

Agrium Task Force
Final Draft
Recommendations To The State of Alaska

June 24, 2005

Preface

The Agrium Task Force was formed at the direction of Governor Frank Murkowski to assist Agrium workers as they look to transition to other employment and to evaluate issues related to Cook Inlet oil and gas reserves and to make recommendations on ways to stimulate new oil and gas exploration, development and production to keep this important economic sector vibrant.

Recommendations

The following is a list of requests and recommendations of the Agrium Task Force that address concerns and suggested policy strategies.

1. The State of Alaska and Federal government should continue to follow through and support the Agrium and impacted contractor workforce to prepare workers to transition into new jobs if the nitrogen plant closes. This follow through should include implementation of the provisions of the Trade Adjustment Assistance Act and any other appropriate Federal or State programs or grants that will protect the interests of Agrium workers to the greatest degree possible.
2. The Agrium Task Force requests that the State of Alaska immediately commission a study that evaluates the long-term economic effects and impacts on the Cook Inlet gas production, transmission and distribution system and the communities served by that system if some or all of the existing industrial and utility users shut down. This study should examine:
 - potential impacts on operating costs of the natural gas distribution system.
 - the impacts to the delivered price of natural gas to utility consumers.
 - the impacts to natural gas field productivity if fields are shut-in during the summer due to lack of industrial demand.
 - why significant consumers are not actively participating in the cost of new natural gas exploration efforts and how to encourage this kind of investment.
 - the current state of the existing natural gas pipeline infrastructure, industrial infrastructure, and power generation and local gas distribution utility infrastructure to identify reinvestment required to maintain and upgrade these important assets and the implications for mode switch in both utility gas and electric power generation.
 - the regional economic impacts, including employment effects, financial cost burden and bridging alternatives tied to energy supply mode switch,

to the Kenai Peninsula Borough if natural gas reserves become unavailable to the region in the future.

- An in-depth engineering/economic study of a spur pipeline, including but not limited to, capacity, cost, toll structure, timing, route, expansion and, importantly, bi-directional flow.
3. The Agrium Task Force recommends that Alaska North Slope (ANS) natural gas should be made available to the Cook Inlet to meet the long-term energy needs of the region. Specific recommendations regarding ANS natural gas include:
 - An ANS spur or bullet pipeline should be built to the Cook Inlet.
 - A portion or all of ANS royalty natural gas should be reserved for in-state use.
 - New industrial users of natural gas should be actively recruited by the State of Alaska, in direct partnership with local governments, to locate within the Cook Inlet region to satisfy the economic necessities of an ANS natural gas spur or bullet pipeline to the Cook Inlet.
 - Any proposed ANS natural gas spur pipeline or bullet pipeline to Cook Inlet should be designed to offer bi-directional flow to connect Cook Inlet natural gas resources to broader North American natural gas markets. This is intended to promote natural gas exploration within the Cook Inlet Basin.
 - Any proposed ANS natural gas pipeline project agreement with the State of Alaska should include provisions that ensure pipeline access is available to future ANS explorers and to Cook Inlet producers to deliver Cook Inlet natural gas to markets served by the ANS gas pipeline.
 4. The State of Alaska should actively promote and facilitate the mobilization of an offshore jackup exploration drilling rig to the Cook Inlet to promote increased exploration of the still substantial oil and natural gas resources of the Basin. New exploration to find and develop new oil & gas reserves is vital to the future economic health of the Kenai Peninsula Borough and the Railbelt. Significant oil & gas resource potential still exists in the offshore areas of Cook Inlet and a jackup rig is the key element to facilitating any new exploration in the offshore.
 5. New oil and gas leasing and exploration should be allowed within previous undeveloped areas east of the existing Swanson River oil & gas fields within the Kenai National Wildlife Refuge. This region remains largely unexplored and may hold significant undiscovered natural gas reserves.
 6. New oil and gas leasing and exploration within the Federal Outer Continental Shelf (OCS) waters of the lower Cook Inlet should be aggressively promoted facilitated by both the Federal and State governments. The 2.2 million acres proposed for leasing within the OCS are largely unexplored. Geologic data suggests that significant oil & natural gas reserves would likely be discovered if exploration were undertaken in the region.

7. The State of Alaska, the Federal government and industry should both actively support and promote the establishment of new natural gas storage facilities within the Cook Inlet Basin to address the issue of natural gas deliverability shortfalls in winter. Currently, the natural gas system is unable to meet peak demand periods in winter. With out adequate natural gas storage capacity in place, industrial users are the first to feel the effects of these deliverability shortfalls through curtailment of their natural gas supplies in deference to the needs of utility consumers. These curtailments of supply create increasingly unfavorable economic conditions for industrial users that may ultimately result in the closure of one or more natural gas based industrial plants.
8. The State of Alaska and the Federal government should promote and facilitate new onshore and offshore 3-D seismic surveys to spur new oil and natural gas exploration within the Cook Inlet Basin. The Cook Inlet Basin was the subject of extensive seismic exploration efforts in the 1960's & 1970's, which helped to identify over 9 trillion cubic feet of proven reserves. In the last two decades, only modest seismic work has been done in the Cook Inlet Basin. Future new natural gas reserves will be technically more difficult to identify, explore and produce. This exploration effort will require extensive use of 3-D seismic survey technology that is significantly more expensive than the technology used in the past. The State of Alaska and the Federal government should seek reasonable methods to promote the extensive use of this technology to fully survey the Cook Inlet Basin.
9. The State of Alaska and the natural gas utilities should examine and promote diversification of the current sources of energy used to generate electricity in order to provide a more stable and robust long-term mix of energy sources such as coal, hydro and renewable energy including tidal and wind. The projected decline of Cook Inlet natural gas reserves in the next decade, coupled with the fact that 85% of electricity generated in the Railbelt relies on Cook Inlet natural gas as an energy source, underscores the potential risks of over-reliance on one source of energy to generate electricity. The Cook Inlet Basin has vast reserves of coal, as well as significant potential for alternative energy generation through wind and tidal sources. These alternatives to natural gas should be fully examined to develop appropriate options for a more diversified portfolio of energy sources to generate electricity within the Railbelt.