

State audit faults disjointed gas pipeline planning

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Dec 14, 2010 | 1176 views | 7  | 9  |  |  | [permalink](#)

A new legislative audit says the Alaska Natural Gas Development Authority and the governor's office were both trying to plan a small-diameter natural gas pipeline from the North Slope without working together.

It may be about time for the Legislature to pull the plug on ANGDA, the auditors suggest.

"ANGDA did not successfully coordinate efforts with the state agency pursuing a small diameter in-state pipeline (the Office of the Governor). This lack of cooperation resulted in both entities pursuing alternative projects that would achieve the same objective," the report says.

The report says that the efforts were not "duplicated" because the two entities pursued different projects and different routes.

"To avoid waste of state resources, it will be crucial to recognize the time for eliminating one or the other of these alternatives as market realities set in," the report finds.

Here are the findings from the audit:

1. The legislature should consider ANGDA for sunset after resolution of uncertainties surrounding the development of NS natural gas.

ANGDA does not play a lead role in acquiring and conditioning NS natural gas or constructing a pipeline to transport the gas. Plans to develop natural gas, including building a large-diameter and/or a small-diameter pipeline, are being led by other private or public entities. The Alaska Gas Inducement Act (AGIA) licensees are guiding the progress of building a large-diameter pipeline. The Joint In-state Gasline Development Team, created by HB 369, is guiding the development of a small-diameter pipeline.

Public entities should not outlast their public purpose. Sunset laws enacted throughout the nation ensure public entities do not continue in perpetuity. These laws subject public entities to periodic evaluation to verify their continued existence is justified by a public purpose, and the public's interest is being adequately served.

ANGDA is not subject to sunset provision and, therefore, is at risk of outlasting its public purpose. Once the AGIA and Denali open seasons conclude, and the pipeline plan required under HB 369 is complete, the legislature should evaluate whether ANGDA has a significant and unique role in state pipeline efforts. If ANGDA does not have such a role, the legislature should consider whether the continued existence of a separate authority to carry out ANGDA's activities is justified and in the public's best interest. ANGDA's continued existence without a significant role is a waste of state resources and dilutes crucial decision-making in the State's effort to bring NS gas to market.

2. ANGDA should work with DOR's accounting staff to properly present assets in its financial statements and note disclosures.

ANGDA's financial reporting and disclosure of capital assets associated with its conditional ROW lease is inaccurate and not in accordance with generally accepted accounting principles. Specifically, ANGDA's financial statements for the period ending June 30, 2010, overstate capital assets by over \$3.5 million. The required notes to the financial statements reported that ANGDA incurred capitalized costs in the process of obtaining a conditional right-of-way (ROW). However, the amount reported includes significant costs unrelated to and incurred after obtaining the conditional ROW, and is not adjusted for accumulated amortization.

In a letter included in the report, Scott Heyworth, the board chairman of ANGDA, wrote that the board "strongly disagrees" with the idea that ANGDA should ride off into the sunset. He said that ANGDA is negotiating with the sponsors of the two major gas pipeline projects to ship gas to Alaskans.

The audit said that in promoting a Beluga to Fairbanks gas pipeline the agency was stretching the "bounds of its statutory authority."

The agency spent \$3.6 million on the idea of building a 24-inch pipeline from Cook Inlet to Delta and a 12-inch pipeline to North Pole, issuing 25 contracts.

This project was the major activity of ANGDA from late 2008 to early this year, the audit says, but it was abandoned in June when the authority withdrew the right of way application.

Heyworth said that the agency has involved the Department of Law in all of its projects and he rejects the notion that "ANGDA has operated outside its statutory framework."

