

**ALASKA STATE LEGISLATURE
JOINT MEETING
HOUSE RESOURCES STANDING COMMITTEE
SENATE RESOURCES STANDING COMMITTEE
April 27, 2005
6:05 p.m.**

MEMBERS PRESENT

HOUSE RESOURCES

Representative Jay Ramras, Co-Chair
Representative Ralph Samuels, Co-Chair
Representative Jim Elkins
Representative Carl Gatto
Representative Kurt Olson
Representative Paul Seaton
Representative Harry Crawford
Representative Mary Kapsner

SENATE RESOURCES

Senator Thomas Wagoner, Chair
Senator Ralph Seekins, Vice Chair
Senator Ben Stevens
Senator Fred Dyson
Senator Bert Stedman
Senator Kim Elton
Senator Gretchen Guess

MEMBERS ABSENT

HOUSE RESOURCES

All members present

SENATE RESOURCES

All members present

OTHER LEGISLATORS PRESENT

HOUSE

Representative Nancy Dahlstrom
Representative Les Gara

Representative Beth Kerttula

SENATE

Senator Lyman Hoffman
Senator Hollis French

COMMITTEE CALENDAR

OVERVIEW: STRANDED GAS ACT PROPOSALS

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

FRANK MURKOWSKI, Governor
State of Alaska
Juneau, Alaska

POSITION STATEMENT: Presented an update of a future natural gas pipeline from the North Slope.

TOM IRWIN, Commissioner
Department of Natural Resources
Juneau, Alaska

POSITION STATEMENT: Answered questions regarding gas pipeline proposals.

WILLIAM CORBUS, Commissioner
Department of Revenue
Juneau, Alaska

POSITION STATEMENT: Answered questions regarding gas pipeline proposals.

DAVE MARQUEZ, Attorney General
Department of Law
Juneau, Alaska

POSITION STATEMENT: Answered questions regarding gas pipeline proposals.

RIGDON BOYKIN, Special Council
Alaska Gas Line Port Authority
Anchorage, Alaska

POSITION STATEMENT: Answered questions on the Jones Act and other issues related to a gas pipeline.

SENATOR GENE THERRIAULT, Chair
Legislative Budget and Audit Committee (BUD)
Alaska State Legislature
POSITION STATEMENT: Described BUD's role in the gas pipeline contract negotiations.

TONY PALMER, Vice President
Alaska Business Development
Trans-Canada
Anchorage, Alaska
POSITION STATEMENT: Answered questions regarding gas pipeline proposals.

MIKE MORGAN, Vice President
Sempra Energy
San Diego, California
POSITION STATEMENT: Answered questions regarding gas pipeline proposals.

HAROLD HEINZE, Chief Executive Officer
Alaska Natural Gas Development Authority (ANGDA)
Anchorage, Alaska
POSITION STATEMENT: Answered questions regarding the proposed gas pipeline.

JOE GELDOFF, Alaska Council
Marine Engineers Beneficial Association (MEBA)
Juneau, Alaska
POSITION STATEMENT: Answered questions regarding the Jones Act.

WALTER HICKEL
Anchorage, Alaska
POSITION STATEMENT: Spoke in support for an all-Alaska gas pipeline.

ACTION NARRATIVE

CHAIR THOMAS WAGONER called the joint meeting of the Senate and Senate Resources Standing Committees to order at [6:05:35 PM](#). Senators Wagoner, Ben Stevens, Guess, Coghill, Elkins, Stedman, and Dyson and Representatives Crawford, Elkins, Ramras, Olson, Samuels, Gatto, and Kapsner were in attendance.

OVERVIEW: Stranded Gas Act proposals

CHAIR WAGONER announced that the only order of business would be an Overview of the Stranded Gas Act proposals.

6:07 p.m.

