

**ALASKA LEGISLATURE**  
**JOINT COMMITTEE ON NATURAL GAS PIPELINES**

January 16, 2002  
12:07 p.m.

**SENATE MEMBERS PRESENT**

Senator John Torgerson, Chair  
Senator Rick Halford  
Senator Pete Kelly  
Senator Johnny Ellis  
Senator Donald Olson, Alternate

**SENATE MEMBERS ABSENT**

All Members Present

**HOUSE MEMBERS PRESENT**

Representative Joe Green, Vice Chair  
Representative Brian Porter  
Representative Scott Ogan  
Representative John Davies  
Representative Mike Chenault, Alternate  
Representative Reggie Joule, Alternate  
Representative Hugh Fate, Alternate

**HOUSE MEMBERS ABSENT**

All Members Present

**OTHER LEGISLATORS PRESENT**

Senator Georgianna Lincoln  
Senator Gary Wilken

**COMMITTEE CALENDAR**

Natural Gas Pipeline Project Updates

- Chairman's Update
- Northern Economics: Dr. Doug Reynolds
- Department of Revenue: Larry Persily, Deputy Commissioner
- Department of Natural Resources: Commissioner Pat Pourchot
- Foothills Pipe Lines Ltd: John Ellwood

- Alaska Gas Producers' Pipeline Team: Dave MacDowell
- Phillips Alaska Inc: Michael Hurley
- Committee Member Comments

## **ACTION NARRATIVE**

### **TAPE 02-1, SIDE A**

Number 001

**CHAIRMAN JOHN TORGERSON** called the Joint Committee on Natural Gas Pipelines meeting to order at 12:07 p.m. He said the Alaska Highway Pipeline Committee is about the International Pipeline Committee that this committee advocated when they went on their mission to White Horse, Yellow Knife, Edmonton and Vancouver. They had a first preliminary meeting in White Horse on December 5 between Alberta, Yukon and himself. The Alberta government has appointed MLA Mark Hlady to the committee; in White Horse, Minister Scott Kent is on the committee. British Columbia will make their appointment today or tomorrow. He also sent another invitation to the Northwest Territories to join them. Their next meeting is this weekend in Vancouver, B.C. and they have assurances that the Director of Oil and Gas in the Northwest Territories will join them. He said their mission statement is in his office.

On the federal legislation issue, Senator Murkowski has called a meeting in Washington D.C. on February 4 and 5 and the idea is to get the producers, pipeline folks, the legislature and others at that meeting and try to work through some of the differences. The House has passed HR 4, their energy package, which has pipeline provisions in it. The Senate has introduced S 1766, which is different than the House version. He hopes to be able to achieve some consensus on what we want the federal government to do.

The Legislative Council in December approved \$300,000 for this committee to let an RFP for an economist or firm and they hired someone who would do an introduction today. At the next Council meeting he will ask the Chair, Representative Green, to broaden the authority on the \$300,000 to authorize the committee to hire a FERC attorney who would deal with open season and access issues through ANCA that we may be losing through filing under the Natural Gas Act. They also might need a tax attorney or economist to deal with the implications of federal tax issues. He said he would ask to broaden the authority so the state can enter into agreements and have information on hand as they go through the debate on the lines anticipating that the producers are going to give them some numbers when their studies are completed.

CHAIRMAN TORGERSON said that Arctic Research Corporation filed a preliminary information packet (PIP) for the over-the-top and through the Mackenzie Delta route. They believe that Alaska is going to allow that:

I am now in the process of another piece of legislation that will put the final nail into the over-the-top route. Since the producers and pipeline companies aren't paying attention to what this legislature wants done through the bills we have passed blocking it, we're in the discovery mode to see what we can do to do that.

He announced there would be two Department of Energy people and one FERC representative in Anchorage next weekend and he would meet with them on Sunday.

It's the intent of the Secretary of Energy to reinstitute that office at some time. This is kind of an exploratory meeting up here. They are going to meet with the Joint Pipeline Office and, I would assume, some people in the administration. I'll be with them some time on Sunday.

