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Fairbanks firm pushes lower-cost gas pipeline to Interior city

By Tim Bradner

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A small Fairbanks energy services and consulting company has launched a bid to build a \$500 million, 10-inch natural gas pipeline from the North Slope to the Interior Alaska city.

Alex Gajdos, a partner in Energia Cura, said the pipeline could be in operation as early as 2014 and could deliver North Slope gas to a junction with local gas distribution lines for \$10 per million cubic feet or less, including transmission and purchase of the gas.

Gajdos said that is about half what Interior residents pay for heating oil or natural gas now delivered as liquid natural gas by truck from Southcentral Alaska. He believes the project could be competitive with a 24-inch bullet gas pipeline being planned by a state corporation.

However, if a large-diameter pipeline from the North Slope to the Lower 48 proceeds, Energia Cura's would provide Fairbanks-area distribution lines that could deliver gas to major load centers, such as Golden Valley Electric Association's oil-fired power plant and the Flint Hills and Petro Star refineries in North Pole, or the existing small residential gas distribution system now owned by Fairbanks Natural Gas.

Energia Cura currently manages the 16-inch crude oil pipeline that delivers oil from the Trans-Alaska Pipeline System to GVEA's power plant and the refineries. It also does power plant consulting work, including the Fort Wainwright power plant owned and operated by Doyon Utilities, a private firm.

Gajdos worked previously for GVEA and General Electric Corp. With GVEA, he was project manager for construction of the pipeline that connects TAPS to the power plant and refineries.

Chapman was previously with Alyeska Pipeline Service Co. and the University of Alaska's Geophysical Institute.

Energia Cura's partners have been mulling the idea for a small-scale pipeline since 2006, Gajdos said. The effort went into high gear in July, when the company completed a study of energy options for a new gold mine being developed by International Tower Hills in Livengood, north of Fairbanks.

Energy options for the mine other than gas aren't that appealing. GVEA's electrical system could be extended north to Livengood, but with the energy situation as it is in the Interior, the utility may be pressed to meet new demand from the mine. Trucking diesel fuel up the Elliot Highway from Fairbanks for on-site power generation isn't an attractive option either.

However, the mine would be located on the route of the pipeline and would be a major customer.

Gajdos said his company's plan envisions no state subsidy, but he has made an offer to the state to take an equity position in the project in return for allowing the pipeline to be buried alongside the state-owned Dalton Highway from the North Slope. Building pipelines parallel to roads is common in Canada, and would reduce the capital cost of the 10-inch pipeline by about 7 percent, Gajdos said.

The state also would have to grant permission for the pipeline to use the Yukon River bridge on the Dalton Highway, but this is true for any of the proposed pipeline projects.

Gajdos said the company is also hoping to negotiate an arrangement with North Slope producers to tie the pipeline into the central gas facility in Prudhoe Bay, where gas is now extracted from crude oil and processed, thereby avoiding much of the cost of building a separate gas treatment plant.

"Our concept is that we will do this step-by-step rather than all at once with a 24-inch pipeline built to Anchorage" from the Slope, Gajdos said.

There isn't enough gas demand in Southcentral Alaska to justify the 24-inch line, which could cost from \$6 billion to \$12 billion to build. The existing utility demand in the Anchorage area can use only about half of the gas delivered through the 24-inch pipeline.

Cook Inlet also has existing gas production and although fields there are declining, the entry of major new industry players like Apache Corp. indicate that the industry believes the region has potential for new discoveries.

However, a low-cost smaller-diameter pipeline like that proposed by Energia Cura could serve a market of 12 billion cubic feet per day that has been identified in the Fairbanks area, Gajdos said.

By displacing higher-cost heating oil or trucked LNG, the project could save Interior consumers \$1.7 billion in energy costs over 20 years, Gajdos said.

Once completed to the Fairbanks area, an extension could be built to serve other parts of the state, even the Donlin Creek gold project on the middle Kuskokwim River. The Donlin Creek partners, Barrick Gold and NovaGold Resources, are now studying a 320-mile, 12-inch gas pipeline from Cook Inlet to the mine, which would like to use gas to power mining operations.

The idea of building the pipeline from Fairbanks instead isn't far-fetched, Gajdos said.

"It's only 60 miles farther, and there are no mountain ranges to cross," unlike the route from the Anchorage area, he said.

Energia Cura would not be involved in a pipeline extension to Donlin Creek, however. That would be a separate project developed and owned by others.

In concept, the 10-inch pipeline could be extended to Southcentral Alaska, Gajdos said, but a more practical first step would be to generate power with gas in Fairbanks and send surplus power to Southcentral utilities down the existing electric intertie. The intertie is used to send surplus power from Southcentral north to Fairbanks, but with the declining gas reserves in southern Alaska, there has been little to share.

Except for power shipped north by GVEA's coal plant in Healy, the intertie is not currently in use.

Sending electricity from Interior to Southcentral Alaska would allow the remaining Cook Inlet gas reserves to be used for residential and commercial space heating.