

**STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
STATE PIPELINE COORDINATOR'S OFFICE**

**ANALYSIS OF AMENDMENT APPLICATION
AND PROPOSED DECISION**

**Alaska Stand Alone Gas Pipeline/ASAP
ADL 418997
Changes in Pipeline Design; Revisions Pursuant to HB4;
and Gas Conditioning Facility and Related Infrastructure**

Proposed Action:

On January 10, 2014, the Alaska Gasline Development Corporation (AGDC) submitted an application to amend the Alaska Stand Alone Gas Pipeline/ASAP Right-of-Way Lease, ADL 418997. The amendment application proposed several significant changes to the lease, including a change in pipeline design from a 24-inch diameter high pressure pipeline with a maximum allowable operating pressure of 2,500 psi to a 36-inch diameter lean gas pipeline with a maximum allowable operating pressure of 1,480 psi. The application also proposed to revise the lease to reflect House Bill 4 (HB 4), passed by the Alaska Legislature in 2013, which created changes to Alaska Statute (AS) 38.35 including the authorization of contract carriage for gas pipelines.

Additionally, the amendment requested that approximately 143 acres of land west of the Prudhoe Bay Central Gas Facility be added to the right-of-way lease for facilities associated with the project. Specifically, the amendment requested the lands for the following purposes:

- 100 acres for a gas conditioning facility pad;
- 23 acres for a construction and operations camp pad for the gas conditioning facility;
- Three roads, totaling 12.8 acres, connecting the camp to the gas conditioning facility, Dalton Highway and central gas facility;
- An additional pipeline right-of-way, approximately 6.8 acres in size, for multiple pipelines connecting the gas conditioning facility to the existing central gas facility; and
- Alignment changes between pipeline mileposts 0 – 3.

The lands proposed to be added to the right-of-way are specifically described in Attachment A.

Public Notice: Notice of this Analysis and Proposed Decision is being published in the Anchorage Daily News and Fairbanks Daily News Minor on August 8, 2014 and the Arctic Sounder on August 14, 2014.

Comments must be submitted to the address below no later than 5:00 p.m. on September 8, 2014.

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Background:

AGDC was established by the Alaska Legislature in 2010 by the passage of HB 369. One of the provisions in HB 369 was for the Alaska Department of Natural Resources (DNR) to grant a right-of-way lease under AS 38.35 provided the following: AGDC submitted a complete application; the application was subject to public notice; and AGDC agreed to be bound by lease covenants in AS 38.35.120.

AGDC subsequently submitted a complete right-of-way application to the State Pipeline Coordinator's Office (SPCO) and the DNR issued a right-of-way lease on July 25, 2011. The lease originated with a proposed gas conditioning facility (GCF) located immediately south of the existing Prudhoe Bay Central Gas Facility and terminated at Beluga Pipeline near Big Lake, totaling approximately 737 miles.

On January 10, 2014, AGDC submitted an application to the SPCO to amend the right-of-way lease to change the location of the GCF and add lands for related roads and pipelines, as well as accommodate changes in the project plan and change the covenants to reflect recent changes in statute.

Notice of the right-of-way amendment application was published in the Anchorage Daily News, Fairbanks Daily News Miner, and the Arctic Sounder as well as on the State of Alaska and SPCO websites on January 27, 2014 (Attachment B). In addition, public notice of the application was posted in the Barrow, Nuiqsut, Kaktovik, and Fairbanks post offices. Notice was given to the North Slope Borough and the cities of Nuiqsut, Kaktovik, and Barrow, as well as other potentially affected parties.

Per AS 38.35.070, the following coordinate agencies were notified of the application on January 27, 2014: Alaska Department of Environmental Conservation, Alaska Department of Labor and Workforce Development, Alaska Department of Transportation and Public Facilities, and the Regulatory Commission of Alaska.

In response to the public notice, one comment was submitted on March 26, 2014, by the Alaska LNG Project (AK LNG). In the comments, AK LNG stated that it had a financial interest in the outcome of the amendment application because the project continues to advance a plan for a gas treatment plant (GTP), a right-of-way and the associated infrastructure that would utilize state lands essentially the same as those referenced in the public notice.