GOVERNOR FRANK MURKOWSKI read the following prepared remarks [original punctuation provided]:

- I feel it is appropriate that we meet with you today and provide you with a status report on where we stand in our ongoing efforts to build a North Slope gas delivery system.
- As most of you know, we are currently evaluating three proposals to construct and operate a North Slope gas delivery system.
- One from the North Slope oil producers (Conoco/Phillips, ExxonMobil, and BP), one from TransCanada Pipeline Company, and one from the Port Authority. Also, I want to recognize the Alaska Natural Gas Development Authority (ANGDA).
- I am joined today in this effort by the members of my Gas Cabinet ---- Bill Corbus, Commissioner of Revenue; Dave Marquez, our Attorney General; and Tom Irwin, Commissioner of the Department of Natural Resources and others on the team.

6:10 p.m.

- Because of the confidentiality requirements mandated in our ongoing commercial negotiations, I am only able to speak in general terms about the status of the discussions.
- I hope all of you will understand and appreciate the sensitive nature of these talks and the reasons a high degree of confidentiality must be maintained.
- We stand on the brink of making the most important decision in our state's history ---- actions we soon will be taking are going to have a profound effect on Alaska's economy for generations to come.
- As you can imagine a decision of this scope and magnitude is surrounded with a great deal of emotion, enthusiasm and deeply held opinions ---- some are founded on fact ---- some are not.
- As Governor, I am charged with the solemn responsibility of evaluating all of the gasline development proposals and determining which is in the best interest of all the people of Alaska.

- We are guided in this effort by the Stranded Gas Development Act ---- Passed by the Legislature and signed into law in 2003.
- That Act sets forth a process whereby the Governor is authorized to negotiate fiscal certainty for an extended period of time regarding taxation and other applicable issues with qualified applicants who propose to build a North Slope gas delivery system.

GOALS:

- My goals in negotiating a contract under the Stranded Gas Act is to achieve:
 1. A fair share of the revenues for Alaska.
 2. Provisions for in-state use of the gas.
 3. Access to the pipeline for others who explore for gas.
 4. A pipeline that may be expanded.
 5. A state equity ownership in the pipeline.
 6. Jobs for Alaskans and job training.
- In addition the SGA specifies that any negotiated contract that I deem appropriate for consideration by the legislature go out for a 30-day public review.

6:13 p.m.

- Upon completion of that review, the contract will be provided to the legislature for ratification.
- Once received, the contract must be voted either up or down - --- there is no opportunity provided for amendment.
- This places a great burden on the Administration to "get it right the first time".
- Out of necessity, the scope and complexity of these contracts will be staggering ---- running into the hundreds of pages.
- Because of the complexity inherent in a contract that embraces hundreds of billions of dollars in commercial content, I am mindful of the need to provide the legislature with the time and information necessary to adequately weigh the value of the contract I forward to them.

- To address this need my Administration has been working closely with the joint Senate/House Legislative Budget and Audit Committee.
- Members selected by the leadership in both bodies are being provided with access to all the confidential information being collected and analyzed in our negotiating efforts.
- They are currently in the middle of this process ---- they are afforded the opportunity to observe the so called good, the bad, and the ugly associated with these complex commercial discussions.
- I have provided this unprecedented access because I believe it is the right thing to do.
- As I have my responsibilities under the SGA, so too does the legislature ---- and their duties are no less solemn or difficult than mine.
- They must either accept or reject the contract I present to them ---- to be able to do that they absolutely need to understand all of the complexity and nuance of the information used to make our decisions.
- As you can imagine it is not always pretty watching sausage being made ---- but at the end of the day, they "will" understand how we arrived at our decisions and the information we used in the process.
- As I stated we are currently evaluating three separate North Slope gas commercialization efforts.
- The good news is that we have "three" proposals ---- for the gasline veterans in this room this is extremely good news and suggests that our gas may soon no longer be stranded.
- Unlike previous efforts that ran 60 miles per hour into a market reality of \$2.00/mcf ---- these "new" proposals reflect a tide change in the market.
- With current gas prices close to \$7.00/mcf and strong demand/price projections stretching well into the foreseeable future I believe that now is the time to deliver our gas to the nation's consumers.

6:16 p.m.