He thought that was good news, because of the recognition that the Joint Pipeline Office was a part of ANGTA and represents at least initially the following of the laws that are currently on the books that dictate the highway route. They have had an interagency task force in Washington D.C. working on this for about six months made up of about 25 representatives of the Department of Energy, Department of Interior, FERC and other agencies that have been gathering information and going through a discovery on what may be out there and what they have to react to.

CHAIRMAN TORGERSON said he is considering using the Resources Committee meeting time on Wednesday for the Joint Committee on Natural Gas Pipelines meetings. He said they put out an RFP for an economic firm and Dr. Doug Reynolds with Northern Economics responded. He will be in Juneau four days per week. He is also a professor with the UAF and would have to be there sometimes.

DR. DOUG REYNOLDS said he was a Professor of Oil and Energy Economics and works for Northern Economic Research Associates while in Juneau. He would be doing the modeling on the natural gas project economics and would extend on Mr. Roger Marks' models, which he thought were pretty good, and try to find any new cost advantages.

I think the main thing for Alaska, as far as I can see is, the United States needs energy security and we've gone through this with oil and we've got a pretty competitive oil market, but when it comes to natural gas, it's a lot less diverse sources when you get outside the United States. You start depending on one source and you have very little leeway to switch to other competitors. So, once you start depending on one source outside the United States, I think the energy security issue becomes a big deal. I think Alaska, not only can we compete on the natural gas market, but I think we give the United States a lot more energy security and I think that's going to be a big deal especially in five or 10 years from now. I don't think the Gulf of Mexico is going to be able to meet the United States energy needs and I think Alaska is going to be needed. Sooner or later I'm very confident Alaska gas is going to be used and I think it should go through the southern route and I think the costs of the over-the-top route aren't as great some estimates suggest.

CHAIRMAN TORGERSON explained that Dr. Reynolds would model the all-Alaska route, as well. Roger Marks already did a number of models, but they must make sure their numbers are correct and that what they are doing is going to work. They will be presenting a business plan on the operation of an entity, which an initiative asks to be put together.

REPRESENTATIVE GREEN asked him what he meant about the cost of the northern route.

DR. REYNOLDS responded that he didn't think the southern route was significantly more expensive than the northern route, depending on how it's modeled.

CHAIRMAN TORGERSON said, "We're not going to spend a lot of time on the over-the-top route, because it's not ever going to happen. I don't want to waste a lot of the state's printer ink printing off the paper work on that..."

Last year they passed SB 158 directing the Department of Revenue to start looking at whether or not the state should take any, all or part of the ownership interest in building the pipeline. They appropriated \$200,000 for the study and the department would comment on that next.

MR. LARRY PERSILY, Deputy Commissioner, Department of Revenue, said they were directed to prepare a report on the merits of state

ownership and/or financing of a natural gas pipeline. He said that the report is now 117 pages and they would have an executive summary. They are continuing to work with the consultants.

CHAIRMAN TORGERSON said he expected the report to get longer as they gained more information.

MR. PERSILY said:

To discuss the merits of state ownership and/or financing, we talk about the history of gas line development, history of state financing of projects, getting into tax exempt bond, finance issues, equity, modeling, as your consultants talked about. So, there's quite a bit in there. We're continuing to work with our consultants, with the state debt managers, state financial advisors, state bond counsel and others to finish the report by the January 31 deadline in statute. We will present copies to the committee that week and we can also post it on the web if that would be okay with you to make it widely available.

