State corporation awaits FERC review of LNG project application

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(This update, provided by the Kenai Peninsula Borough mayor's office, is part of an ongoing effort to help keep the public informed about the Alaska LNG project.)

The next due date is mid-July in the Alaska Gasline Development Corp.'s pursuit of an environmental impact statement and expedited federal regulatory decision by December 2018 for the Alaska LNG project. The state corporation submitted its **project application** on April 17, 2017, to the Federal Energy Regulatory Commission, which has 90 days to set a schedule for the environmental review — or request more information from the applicant.

FERC generally will not issue a Notice of Schedule for Environmental Review until it is confident it has all the information needed to accurately predict the work schedule toward a final EIS.

Of particular interest to Kenai Peninsula residents — where the project sponsor proposes to build a gas liquefaction plant and marine terminal in Nikiski — the application provides no new details on the proposal to relocate a state highway away from the LNG plant site, nor further information on impact aid to communities statewide affected during the estimated five years of construction of the $40 billion to $45 billion project.

"The applicant is aware of the desire of communities to receive municipal assistance to help offset impacts associated with construction," AGDC said in its **socioeconomics report** (Resource Report No. 5). "As a state corporation, AGDC will work with the Legislature to resolve and address the potential impacts that may occur during construction."

AGDC took over the project last year after the lead developers, North Slope oil and gas producers ExxonMobil, BP and ConocoPhillips, looked at market conditions and decided against continued expenditure of hundreds of millions of dollars in 2017 — and even more in subsequent years — for permitting, engineering and design.

STATE ASKS FOR FERC DECISION BY DECEMBER 2018

In its April 17 submission, AGDC proposed that 20 months should be sufficient for FERC review of the project application; AGDC response to any data requests; the draft environmental impact statement, with its public comment period and revisions; the final EIS; and then a decision by FERC commissioners whether to approve construction and operation of the gas project.

"As currently envisioned, AGDC intends to streamline and expedite the project development schedule to provide for initial in-service date of 2024. To allow for the construction of the project to meet that in-service date, AGDC requests FERC to grant the requested authorization no later than December 31, 2018," the state corporation said in the cover letter accompanying its application.

State ownership of the project could help speed up the environmental review process, AGDC said in its application. "AGDC submits that the commission can rely heavily on the state itself to ensure that the AGDC will utilize best practices to preserve the Alaska landscape and environment, which in turn will enable the commission to conclude the National Environmental Policy Act process for the Alaska LNG project more expeditiously than for a project in which state and local interests are not aligned with those of the project sponsor."

Alaska Gov. Bill Walker and AGDC want to move the project forward at a fast pace to meet what they believe is a "window of opportunity" for new LNG supplies to serve an expected growth in the global market in the early- to mid-2020s.

"This case does not involve a traditional clash between the private interests of an applicant and the public interests of various stakeholders," the application said. "AGDC's entire purpose is to benefit the state and its residents by advancing the project. … Thus, this case presents a unique situation where the applicant and many of the relevant stakeholders broadly share a common, public interest."

At the same time it filed with FERC, the project submitted permit applications with four other federal agencies: Army Corps of Engineers, Bureau of Land Management, Pipeline and Hazardous Materials Safety Administration and Coast Guard.

APPLICATION INCLUDES LATEST RESOURCE REPORTS

The application to FERC includes a **dozen reports and their appendices** — called resource reports — covering soils, water and wastewater, air quality, land use, socioeconomic impacts during project construction and operations, and other topics that will form the baseline for the environmental impact statement. The reports also provide estimates of highway traffic during construction, rail and port traffic, gravel sites, proposed compressor station locations along the pipeline route and a tentative construction schedule for the entire undertaking.

The producer-led team submitted two rounds of draft resource reports to FERC in 2015 and 2016, prompting more than 400 questions and requests from federal and state agencies in 2016 for more data.

