Memorandum 10-93 Gas Transmission Line/Proposed Action Plan

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MEMORANDUM 10-93

TO: Mayor Hornaday and Homer City Council
FROM: Walt Wrede
DATE: June 28, 2010
SUBJECT: Gas Transmission Line / Proposed Action Plan

As you know, the State Capital Budget approved by the legislature this year contained $4.8 Million for a gas transmission line from Anchor Point to Homer. The funding included $300,000 for a regulation station at Anchor Point. The regulation station is necessary for the residents and businesses in both Anchor Point and Homer to receive gas. The Governor vetoed most of this appropriation and only $525,000 remains. The Governor left the door open for future funding.

The Governor's veto left us with questions about how the remaining money should and could be used. There was confusion about the four conditions that were attached to the appropriation and how they should be addressed. Homer residents were wondering why Homer should be responsible for administering a project that is largely outside of the City limits. Anchor Point residents were wondering why Homer ended up with what they considered to be money they lobbied for (the $300,000 for the regulation station). Many here wondered if Homer was getting pushed into being a gas utility and whether the City is really ready for that.

A number of those questions have been answered. First, it is now clear that the four conditions that were attached to the appropriation will be included in the grant agreement that the City receives from the Department of Commerce, Community, and Economic Development (DCCED). DCCED staff members have stated that even though the conditions will be included, there is no requirement that grant funds be used to address those issues (in fact there may be legal impediments to doing so). DCCED said that it would ask the City to discuss those issues and how it believes the conditions are satisfied or will be satisfied. All of the money can be used for construction. DCCED would also like the City to submit a revised scope of work now that the full $4.8 Million is not available.

I believe that it is in the best long term interest of the community to pursue a natural gas line. It has the potential to spur economic development, lower the cost of living, and help the community reduce greenhouse emissions. I think that that the City should use the existing funds to build the regulation station and as much 8 inch transmission line as possible along the route to Homer. This can be viewed as stage one of the project and doing this will help us leverage additional money to complete the project. Even though this phase will be constructed entirely outside of the City limits, I think this should be seen as a Homer project because the regulation station is a necessary first step in order to get gas to Homer. Nothing happens without it. I also believe that passing the money through to either the Borough or the Anchor Point Safe Water Program simply adds another layer of bureaucracy. The City is the grant recipient and is ultimately responsible for how the money is spent.
This state appropriation assumes that the money will go to Enstar to extend service to the Homer area. The City could consider other courses of action, including becoming a gas utility itself, or taking steps to encourage another independent company to serve the community and asking the RCA to take Homer out of Enstar's service area. While some of these options may be attractive for various reasons, they would all require a great deal of additional work and involvement by the City, they could delay the project for years, and they would not guarantee lower prices than the City could get by being connected to the South Central Alaska gas distribution grid.

Based upon discussions with the City Attorney and other knowledgeable people, I believe that the City's role in all of this can be limited to grant and construction contract administration. The City is simply the portal through which state money is being passing to the City's contractor (Enstar) who will build the improvements. The City will not own the regulation station or the transmission line. It is not purchasing gas or becoming a gas utility. Enstar will be responsible for all applicable laws and regulations including those of the RCA. Enstar will own the improvements and be the gas utility. Enstar will own all of the liability with respect to the construction and operation of the facilities. The City is simply paying them to extend service to the community.

If the Council is comfortable with the above assessment of the situation, I would recommend that it authorize me to take the following actions:
• Draft a letter to DCCED containing a revised scope of work
• Draft a letter to DCCED outlining how the four conditions are either no longer applicable, are satisfied, or will be satisfied.
• Work with the Enstar and the City Attorney on a sub-grant agreement and construction contract for approval by the Council.
• Work with the Borough and the Anchor Point Village Safe Water Program on distribution system plans and financing.
• Work with the Corps of Engineers on preliminary permitting for the distribution system with the goal of securing one City wide permit.
• Ask Council to establish a Task Force to help the administration review financing and implementation options for the distribution system, and necessary amendments to the Local Improvement District Code and the Utilities Code.
• Ask Enstar for revised cost estimates and scope of work for extending the transmission line all the way through Homer to Kachemak City so that those figures can be used to future funding requests.
• Propose adding this project to the Top 15 on the City CIP list.

RECOMMENDATION:
Approve Memorandum 10-93 and authorize the City Manager to proceed with the above course of action.

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