One aspect of the legislation that we have not commented on previously that I would like to take a few minutes for today is the directive in the legislation that we look at the possibility of establishing a private corporation of Alaska citizens to own a gas line. We believe that approach would raise a number of questions that would warrant further in-depth analysis. The concept was proposed first, we think, in a report back in 1978 by a firm, Dillon Reed and Company. They modeled that structure in the report in 78 on the structure of the Alberta Energy Corporation, which at the time was owned half by the government of the province of Alberta and half by the citizens of Alberta. In looking at the Dillon Reed report, looking at the Alberta Energy Corporation, looking at how that might translate into a corporation where Alaskans would own the shares, some of the issues that we'll be discussing the report, if you try to limit shareholder exclusively to Alaska citizens, that might present practical problems and, perhaps, even legal problems. As a practical matter, the residency requirement for shareholders might be difficult to monitor and enforce. It would almost certainly diminish the market value of those shares, because resale could only be to the select group of residents. As far as the legal system is concerned, within the United States it would be unprecedented. We're not aware of any other

state forming a private corporation where the shareholders are limited to state residents, the purpose being to advance a development project in that state. So, we believe legal challenges to this could be possible. Among other things, if you had a residents only shareholder's rule, that might be challenged as lacking a legitimate public purpose. It might be challenged under the privilege and immunities clause of the Constitution. We're not saying that it would be or that it would fail that - some of these issues that we'll be discussing.

One significant aspect that this approach - we believe it would fail to offer any tax or financial advantage over the development of a project by private corporations. Dillon Reed based their assumptions on the tax code that existed in 78. The U.S. tax code underwent significant revision in 86, which we believe would block the issuance of tax-exempt bonds the state to raise funds for the initial capitalization for this project, which is something Dillon Reed suggested in 78. That's no longer allowed.

A couple of other quick issues to consider is if the purpose of the private corporation is to provide Alaskans an opportunity to share in the benefits of the North Slope gas, they could certainly do so with much less risk just by owning shares in the producers or pipeline companies that would be building it. And if another purpose of having a private corporation owned by citizens is to influence the pipeline route or other issues, as the Senator has explained, the pipeline route is already against the law in Alaska and through right-of-way permits and other existing statutes, we feel there are other less risky ways to influence decisions in the project. But we will have more on this in the report. It's just something we haven't talked about before.

CHAIRMAN TORGERSON asked if he was on schedule for January 31.

MR. PERSILY answered they are on schedule.

CHAIRMAN TORGERSON thanked him for his testimony and announced they would next hear Commissioner Pourchot comment on the royalty sale to Netricity and Bill Britt, Joint Pipeline Office, give a quick update.

COMMISSIONER POURCHOT, Department of Natural Resources, asked if he could reorder the four topics he was given. Chairman Torgerson said

that was okay.

12:30

COMMISSIONER POURCHOT said:

Since the end of the last session, we have had several meetings with the company, Netricity, which the legislature had taken quite an interest in and passed a resolution concerning their proposal to utilize North Slope gas on the North Slope to fuel an electric generation to run a computer server facility up there. We met with them a couple of times this summer and upon legal advice which we've shared with the Joint Committee over the interim. The legal advice we got was that we really lacked the good ability to so-call overlift our gas, the state's royalty gas, without the producers also producing their gas on the North Slope and we discussed this with Netricity. They started direct discussions with the producers. We suggested that the way forward would be to have gas produced that was composed of both the state's royalty and the producers' gas. They engaged in negotiations and I don't know what the outcome of that was, but then subsequently, which was also alluded to in the legislative resolution was that we initiated a royalty in kind gas sale process early last fall.

The Netricity proposal was clearly something that was out there that could conceivably utilize the RIK (royalty in kind) process, but additionally, we were hearing from other companies for several different uses. One company, is, like Anadarko, interested in having a back stop plan for bidding in a potential open season, which now doesn't look quite so pressing, but moving back to last summer early fall, we were believing from what the producers said that there could be an open season to bid gas for a gas line as early as now, this first quarter of this calendar year. So, knowing that a royalty gas sale would have to go to the legislature for approval and that this legislative session would be the window for that, we started a process to solicit bids, at least, without any predetermined decision on whether to accept a bid, submit a bid to the legislature. But we started that process that's called for in statute for an RIK.

There was other interest, too, for different types of purposes. Williams, for example, was looking at possible petrochemical development in the Interior utilizing gas.