- The first big step in making this a reality occurred late last year when Alaska's Congressional Delegation under the leadership of Ted Stevens, Don Young, and Lisa Murkowski successfully passed federal enabling legislation for the Alaska Gas Pipeline Project.
- This legislation contains a number of provisions critical to the construction of the Alaska gas pipeline.
 - Expedited judicial review;
 - Priority permit processing by FERC and other federal agencies;
 - Loan guarantees;
 - Accelerated depreciation for the pipeline;
 - Conditioning plant benefits;
- In mid February of this year another big step was taken when the U.S. Federal Energy Regulatory Commission proposed regulations governing "open seasons" for the Alaska gas pipeline.
- I am pleased to report that those regulations embraced my main policy goals;
 - Providing access for new explorers;
 - Providing off-take points for instate usage;
 - Requiring serious consideration be given to in-state needs during open seasons and expansions.
- Now the ball is in the State's court.
- The first application we received under the SGA arrived on January 20, 2004 from a consortium of North Slope oil and gas producers Conoco/Phillips, ExxonMobile, and BP.
- They propose a 52" pipeline will be constructed along the existing highway system from Prudhoe Bay through Alaska and Canada to existing North American pipeline infrastructure.
- This project would begin with an initial capacity of 4.5 bcf/day expandable through compression up to 5.6 bcf/day.

- Receipt of that first application triggered an enormous effort by my Departments of Revenue, Natural Resources, and Law.
- We found ourselves right in the middle of a multi-multi billion-dollar negotiation ---- and frankly in those first days we were challenged.
- I am tremendously proud of the men and women in my administration and how they rose to meet this daunting challenge.
- Through the employment of their own talents and the acquisition of world-class consultants ---- we have developed a formidable analytical capability.
- Because of their efforts I can say with confidence the State of Alaska's interests "will" be protected.

6:19 p.m.

- This would not have been possible without the budgetary support provided by the legislature and I appreciate their understanding the need to build this critical skill set.
- I would also note for the record that a similar same skill set developed for the producer negotiations is also being used for the TransCanada and Port Authority effort.
- The Producer application is by far the most complex of the three.
- That complexity stems from the fact that it embraces every aspect of gas transportation beginning at the bottom of the production well ---- through the gathering system and the gas conditioning facility ---- into the proposed pipeline across Alaska, the Yukon, British Columbia, Alberta and back into the United States ---- through the marketing process ---- ending up at the gas consumer's front door.
- Every step along the way has its own set of opportunities, complexities, and risks.
- Contemplation of this departure from a state's normal royalty and taxation process is based on two reasons.

- The project may be accelerated if the state provides contract provisions beyond the status quo;
- The opportunity to significantly increase the financial benefit of the project to the state.

- This could be accomplished through three specific actions.

6:20 p.m.

- Converting royalty and taxes into outright ownership of a significant portion of the in-place gas reserve.
 - Taking an equity position in the gasline and processing facility proportionate to our gas ownership share;
 - Marketing our gas and taking firm transportation capacity in the pipeline to deliver that gas to purchasers.
- I am pleased to report that the state has made tremendous progress in putting this very complex concept into the form of a contract.
 - I am convinced that the Producers are fully committed to successfully concluding these negotiations and are providing all the supporting resources necessary to support our discussions.
 - While there is a solid financial and technical underpinning for the producer proposal, it is not without its challenges.
 - Because this pipeline will run through Canada, they must deal with regulatory uncertainty in that country;
 - They must also deal with procuring enough steel to construct over 2000 miles of 52" pipeline

TRANSCANADA

- The second application we received under the SGA arrived on June 1, 2004 from TransCanada Pipeline Company.

6:22 p.m.

- Under this proposal a 48" pipeline will be constructed along the existing highway system from Prudhoe Bay through Alaska and Canada to existing pipeline infrastructure in Alberta.