Many of those data requests are covered in the reports included with AGDC's application, though the applicant said several requests will not be addressed until later in the EIS process.

In addition to seeking FERC approval and multiple federal and state permits and authorizations, AGDC is looking to sign up customers, partners, investors and financing before it would order equipment to build the Prudhoe Bay gas treatment plant and Nikiski LNG plant, or pipe for the 63 miles from the Point Thomson gas field to Prudhoe Bay and then 804 miles south to the LNG terminal on the Kenai Peninsula about 62 air miles south of Anchorage.

A venture of ExxonMobil, BP and ConocoPhillips had purchased or taken options on more than 600 acres at the LNG plant site before shutting down land acquisition efforts last year. FERC in February advised AGDC that its application needed to show it had "control of the site." As of April 17, the state corporation was still negotiating with the producers for an option on the land, according to an AGDC official at a Nikiski Community Council meeting.

STATE COULD USE EMINENT DOMAIN AT LNG SITE

Though the application reports the LNG plant and marine terminal will cover 901 onshore acres, the state has not initiated any land acquisition efforts to add to the 600-plus acres owned by the producer-led venture. Whereas the producers had no legal authority to force any property owners to sell their land, AGDC has that option. "In recognition of the importance the state places on AGDC's mission," the corporation said in its application, "the state has provided AGDC with the power to exercise eminent domain if needed to advance the project." Under eminent domain, the courts would settle any dispute over land values.

In addition to addressing the land in Nikiski, the option under negotiation with the producers also would cover the U.S. Department of Energy export authorization granted the companies in 2015 — the state was not a party to that export request. "AGDC is currently in negotiations" with the producers for an option to purchase the partners' limited liability company that holds the export authority and owns the land in Nikiski, the application said.

Such fiscal and commercial negotiations are just as essential to full state takeover of the project as working through the regulatory and permitting requirements.

The former partnership of the state and North Slope producers spent several hundred million dollars on field work from Prudhoe Bay to Nikiski over the past four years, walking streams, taking soil samples, counting fish, inventorying vegetation, checking for fault lines, identifying cultural and historical sites, and all the other detailed on-site work that goes into an environmental review.

Despite all that work before filing the application, additional data requests from FERC are common before the agency issues its environmental review schedule. Looking at LNG projects that received their Notice of Schedule from FERC between 2011 and 2017, several took more than a year after an application to receive their schedule.

AGDC, however, in a press release announcing its application, said: "FERC will soon publish a schedule … that outlines the time to develop a draft EIS (likely 12 months) and a final EIS (another 6 months)."

FERC ADVISES MORE DATA REQUESTS POSSIBLE

In conference calls over the past couple of months, FERC has cautioned AGDC of the possibility of more data requests before setting a review schedule. "FERC will need to ensure that all information requested is incorporated into the application, and any additional information necessary to prepare the draft EIS has been filed before a schedule can be established," according to FERC's notes of a March 16 call with AGDC.

The Alaska LNG project has been in pre-file status with FERC since September 2014, during which time the project development team has collected and submitted thousands of pages of environmental, construction and operations data, working with FERC staff to determine what would be needed for a complete application and EIS.

In a Feb. 16 conference call, FERC advised the state team "to stay in pre-filing as long as necessary to make the application as complete as possible." During that same call, FERC staff advised that front-end engineering and design information requested by federal agencies "needs to be filed prior to issuance of a draft EIS."

Federal regulators repeated the advice in a March 30 conference call: "FERC staff stated that pre-filing is beneficial to prospective applicants in addressing issues and recommends staying in pre-filing due to the number of questions lingering," according to the agency's notes of the call.

In the move from pre-file status to an application, the project has shifted from FERC Docket No. PF14-21 to Docket No. CP17-178. Filings by AGDC, FERC and other parties are available through the **FERC eLibrary search.**

As part of its move to take over the project, AGDC is now solely responsible for the bills of the third-party contractor assisting FERC with preparation of the environmental impact statement. ERM, a 40-year-old global firm with offices in Alaska and 35 other states, has been assisting FERC since 2014 with preparations for the project's EIS.