They are also looking potentially at marketing North Slope gas through their marketing system - just transporting gas that they would own and putting it in the pipelines to serve their customers. So, there were several different interests out there. We concluded the best interest findings here at the end of December and put out formal invitation for proposals for any and all potential bidders. That period is now open. It closes at the end of January and we will see if and what it looks like for bidders. We will do a determination then if any of those fit into a best interest finding of the state and whether it makes sense to then develop a contract and submit it then to the legislature for debate and potential approval. Again, we don't know the results of that; we don't know whether or not we would accept bids. Clearly, at some point in that process, if we get bids, we would want to consult with the legislature to see if there was interest in even considering a royalty gas sale. That's kind of where we are on that.

I will add, because you may know, Mr. Chair, I just became aware today the Commissioner of DNR received a letter form the Joint Producer group requesting a reconsideration of our decision to go forward with a proposal. That does not affect the time frame we are in for soliciting bids. I don't know what the legal implications are, but they clearly are not supportive of an RIK sale at this time. So, I would report that for your information.

CHAIRMAN TORGERSON asked if it was an official appeal.

COMMISSIONER POURCHOT answered that since he made the original decision, he has either an appeal or a reconsideration, not both, and this is a reconsideration of the Commissioner's decision to solicit bids for a RIK sale.

REPRESENTATIVE PORTER asked if he said the state's ability to sell gas over the top of the producers' is a legal question or has it been legally determined that we can't.

COMMISSIONER POURCHOT answered that legal advice from the Attorney General's Office is that under the lease terms, the state lacks the legal authority to unilaterally produce its gas to the exclusion of their gas.

There are also some technical issues that arise if we were to do that. Without the companies doing additional

work on the oilfield, we could actually adversely affect oil production because of the way gas is used now. If it was a joint program and the producers are selling, there are other things they might do in terms of the production facilities and processes to reduce the amount of oil loss that might occur.

CHAIRMAN TORGERSON said:

It's my understanding that the overlift or underlift question can't be accomplished without the permission of the producers, but it could be accomplished if the producers said it is okay.

COMMISSIONER POURCHOT said that was their understanding also. He said the next topic was the studies that were funded in a complex way last year.

Some were direct appropriations through the capital budget by the legislature, some we supplemented from Governor funds for that. We basically in DNR have undertaken three studies, two fairly significant studies, one on assessing in state demand and supply scenarios, with obvious concentrations on the Interior and also in Cook Inlet. We contracted out both that study and a royalty valuation study to a firm called Econ One. We would hope to hand to you a week from today, next Wednesday, the final studies on both of those.

The royalty valuation was to evaluate the structure of North American gas markets and to look at how our gas would be valued in that process - something, by the way, we're learning a whole bunch about - the way gas is marketed, the way gas is priced. This is going to be new if something happens here. We are building expertise on that whole valuation process. It's proven to be quite educational and potentially very valuable.

The third study that we undertook, and we only received modest funds for this and that was a gas supply study. What we did to maximize the value there - we contracted out to our own Division of Geological and Geophysical Survey, which had an on-going North Slope oil and gas evaluation program. We asked them to look more intensely and more specifically at gas resources on the North Slope. They do this through rock outcrop and other more superficial methods and the results of that should be available. They've done the field work; they need to pull

together results which should be available within several weeks and again we will provide that information to the committee.

REPRESENTATIVE DAVIES asked if the DGGGS was restricted to the North Slope or did it include other basins.

COMMISSIONER POURCHOT answered that this component was North Slope. The division envisioned a more statewide approach, but the funds weren't sufficient. He hoped to look further in the future. Another study by the Alaska Oil and Gas Conservation Commission (AOGCC) was the Prudhoe Bay reservoir modeling for the impact of gas extraction on the oil rim. They are still trying to get the bulk of the funding for that. His department collaborated with them on a scoping study and has a better feel for the direction to go. However, the bulk of the study is still in the future.