- It does however contemplate state equity ownership in the gas conditioning facility and the pipeline ---- it also envisions the possibility of the state taking the responsibility for the transportation and marketing of its own gas if the Producers choose to sell their reserves rather than ship on an independent pipeline.
- Under this proposal the state and TransCanada would attempt to strike a business deal with the North Slope gas owners to either sell their gas at the wellhead or make a firm commitment to move their gas down the pipeline to market.
- I would also characterize these negotiations as well advanced with all parties committed to finalizing discussions in the very near future.
- I have been impressed with the willingness of TransCanada to work with the state team to create a tariff framework that embraces both my gas development policies and the FERC regulations.
- As in the Producer discussions, I believe TransCanda is fully committed to successfully completing all the negotiations as quickly as possible.
- TransCanada's proposal also has its challenges.
 - This proposal presumes the Producers will be commercially reasonable and either ship their gas on an independent pipeline or sell their gas at a commercially reasonable rate;
 - As with the producers, they must deal with regulatory uncertainty in Canada;
 - They must also deal with procuring enough steel to construct 1800 miles of 48" pipeline.

ALASKA PORT AUTHORITY

- The third, and most recent, gas development proposal we are evaluating was submitted by the Alaska Port Authority on March 30th of this year.
- The Port Authority was formed in 1999 and is made up of the North Slope Borough, Fairbanks North Star Borough and the City of Valdez.

- The Port Authority proposes to build a gas delivery system consisting of a 56" pipe from the North Slope to Delta Junction and a 48" pipe from there to tidewater in Valdez.
- In Valdez the gas would be converted to liquefied natural gas and transported by tanker to West Coast markets or other markets in addition, natural gas liquids such as propane, ethane, and butane would be extracted and sold in the markets of the world.
- Under this proposal the Port Authority would make a business deal with the North Slope Producers and the State to purchase gas at the wellhead, transport it through a tax exempt entity, and sell the gas to a marketer for sales into the consumer market.

6:25 p.m.

- This project envisions no direct state participation but does recognize that the North Slope Producers may need a degree of fiscal certainty on gas production taxation.
- Our analytical team is just beginning to evaluate the Port Authority's submission and it is too early to make any risk or value judgments pertaining to the proposal.
- As in the other two proposals, the Port Authority effort is not without its challenges.
 - Since they do not control the gas supply they must make a commercial proposal to the owners sufficient to obtain sales contracts;
 - They must get formal approval from the Internal Revenue Service to retain their tax-free status;
 - They must get long-term sales contracts;
 - They must obtain a permanent exemption from the Jones Act;
 - And they must deal with difficult siting issues on the West Coast.

6:25 p.m.

- I will say that this project is radically different than the Alaska Highway proposals submitted by the North Slope Producers and TransCanada ---- as a result it will have a significantly different risk/reward profile.

- Before I will be in a position to make any recommendation on this project we will need to be able to do an "apples-to-apples" comparison on the risk/reward profiles of all three proposals.
- Not covered under the Stranded Gas Development Act is the Alaska Natural Gas Development Authority created by Proposition 3 in the November 2002 election. ANGDA has been working on a spur line which will bring gas to Cook Inlet.
- I am not certain at this time how long this is going to take, but we will keep you apprised as we move down the analytical trail.
- Regardless of what happens with any of the proposals already discussed, I assure you that we enshrine in any agreement an opportunity to construct a pipeline to the Cook Inlet ---- I have asked the Alaska Natural Gas Development Authority to lead in that effort.
- It is common knowledge by now that I made a recent trip to Ottawa to discuss the gasline with Prime Minister Martin.
- This was in recognition of the fact that no matter how quickly we act here in Alaska, the highway routes all will travel through Canada.
- While Alaska would not presume to recommend what regulatory framework is appropriate for Canada, we do believe the time is right to create a process by which a gas pipeline project can be constructed in the most expeditious manner possible.
- I know all of you are making plans for the summer and would like to hear from me that a specific date had been chosen for a "special session" to act on a stranded gas contract.
- While I can say that we are getting close, I can not give you that date today.
- Once we have closed on general terms, there is a lot of detail work for the attorneys to do before we have a contract ready for public and legislative review.

