New effort to get gas to Interior led by Energia Cura of Fairbanks

After studying how to get reasonably priced energy to Alaska's Interior for 10 years, Fairbanks-based Energia Cura thinks there may now be enough demand to justify a small-bore, high-pressure gas line from the North Slope to the Fairbanks area.

The firm began a nonbinding open season Aug. 26 to see if there is enough interest to justify moving forward. The estimated annual volume for the line would be 12 billion cubic feet, some 33 million cubic feet per day. (The interstate projects proposed by Denali and TransCanada are based on volumes of about 4.5 billion cubic feet a day, an annual volume of some 1.6 trillion cubic feet.)

The Energia Cura nonbinding open season is being done on behalf of Fairbanks Pipeline Co.

Principles of both Energia Cura and Fairbanks Pipeline Co. are Alexander Gajdos and Thomas Chapman.

Operational by 2014

The issue Energia Cura is addressing is the cost differential Interior residents pay for energy, and the fact that large new enterprises proposed for the Interior face "significant, if not insurmountable barriers to entry" based on the cost of fuel, and uncertainty about fuel future availability, Gajdos said in a letter addressed to state and federal officials.

Another issue is timing: The FPC line could be operational by 2014, compared to 2026 at the earliest for an interstate line.

Energia Cura expects the current supply-demand imbalance in the natural gas market to continue for the next six and a half to 10 years and believes it will be 16 to 20 years before an interstate Alaska North Slope natural gas pipeline project makes natural gas available to Interior Alaska, Gajdos said.

In that time, Interior residents will spend "at least an additional $1.5 billion in avoidable outlays" for higher energy costs — and that's if an interstate line is operational by 2026 — it could be 2030 or later, he said.

The FPC project does not intend to compete with an interstate gas project or with a bullet line to Southcentral.

The intention, Gajdos said, is "to deliver affordable gas to Interior consumers and to the builders of the interstate systems until such point in time as they are placed in service." He said the intent is to design the FPC project to have residual value once a major line is in place.

If the North Slope to Cook Inlet bullet line is completed by 2020, "FPC will have already aggregated major Interior load increments into working service through its primary and secondary transmission segments" and FPC could interconnect north of Livengood with a gas line to Southcentral, Gajdos said.

But Gajdos questioned whether a line to Southcentral will actually be built.

Recent studies have indicated there may be large volumes of natural gas yet to be developed in Cook Inlet, he said, and with the last of the old gas sale contracts based on a stranded market set to expire at the end of this year, higher gas rates in recent contracts and state incentives for Cook Inlet development, “required investments will soon emerge” for additional drilling in the basin.

Interest in project

Gajdos said informal discussions with parties having a potential interest in a line from the North Slope to the Interior even raised the issue of whether the proposal to limit the line’s “gas transmission capacity to match tangible and incontrovertible interest” was a wise one.

He said Energia Cura has run hydraulic simulations and done cost of service evaluations over the last decade and those studies have all shown that the project needs to be “precisely regimented to size FPC’s delivery infrastructure to meet existing and/or guaranteed future demand” aggregating to “a specific minimum annual throughput.”

If sufficient volumes are identified in the nonbinding open season, “FPC’s fit-for-purpose approach will prove to be the most expedient and economic means for curtailing avoidable $1.5 billion in future outlays by Interior consumers to meet their challenging sub-arctic energy requirements.”

“These sums,” Gajdos said, “are far in excess of the installation capital and operating costs associated with FTP’s proposed transmission systems.”

The line pipe will be specified at higher pressure ratings than required for initial gas operations in order to accommodate modest growth with increased compression, he said.

Firms seeking investment opportunities have indicated they are interested in building segments of the pipeline in exchange for equity in the line, with four Alaska pipeline construction firms exploring in-kind or direct equity participation.

The proposal being discussed would have the firms build segments ranging from 112 to 150 miles, with overall construction management under a single firm.

Gajdos said that following closure of the nonbinding open season Oct. 1, and after FPC completes integrated hydraulic and cost of service simulations, the firm will approach the state for in-kind contributions including provision of Lidar data and right-of-way assignments adjacent to the state’s Dalton and Elliott highway corridors.

In exchange, the state would be offered an equity position of 7.2 percent based on an industry average cost of right-of-way development.

(See part 2 of this story in the Sept. 12 issue of Petroleum News.)

—Kristen Nelson