The commissioner said that they haven't started the last study, but they did get some money through the Governor's contingency fund and the appropriation the legislature identified for this kind of work. This will be the Pt. Thompson reservoir simulation.

Pt. Thompson is on a development track. As we talk about the 35 tcf of reserves on the North Slope, 5 or 6 tcf of that is in the Pt. Thompson unit. It is the key component of any gas line development. It also has condensates and oil. We have expanded the unit. We have some very specific kinds of development obligations under the expanded unit. It is on a development track. We need to know more about that reservoir and the impact of gas extraction on other things. We do have some money to begin that and will be starting that during the second half of this fiscal year.

REPRESENTATIVE GREEN said that was a reservoir study, not a sales study. The Commissioner agreed saying that they were understanding the reservoir mechanics and the size of the resource.

REPRESENTATIVE DAVIES asked if there were similar AOGCC concerns about the impact of gas development on the liquids.

COMMISSIONER POURCHOT said he would give them a layperson's understanding. "The pressure in that Pt. Thompson field is very high. It doesn't need gas reinjection to produce condensate or oil."

He said that Bill Britt would give them a status report of their gas pipeline office.

MR. BRITT, Gas Pipeline Coordinator, said he sent them a copy of his monthly report this morning. He prepares the report monthly for his commissioner and his three funding sources.

We are working on a second half budget. In our work plan, we have one proponent, AGPIT, the producers who have informed us that at the end of November they do not anticipate having any work for us other than permitting for trenching trials. We have one proponent, Foothills, who want us to move as fast as possible in processing their right-of-way lease application.

With AGPIT, the Division of Governmental Coordination, a representative in my office propagated a draft proposed consistency determination yesterday. The permitting should be completed by next week. The trials, ice road construction will begin immediately and the trenching trial, themselves, are scheduled to begin in early February. They will take place first on the North Slope and then in Fairbanks. The trenching machine which I look forward to seeing should arrive in the state any day now.

With Foothills, we are doing both work planning and work. We're working with them to finalize a list of required submittals and expectations for each. We're collaborating on a schedule and we're reviewing aggressively the existing submittals that Foothills has given us. A couple of examples are the Yukon River bridge risk assessment that was done some time ago and river and flood plain crossing plan. There's a whole series of plans and these have been given to various departments to review and critique and give feedback to Foothills on.

Staffing and recruiting, our staffing remains stable at 12 state employees, two of which are shared with the Joint Pipeline Office, two federal liaisons for the office plus support from Department of Law and other DNR divisions and others. We are ready to go on our right-of-way chief and engineering chief and a public information officer. We may pass actually filling one and possibly two of those positions due to budget and reduced work load as a result of the producers ratcheting back on their expectations.

In terms of office space, we're moving to new offices this weekend. As everybody knows, we're looking forward to that as anyone would. Other news on the march -

Senator Torgerson mentioned the Department of Energy and FERC visit later this month. Presuming as well that everybody knows that there was a Canadian cooperation plan promulgated by a variety of federal, provincial and other authorities in Canada describing how they intend to approach permitting about a month ago and we're having a look at that. We've had issues: our e-mail - we're on the Department of Interior server, which everybody reads about weekly in the newspaper. So, we haven't had e-mail coming in or out... I guess this is one of the unintended consequences of the cost savings associated with intending to share the servers with the Joint Pipeline Office and System Administration. I guess if you live with those cost savings, you live with the downside of them as well.

Finally, we received the first pilots from DGGs in support of us. They have produced a database of geological construction materials and surficial and engineering ecology from Prudhoe to Livengood. In the second half of the year they will continue from Livengood to the Canadian border. That's my summary real quickly.

MR. JOHN ELLWOOD, Foothills Pipe Lines Ltd., reported that last fall they had signed an MOU to reconstitute the Alaska partnership with TransCanada Pipelines, West Coast Energy and seven of the major U.S. pipeline and energy companies. Foothills committed to put a commercial proposal to the producers by the end of the year and that was done. They have had some initial discussion with the producers with respect to that proposal and will have ongoing discussions.