AGDC PROMOTES ECONOMIC BENEFITS

In its application, the state corporation — created by the Alaska Legislature in 2010 to meet in-state needs for gas, and later expanded to help develop a much larger export project — touts the benefits of moving North Slope natural gas to market. "AGDC proposes an infrastructure project of major national and global significance which will create numerous long-lasting benefits to the nation, the state of Alaska and regional and local communities.

"The project will increase tax revenues for state and local governments, provide additional royalty revenues to the state, improve the nation's trade balance with foreign countries and increase the energy security of the United States and our allies."

AGDC is not the only project developer to see LNG exports as an opportunity to sell U.S. energy overseas, potentially reducing the nation's trade deficit. The first LNG export terminal in the Lower 48 states opened last year in Sabine Pass, La. Additional capacity is under construction at that Cheniere Energy plant, and five more LNG export projects are under construction on the Gulf and East coasts, with several others waiting on investment commitments by their developers.

In addition to analyzing the project's effect on the environment, fish and wildlife, water and air quality and communities, the federal EIS will consider multiple alternatives for pipeline routing and construction (elevated or buried), river crossings, construction methods, offshore dredging and disposal sites, work camp locations, fuels used in construction equipment — and, in particular, whether Nikiski is the "least environmental damaging practicable alternative" site for the LNG plant and marine terminal. Federal agencies are not obligated to concur with a project sponsor's preferred alternative.

The pipeline across 28 miles of Cook Inlet to reach Nikiski is one of the decisions that will be addressed in the EIS alternatives review. AGDC — same as the producer-led team before them — proposes to set the heavily concrete-coated steel pipe on the seabed floor rather than trenching and burying the line. "For the Cook Inlet crossing, AGDC must provide evidence of adequate protection … versus burying the pipe," federal regulators said in a March 2 conference call.

Wetlands also will be a major issue. In an April 4 conference call, FERC explained that construction activities in wetlands and mitigation procedures require restoration "rather than allowing wetlands to be converted to uplands." The project's proposal "to place gravel fill in wetlands would require a modification to the procedures." As such, "the applicant must provide evidence that the modification is either unavoidable or provides equal or better protection of the resource."

ALTERNATIVES ANALYSIS WILL LOOK AT VALDEZ

The Alaska Gasline Port Authority, an 18-year-old municipal venture of the city of Valdez and Fairbanks North Star Borough, has promoted Valdez, on Prince William Sound, 120 miles due east of Anchorage, as the best site for the LNG terminal. The port authority has asked FERC to conduct a "more robust analysis" of the Valdez option over Nikiski.

FERC, and other federal agencies, already had identified the Valdez option as requiring more in-depth analysis in the EIS.

Resource Report No. 10, Project Alternatives, which accompanied AGDC's application, lists multiple reasons why the producer-led sponsor team did not select Valdez as its preferred site, including:

- Cumulative air emissions constraints from locating the LNG plant so close to the trans-Alaska pipeline oil terminal in Valdez.
- Steep topography at the Anderson Bay site requiring extensive blasting and grading to "level or bench the site," resulting in extensive fill in Prince William Sound. The project sponsors have estimated that preparing the Valdez site for the LNG plant and marine terminal would require removing 39 million cubic yards of rock and overburden — almost eight times the amount at the Nikiski site. (The port authority questions that number.)
- Vessel safety concerns due to the narrow control points at the entry to Hinchinbrook Entrance and the Valdez Narrows.
- The pipeline route to Valdez would cross two federally designated Wild and Scenic Rivers that could result in permit schedule delays.
- A risk of higher costs and schedule delays from building the pipeline through Thompson Pass, elevation 2,805 feet and with a reported average snowfall of 552 inches a year.
- And concerns over federal safety rules for an LNG terminal built next to an oil storage and marine terminal.