Authority: AS 38.35.015; AS 31.25.090; Chapter 7 SLA 10 (HB 4); and the Alaska Stand Alone Gas Pipeline/ASAP Right of Way Lease, ADL 418997 are the authorities for this decision.

Administrative Record: The Alaska Stand Alone Gas Pipeline/ASAP Right of Way Lease, ADL 418997; and the case file constitute the administrative record used in making this decision.

Land Status

Title

The proposed area for the GCF and related facilities is located within the industrial community of Prudhoe Bay (Deadhorse). The DNR Division of Mining, Land and Water, Realty Services Section, completed a title report, RPT 5223, for the lands encompassed by the proposed GCF and related infrastructure. The title report confirmed the State of Alaska holds fee title to the land and mineral estates.

The State of Alaska received title to these lands via Patent 50-74-0093 from the United States of America. Additionally, the State of Alaska holds title to all submerged lands acquired via the Submerged Lands Act Amendment of 1988 and the Common Law Doctrine of Riparian Rights.

Classification

The lands encompassed by this application were classified as Resource Management (RMG) under Classification (CL) 618 and are subject to ADL 50666, North Slope Area Special Use Lands.

A land classification establishes the apparent best use of an area, with the presumption that all other uses are compatible unless specifically prohibited. According to 11 AAC 55.200, land classified as RMG is either land that might have a number of important resources, but for which a specific resource allocation decision is not possible at this time, or is land that contains one or more resource values, none of which is sufficiently high value to merit designation as a primary use. CL 618 did not prohibit any specific uses for the lands in the project area.

ADL 50666, North Slope Area Special Use Lands, designates all lands in the Umiat Meridian (UM) as “special use lands.” This designation requires that, in addition to permitting requirements under 11 AAC 96.010, permits are required for geophysical, exploration, construction, and transportation activities, except along established roads. This requirement does not prohibit the development of lands within the Umiat Meridian or the development of permitted easements and rights-of-way.

Nothing in the management actions designating the units described above precludes the state from issuing an AS 38.35 right-of-way for the development, construction, and continued operation of a pipeline across state land.

Third Party Interests

The ASAP amended right-of-way does not conflict with any known third party interests previously granted by the State of Alaska. Third party interests on lands within or adjacent to the proposed right-of-way are listed in Attachment C and include a pipeline right-of-way, oil and gas wells, oil and gas leases, and land use permits.

The ASAP GCF is proposed to be located within the Prudhoe Bay Unit. Greater Prudhoe Bay facilities in this area include the central gas facility, drill sites, production pads, the Put 23 gravel site, an electric power line, gravel roads, gathering lines, and Northstar Oil Pipeline. Prudhoe Bay activities are permitted under various leases and permits from the federal government, the North Slope Borough, and the State of Alaska.

All identified third party interests will be notified of this Analysis and Proposed Decision.

Analysis

AS 38.35, the Alaska Right-of-Way Leasing Act, sets forth the procedures by which certain right-of-way leases are granted by the State of Alaska and the conditions under which they can be amended. As set out in AS 38.35.010, it is the policy of the state that development, use, and control of a pipeline transportation system make the maximum contribution to the development of the human resources of this state, increase the standard of living for all its residents, advance existing and potential sectors of its economy, strengthen free competition in its private enterprise system, and carefully protect its incomparable natural environment. Pursuant to AS 38.35.015, the Commissioner has the power to grant leases of state land for pipeline right-of-way purposes.

For purposes of this analysis, the AGDC amendment application will be separated into two sections.