The proposal is somewhat different than what I have talked to your committee about in the past. At the request of the producers and after some earlier discussions in the fall, we decided to take a look at a somewhat larger project, larger in terms of both volume and pipe diameter. We did put forward a proposal that would initially move about 4.5 bcf/d at the receipt point of the North Canada pipeline and could be economically expanded up about 5.4 bcf/d. This would require, in our view, probably it's best done with a 48 inch diameter pipe as opposed to the 42 inch diameter pipe that I had described to you during your various hearings last year. As you have heard from Mr. Britt, we continue our efforts to acquire right-of-way on the state lands in Alaska. We're quite pleased with how that is going and with the cooperation and progress that's being made here.

I think you had asked our view with respect to legislation and what I might say about that really is that it's a bit too early for us to come to any conclusions here. We are, as I said, in the initial discussions with North Slope producers and until those discussions progress a little farther, it's difficult for us to determine what might be most useful in the way of legislation either on the federal or the state front. So, we would just like to have a little more time here to continue our discussions and we will report to you periodically. Are there any questions, Mr. Chairman?

CHAIRMAN TORGERSON asked for their timeline with the future discussions and if they were reworking their proposal. "I've heard your same report about five times, I think. I'm ready for some action."

MR. ELLWOOD responded that they had a very constructive meeting with the producers earlier this year and as a result of those discussions they are investigating other matters of interest. Foothills left material with them that they had not seen before and he understands that they are reviewing it now. They are planning on another discussion with them within the next few weeks. They don't have a date pinned down. He expects the discussions will be ongoing as they progress to some resolution of how they might work together.

CHAIRMAN TORGESRON thanked him for the update.

**12:52**

MR. DAVE MACDOWELL, External Affairs Manager, Alaska Gas Producers Pipeline Team, said he would provide an update on what they had done, where they are currently and what some of the next steps are.

To be clear, I am speaking on behalf of the producers' team. I'm not speaking for any one of the individual sponsor companies. You'll recall those are BP, Phillips and Exxon Mobil. Last year at this time, our joint feasibility effort was just barely getting under way. Since then, we have spent over \$100 million and invested almost 1 million man hours of work in an effort to identify a commercially viable project to move Alaska gas. At our peak, there were about 800 contractor employees working alongside about 100 sponsor company employees split one-third, one-third, one-third on the team.

Just a quick recap of the some of the major accomplishments and milestones we had from quarter to quarter. In the first quarter of 2001, we established offices in Anchorage and in Calgary, Alberta, and began the assembly of our company team in earnest. We also released RFPs - 10 big chunks of work in the first quarter. In the second quarter, we awarded those contracts and as you'll recall, there was a significant Alaskan component to those awards. We also initiated full-scale field surveys. The third quarter, things really took off. Our contractors who worked for us peaked at 800. The three producers proposed federal regulatory enabling legislation in D.C. We also rolled out our attribute study of the seven elements, conducted a Beaufort scan survey and completed our field surveys. We also had a meeting with potentially interested shippers. There were about 50 representatives who attended that, I believe in September.

Fourth quarter, our conceptual design was completed as planned. We received contractor cost estimates as planned and began economic modeling of those inputs in earnest. I'd have to say throughout that whole year, we also engaged in ongoing discussions with a wide range of interested parties, governments, pipeline companies, community leaders...

**TAPE 01-01, SIDE B**

**12:55**

MR. MACDOWELL continued:

From my perspective it's been a really excellent experience. It's not every day somebody gets a chance to work on a world class effort with top notch folks from three really good companies. That's kind of what's past.

What's happening now, the studies are essentially complete. The team is now focusing on final documentation and we continue to make dialogue with interested parties as you've heard earlier in this meeting, including pipeline companies and we'd expect that such conversations will continue to occur with any pipeline company that feels it can add value to a project. The results of our study effort have been submitted to the sponsor companies, the three I mentioned earlier for

evaluation and the joint team is winding down, as planned. We're now at about 65 company staff; remember we were at 100 at peak. We've got about 200 contractors and by the end of February we'll be close to zero when the joint work is complete.