In a March 30 conference call, federal regulators advised AGDC that it will need to prepare information not just on the Valdez LNG plant site option, but on the alternative pipeline route to reach Valdez from Prudhoe Bay.

ANALYSIS ALSO WILL LOOK AT NORTH SLOPE LNG PLANT

Another project alternative discussed in AGDC's reports to FERC, and that will be reviewed in the EIS, would eliminate the pipeline from Prudhoe Bay to the southern end of the state and instead build the LNG plant on the North Slope.

The Project Alternatives report filed with FERC said that option "was eliminated due to the impracticability of building and operating a liquefaction facility on the North Slope," for several reasons, including:

- The ice-free window for ship traffic to the North Slope is only about two to three months, "requiring specialized ice-breaking LNG carriers and loading facilities capable of withstanding Arctic ice conditions." (An LNG project under construction in the Russian Arctic will use such carriers, which reportedly cost twice as much to build as a conventional LNG carrier, and even with those specialized vessels the project will need icebreaker escorts year-round.)
- Because the Beaufort Sea is very shallow near shore, an LNG loading terminal "would need to be either located tens of miles offshore" (in the Prudhoe Bay area, it is approximately 20 miles to reach a 60-foot water depth), or substantial near-shore dredging would be required in the environmentally sensitive area of critical habitat for

marine mammals and other wildlife, and of importance for subsistence whaling by North Slope residents.

- Construction costs would be substantially higher to build the LNG plant on the North Slope, due to the limited time each summer for a barge sealift to deliver plant modules to the site, adding several years to the construction schedule.

Another major alternative that would be addressed in the EIS is whether the pipeline runs past Denali National Park or the pipe is buried just inside the park boundary for about 6 miles to avoid an area of steep side slopes, unstable terrain and the necessity for a 500-foot-long pipeline bridge across a steep canyon. The pipeline segment would be about 540 miles south of Prudhoe Bay, on its way to Nikiski.

The state is seeking congressional approval of a change in federal law to ease the regulatory process — but not lessen the environmental requirements — for that short stretch of pipeline through the national park.

NO PROGRESS ON KENAI SPUR HIGHWAY RELOCATION

Though not directly part of the FERC environmental review, relocation of a section of the Kenai Spur Highway to make room for the LNG plant site is a significant issue for the Nikiski community. AGDC's application provides no new information on potential relocation routes or details on a route selection process — other than to report that to start the LNG plant site work on schedule, construction of the new highway segment would need to begin first-quarter 2019 and be completed in the third-quarter 2020.

"The planned liquefaction facility location would require that an approximately 1.33-mile segment of the existing Kenai Spur Highway be relocated to the east to enhance public safety and avoid potential conflicts with the proposed liquefaction facility," the socioeconomics report said. The existing highway runs through the proposed plant site and the access road that would be used to deliver construction equipment and plant modules from an offloading dock to the upland construction site.

"It is anticipated that the relocation would be completed prior to the start of project construction," AGDC said in the **General Project Description** (Resource Report No. 1), adding that the highway relocation "could only be accomplished by the State of Alaska (Alaska Department of Transportation)."

AGDC has not had any discussions with Kenai Borough or Nikiski community members about the highway relocation since taking over the project last year. The application to FERC includes the same map of multiple relocation options — referred to by community members as "the spaghetti map" — that the producer-led team presented to the community in 2015 and then updated in June 2016 with eight preferred alternatives.

“These options are being evaluated with a variety of criteria including environmental features, potential impacts to local residents and businesses, right-of-way acquisition, traffic considerations, utilities relocation, geotechnical features, road design and construction timing,” the AGDC report said.

Neither the producer-led team nor AGDC has provided a public estimate of the highway relocation costs, but it is expected to total several tens of millions of dollars for land acquisition, roadbed and drainage work, highway construction and relocating utilities from the existing right-of-way.