- A. Changes in pipeline design and revisions to reflect recent changes in statute
- B. Request to add additional acreage for a gas conditioning facility and related facilities, and realign a portion of the pipeline right-of-way

A. Changes in Pipeline Design and Revisions to Reflect Recent Changes in Statute.

In 2013 the Alaska Legislature passed House Bill 4, which directly affected the Alaska Stand Alone Gas Pipeline/ASAP Right-of-Way Lease, ADL 418997, including the authorization of contract carriage for gas pipelines. HB 4 included legislative intent for the existing right-of-way lease to be amended as soon as possible to conform to the newly enacted legislation. See HB 4, Sec. 25, Page 57, lines 16-26. Specifically, AS 31.25.090(d), AS 38.35.100(d), AS 38.35.120(a), AS 38.35.120(b), and AS 38.35.121.

The changes are summarized as follows:

- Section 1: Changes to project description design from a 24-inch diameter high pressure line to a 36-inch diameter lean gas pipeline
- Section 3: Revise section on rentals to reflect changes by HB 4.
- Section 4: Revise language on payments to reflect changes by HB 4
- Section 7: Revise section on navigable and public waters regarding determinations and provisions required by AS 38.05.127(a).
- Section 8: Revise section on covenants to include covenants required for a contract carrier pursuant to changes by HB 4.
- Section 22: Revise section on transfer, assignment, or other disposition to reflect changes by HB 4.
- Section 23: Revise section on release of interest to reflect changes by HB 4.
- Section 26: Update address and contact information.

These changes reflect current project design and legislative direction and are granted; no additional DNR analysis is required for these amendments at this time.

B. Request to add additional acreage for a gas conditioning facility and related facilities.

The Alaska Gasline Development Corporation has requested the following alterations to the existing right-of-way lease:

Gas Conditioning Facility (GCF) Pad: The GCF pad would include a processing facility, operations and maintenance pad, and flare(s) (see #1 in the Attachment A: Figure 1). The GCF would contain several modular buildings to house equipment, utilities, workspaces, and personnel in addition to other ancillary facilities required for the natural gas conditioning process. These facilities typically contain primary and backup power generation, natural gas compressors, heating, and refrigerant equipment.

The main gas pipeline would originate at the GCF to travel south. Additional pipelines would be constructed to transfer natural gas and the byproduct between the GCF and the central gas facility (CGF) to the east (see #6 in the Attachment A: Figure 1). All pipelines connected to the GCF would be constructed in the winter and positioned above ground on vertical support members.

GCF Construction and Operations Camp Pad: The GCF temporary construction and permanent operations camp pad would be about 23 acres in size and located approximately 1,200 feet northwest of the GCF pad (see #2 in the Attachment A: Figure 1). Temporary facilities used to support construction include a construction office structure, safety training center, tool room, piping and electrical warehouse, structural and sheet metal shop, material receiving office, incinerator, diesel fuel storage and dispensing facility, and power generation module. Temporary facilities will be dismantled and removed after the GCF startup.

Planned permanent facilities include an operations warehouse, operations cold storage, operations center and laboratory, and maintenance shop.

Realigning Three Pipeline Miles: The original pipeline, from mileposts 0 to 3 (see #7 in the Attachment A: Figure 1), would be vacated when the ASAP right-of-way is moved west to begin at the new GCF pad and replaced with the new alignment for the pipeline route (see #8 in the Attachment A: Figure 1).

Discussion

In the original 2011 right-of-way application, AGDC applied for land south of the existing Prudhoe Bay Central Gas Facility for a 70-acre gas conditioning facility (GCF) (see Attachment D). This land was granted in the ASAP right-of-way lease and was the subject of review in the ASAP National Environmental Policy Act's (NEPA) Environmental Impact Statement (EIS) filed in October of 2012.

In the recent application to amend the right-of-way lease (January 10, 2014) AGDC requests that approximately 100 acres of land west of the existing Prudhoe Bay facility (described in the proposed amendment and depicted on Attachment A: Figure 1 and Attachment D) is more suitable to construct a GCF than the previously selected site .

During the same time as AGDC's original lease application to the state (2011) and the initial EIS process, the Alaska Pipeline Project (APP), was conducting feasibility studies for a gas treatment plant (GTP) in the area directly west of the existing Prudhoe Bay facility. This interest was detailed in the Resource Reports filed with the Federal Energy Regulatory Commission (FERC) in January 2012. The Resource Reports were distributed to state and federal agencies, as part of the initial stages of APP's NEPA EIS process and state permitting efforts. Ultimately, in 2012 APP filed a letter with FERC requesting a deferral for pre-filing for a CPCN.