As we move forward into 2002, our common priority is creating a viable efficient government framework. Federal enabling legislation is a must-have. You've heard that before from us, I think. We also need to progress State of Alaska fiscal clarity and stability, as well as monitor the Canadian First Nations regulatory process. Most of our effort is going to be in support of those activities. We do expect that the pace of our future work will be influenced to a great extent by progress towards this efficient governmental framework, but I do want to add we heard some of it from Mr. Britt earlier. We are undertaking some targeted cost reduction studies in the first quarter later this winter. For example, we plan to conduct trenching trials in Alaska this winter to test new innovative ways of trenching through permafrost. We think there's a potential to increase that trenching productivity and thus save potentially significant construction costs.

I'd have to say we didn't accomplish everything we wanted in 2001 especially in the area of creating that viable governmental framework, but I think I can speak for all the sponsor companies when I say we remain very committed to taking the appropriate steps to see what we can do to make it happen. With that, I'll stop..

CHAIRMAN TORGERSON asked when they would do an open season.

MR. MACDOWELL replied, "We have no plans to hold an open season in 2002."

REPRESENTATIVE DAVIES asked if they would formally disband the team at the end of February or did they anticipate a continuation.

MR. MACDOWELL replied, "I don't know the formality question. For all intents and purposes, the joint work will have been completed at that point."

REPRESENTATIVE DAVIES said he noted that there was some ongoing need to do things like the enabling legislation and asked if that would be done through the joint approach or as individual companies.

MR. MACDOWELL replied, "I expect the focus would be individual companies."

CHAIRMAN TORGERSON asked regarding fiscal certainty, if they had made any proposals to the administration.

MR. MACDOWELL replied that they hadn't made any specific proposals, although they have said for quite a while that certainty and stability are important. "We are in conversations with the state and expect those conversations to continue and come to a common agreement on the need for that."

CHAIRMAN TORGERSON said that the committee is engaged in hiring an economist and he recommended that at some time, the producers engage them so they can work toward this instead of them having to imagine what they need.

I understand that as close as you're trying to get is a guarantee that the fiscal regime won't change over the period of the line, but that's as close as I can get to what you're asking for...We're spending a lot of money hiring the right people to help us do that and to help you through the problem and also the state through that problem. But you're going to have to step up to the plate here, too.

REPRESENTATIVE OGAN asked if the fact that there is a budget gap problem and that the governor is talking about taxes cause some concerns in the realm of fiscal certainty.

MR. MACDOWELL replied that they are interested in a solid fiscal program moving forward. "It doesn't cause concern."

CHAIRMAN TORGERSON asked if that was a factor they considered when contemplating on investing in Alaska.

MR. MACDOWELL replied, "I think it doesn't impact directly the joint study effort that we're now finalizing, but it's something that folks are watching very carefully."

CHAIRMAN TORGERSON said that the message is clear, "...You have a state that has a billion dollar problem and you're a cash cow."

REPRESENTATIVE GREEN asked if they had selected a route.

MR. MACDOWELL replied that they had sent results of the work so far to the sponsor companies and they would conduct an evaluation

individually. The results of the evaluation would determine the next steps.

REPRESENTATIVE GREEN asked if they didn't at least have a good feel for cost differential.

MR. MACDOWELL said he was not in the position to speak about that yet and he hoped as a joint team they could produce high level results similar to what they did during the summer after the year-long work effort.

CHAIRMAN TORGERSON thanked him for his presentation.

1:05

MR. MICHAEL HURLEY, Phillips Petroleum, said he would give them a short update on their efforts to progress the development of a pipeline to the Lower 48 to commercialize Alaskan North Slope gas.

Phillips' goal is to develop an economically viable pipeline project. We believe that a pipeline project along the southern route has the best chance of being developed in a timely fashion and will be the one most supported by the various stake holders, but this project will require federal permitting, fiscal legislation as well as some measure of state fiscal certainty to proceed.

