularly Will, have been very responsive to requests and helpful in identifying solutions to problems. She says that Agrium appreciates the work they have done and the help they have given.

Lisa Parker – Agrium Update:

Lisa stated that they are still in the process of evaluating the responses to their RFP from producers and are in discussion at this time. They hope to have a report on the RFP responses by the end of June. They are still working on two tracks: Plant shut down still on after 10/31, but still working to find gas to keep plan open. Agrium is still running the three remaining plants at full capacity. Market is good. Price of natural gas has a big impact on the market for fertilizer.

Pat Cowan asked if Aurora gas being allowed to ship gas on the pipeline is a good thing for Agrium. Lisa said, not necessarily a good thing for Agrium, but it is a good thing in general.

John Coston – Agrium Employee Update:

They have had additional Rapid Response employee meetings, and gotten lots of positive feedback. The SBA and Insurance industry made presentations and let the employees know there are options out there. They are still losing employees. The longer we delay in getting gas and resolutions, the harder it is to keep people.

Discussion of Gas Line negotiations:

Pat Cowan asked, in the long term is it in our best interest to use royalty gas?

Will Nebesky said there is no question that in state use of gas is of high priority. Whoever might build the pipeline would ensure that there is a potential linkage of a spur pipeline to be able to move gas to this area. DNR's interest is for commercial entities who are building pipelines to keep the gas in this state. A pipeline that goes through Canada would connect us to other consumers of gas and would have an impact on the pricing of gas because that gas would be available to more markets. He states he has no doubt there will be a gas line. Economics of a spur line hooked to the Cook Inlet basin will be a positive impact in the industrial users. But he added that the closure of Agrium would have a negative affect on the spur line potential.

Lisa Parker stated that the 3 year old Anadarko operational agreement contract has not been signed. She would like to know if the contract has to be ratified by the legislature, and wants to know if it has it expired.

Will Nebesky said he is not sure about expiration provisions, as far as he knows that contract has not been signed, but is an operational agreement in principal. It would go into effect at the time of production. talking about 500 mcf/ per day, peak averages 900 million. Has been laying and waiting for action for three years. Flow is 5% of North American market including Canada and Mexico, for single source of gas it is enormous. Proven reserves of North Slope, est. 35tcft, NA consumption is 32 Tcf/year.

General Discussion:

Jim Carter said he appreciates the resolution the Task Force sent to the Governor on the re-opening of the Healy Coal Plant. He said the Governor said that we would need a resolution from the borough and other local government entities as well. Bill Popp said this will be brought up at the next borough assembly meeting, and that individual cities have copies of the resolutions and they will need to take it from there.

Question was raised regarding the follow-up meeting with the Governor, the producers, and the task force co-chairs. It was tentatively scheduled for June 27. Susie Davis will check with the Governor's secretary to see if this meeting is scheduled.

New Business:

- Bill Popp asked for suggestions for long range goals for the task force.
- Bill will provide a list to members of suggested long range goals.

Review of five issues –

- long term affects
- loss of feasibility
- negative affects of industrial users if Ag closes, adverse affects on their ability to produce
- questions of AK North Slope use
- AK North Slope spur line

Bill Popp asked at this point what other issues should we be looking at. Example, need for jack up rig in CI, removed from capital budget this year. Do we want to keep that on our list of things to support.

Jim – always opportunity of special session

George – getting additional areas open for exploration east of Swanson River field.

This is a draft list, hope to develop list to bring to next meeting to get working on. For benefit of media – none of this is real yet, we are just in the process of developing issues we may want to address.

Gas supply, new explorations, how to promote, supplies outside the peninsula, No other items to add to the list at this time, Bill Popp will take these eight things and draft a list. Will include the previous short term list and incorporate it to the list and distribute it prior to the next meeting.

Bill Popp– also the continental shelf in the Cook Inlet with reserves yet to be identified, pending legislation that advocates for royalty suspension, OCS,

Comments from the public.

Question from Mark Quiner regarding Swanson River issues and Bill Popp urged Mark to pose this question to Unocal as it is their project.

Next meeting: Monday, June 20, 2005, 9:00 am, at the Kenai Job Center Forget-Me-Not Room.

Meeting adjourned at 11:20 am.