In 2013, the dormant APP project became the Southcentral LNG (SCLNG) and began studying a gas pipeline route from the North Slope to tidewater in the Cook Inlet area, as opposed to APP's original route, which proposed to cross Canada. In late 2013, SCLNG underwent additional changes and became AK LNG. AK LNG approached the SPCO in 2013 to request that the SPCO begin coordination and permitting efforts to continue feasibility studies for a natural gas pipeline originating in Prudhoe Bay. The pipeline would originate at the APP identified site; proceed south along the Dalton Highway route in the corridor already studied by APP until reaching the vicinity of Livengood. AK LNG indicated it would start studies to identify a new route continuing south of Livengood, which would head generally toward the Nenana area, proceed along the Parks Highway and on to tidewater in the Cook Inlet vicinity (this description is general from the Livengood vicinity onwards as AK LNG has indicated it is actively studying various route alternatives. AK LNG has not applied for a right-of-way across state lands.)

On March 26, 2014, during the public notice period for ASAP's requested amendment, AK LNG submitted a letter to the SPCO stating that it continues to advance a plan for a GTP facility on the site originally identified by APP and currently identified in AGDC's application. In the same letter, AK LNG stated the parties (ASAP and AK LNG) had entered into a cooperation agreement, as contemplated by the January 14, 2014, Heads of Agreement. The letter goes on to state that the parties intend to cooperatively address the use of state lands for a GTP facility. Accordingly, AK LNG expressed a direct financial interest in the outcome of the Commissioner's decision on the lease amendment application.

The DNR Commissioner has the responsibility, under AS 38.35.100, to evaluate the proposed use of state land and consider the present and future public interest. The Commissioner must review any competing uses of the land and determine conditions and stipulations that would best resolve conflicts. Although rights-of-way under AS 38.35 are nonexclusive, once the land has been conveyed for a specific use, DNR cannot issue a conflicting use for the same land.

AGDC and AK LNG are both engaged in studies assessing the feasibility of facility and infrastructure location, gathering geophysical data, and conducting engineering studies. The results of these extensive studies will aid in the final determination of infrastructure locations along the routes, including the final location of infrastructure in the Prudhoe Bay area. Until the engineering work and geophysical studies are further advanced, it is not possible to make a determination as to compatibility or evaluate the impact on the future use of the land; it is expected that during the coming months either or both of the projects may choose different locations or make major modifications to the projects.

Given the limited amount of developable land in the Prudhoe Bay industrial area, the stated and known interest in the specifically requested location by multiple parties, and the early design phase of both projects, a decision regarding the requested additional acreage to the existing ASAP right-of-way lease is premature and should not be granted at this time. Ultimately, it appears reasonable to assume that only one major gas pipeline may be built. Accordingly, a denial of leasing this site at this time should allow both projects the additional time needed to discuss cooperative efforts and improve coordination.

Conclusion and Proposed Decision:

Based on the review of the application and the record, the Alaska Stand Alone Gas Pipeline/ASAP Right-of-Way Lease, ADL 418997, is amended by the following:

Section 1 has been changed from 24-inch line to a 36-inch line. Sections 3, 4, 7, 8, 22, 23, and 26 have been changed to reflect the terms of HB 4, or updated project information, as discussed above.

The additional acreage requested by AGDC, in this application, for the GCF pad, pipeline re-alignment, camp pad and related roads (as depicted in Attachment A) is denied at this time.

If no significant change is required as a result of public comment or objection, then the proposed decision, including any minor changes, will be issued as the final decision of the Department of Natural Resources after September 12, 2014, without further notice.



Joseph R. Balash
Commissioner, DNR

8/8/14

Date

Attachments:

- Attachment A: Legal Descriptions for Requested Lands
- Attachment B: Public Notice of Amendment Application
- Attachment C: Third Party Interests
- Attachment D: Amendment Map