As you know, Phillips has been an active participant in the Alaska gas producers pipeline team since its inception and as you heard from them, the team is in the process of finalizing the results of their over \$100 million feasibility work program and forwarding those results to the three sponsor companies.

Phillips is in the process of evaluating those results internally. Several months ago, Phillips articulated our strong desire to progress a project and the requirements we saw as necessary to make development of the project a reality. Our work to date has not changed those conclusions. Federal enabling legislation is required to bring certainty and expediency to the regulatory permitting process and federal fiscal legislation is needed to mitigate the substantial risks inherent in a project of this magnitude which has the potential to bring so many benefits to consumers and governments. The cost and risk of this project are such that relief is needed through a federal income tax credit, but one

limited to those situations where North Slope gas prices dropped to uneconomic levels.

Phillips is hopeful that the necessary federal legislation can be achieved early in 2002, after which we would proceed to the next phase of permitting for the southern route. We are committed to pursuing diligently those efforts in Alaska, Canada and at the U.S. federal level. We believe they will contribute to a successful economically viable gas commercialization effort.

Mr. Chairman, thank you for this opportunity to update the legislature on our efforts and I'd be happy to answer any questions you might have.

CHAIRMAN TORGERSON said:

I know Phillips has advocated for the floor and a royalty switcharoo sort of system, but I hadn't heard of the federal income tax or have I?

MR. HURLEY answered, "That is the floor mechanism...There has been some discussion about that some time back, but the proposal that I think you're referring to is one that strictly works with federal income tax."

REPRESENTATIVE DAVIES said they are asking the federal government to provide a floor protection if the price drops to a certain level and asked if they were willing to consider sharing benefit on the up side, too.

MR. HURLEY replied, "We're willing to consider any kind of proposal that tries to mitigate that substantial risk that we see both from the standpoint of market price and cost over run that we see in this project."

REPRESENTATIVE DAVIES said, "It might help sell it if there were some carrot as well as sharing of risk."

He asked Mr. Hurley to elaborate on what Phillips views as the requisite assurances of fiscal stability from the state.

MR. HURLEY replied that they are struggling with that, too. They look at it as a need for fiscal clarity on how the rules of the game are going to be played. Then there is a question about how certain those rules are over time.

We have struggled with the spectrum of certainty that you can have going through everything from simple regulatory changes that departments can change simply with notice and public hearings over time all the way to ideas that were advanced several years ago of fiscal contracts. Where along that continuum we need to be is a discussion that we need to have with the state and we're not sure where that is, yet. That is something we need to continue our discussions to get to. The fiscal clarity piece is something that is extremely important to us.

REPRESENTATIVE DAVIES said he shared the Chairman's desire to get those discussions started.

MR. HURLEY responded that he could appreciate it.

REPRESENTATIVE PORTER asked if he would be correct in assuming if the federal legislation became route specific with the southern route, it would not interfere with Phillips' plans.

MR. HURLEY replied, "That is correct."

CHAIRMAN TORGERSON asked where the \$10 billion dollar loan guarantee provision (in federal legislation) instead of tax credits come from and did Phillips want that.

MR. HURLEY said that was part of the Senate energy bill and Phillips had not discussed that with anyone in Washington and was surprised to see it.

CHAIRMAN TORGERSON said assuming that the big three are going to build a pipeline together, only Phillips is asking for tax incentives and he asked how they proposed that would work.

MR. HURLEY replied that he would have to ask the other companies. "From our standpoint, we see the risks out there with both gas market pricing and construction cost overrun on a project of this magnitude to be of such a nature that we see that as being necessary."

CHAIRMAN TORGERSON said the Conoco merger changed their financial position and asked if they anticipate still having to ask for a floor if they become the third largest oil company in the United States.

MR. HURLEY said he couldn't answer that.

CHAIRMAN TORGERSON thanked everyone for their participation and

adjourned the meeting at 1:13.