6:29 p.m.

- I will tell you that I am personally involved in the negotiations and will continue to be involved until I am satisfied that I have a contract worthy of your consideration.
- I will send you a contract containing what I believe it takes to get our gasline built and it "will" be what is best for Alaskans today and what will be best for Alaskans tomorrow.
- It will have the earliest "in-service" date possible, contain the best fiscal benefit package possible, and afford new explorers and Alaskans the best access possible.
- What is best will be a product of raw economic reality ---- it will not be based on emotions. .
- And you should also know that my decision will not be without criticism ---- no matter which way we go.
- And I promise you my decision ---- the contract I send to you for your approval ---- **will be based on what I believe is right.**

6:30 p.m.

- So, enjoy your summer (at least the first month or so) and I will see you back here soon ---- and when I do, we will really have something to celebrate.

6:31 p.m.

CHAIR WAGONER asked if the governor will we look at two contracts or if he will just send the best one to the legislature.

GOVERNOR MURKOWSKI said he is not limited to one contract. There will be a public process with input on all three, he said, and he can recommend one to be submitted for an up or down vote.

REPRESENTATIVE BERKOWITZ asked the status of negotiations with Mid-America.

GOVERNOR MURKOWSKI said there are no negotiations currently.

TOM IRWIN, Commissioner, Department of Natural Resources, said Mid-American evaluates what is most valuable to them. "I think the state can feel very confident that when Mid-America and the

other folks that are involved--this is a project that has economic value. I think it's also a real statement that Trans-Canada very clearly stepped up and presented their proposal and they're carrying that issue very aggressively forward, working with the state," he said.

GOVERNOR MURKOWSKI said Mid-America came with a request for a five-year option, which he could not agree to, consequently the negotiations began through Trans-Canada. There was a difference of opinion on the percent of participation between the two, he said. The state has never closed the door on that application, but they terminated their interest, he stated.

SENATOR GRETCHEN GUESS asked about pipeline ownership, and if the governor is considering any other methods of funding gas pipeline ownership, including using the federal loan guarantee.

GOVERNOR MURKOWSKI said, "In our concept, the state would propose to be an equity owner in two of the proposals before us--the producer's proposal and the Trans-Canada proposal." The figures are confidential, he added.

WILLIAM CORBUS, Commissioner, Department of Revenue, said the state is envisioning an equity ownership and would have to pick up that proportional share of the debt. The federal loan guarantee would come into play for the debt portion.

SENATOR HOLLIS FRENCH asked about financing for a spur line for the people in his South Central district to get the gas.

6:36 p.m.

GOVERNOR MURKOWSKI said there was a resolution that carried, and the Alaska Natural Gas Development Authority (ANGDA) was formed. It has a broad authority but recently directed its interests to a lateral line to Southcentral Alaska. "We support that ... but the economics of that are still very much under review," he added. ANGDA is focusing on a worthwhile cause, but that is separate from what he is talking about, because that would be a lateral line off the main line. He said any of the proposals would have an alternative of taking Alaska gas down to Southcentral. "The problem with Southcentral is they need cheap gas for the two petro-chemical facilities. We can't afford to lose those facilities because they are the main load identified users," he noted.

SENATOR GENE THERRIAULT asked about Alaska jobs, and having a contract that would obligate the state, but not have specific dates for the pipeline to move forward.

6:39 p.m.

GOVERNOR MURKOWSKI said there are provisions in the stranded gas act for job training and placement. It is a high priority item, he said, because one proposal included 10,000 jobs for four years, with involvement of up to 1,000 engineering firms.

COMMISSIONER CORBUS said there is a section in all the contracts addressing employment and training.

COMMISSIONER IRWIN said the governor brings up Alaska jobs in all the general meetings.

SENATOR GUESS asked if the lawsuit against the Federal Energy Regulatory Commission regulations will impact the negotiations.

DAVE MARQUEZ, Attorney General, said it will not impact the negotiations in the immediate future.

REPRESENTATIVE NANCY DAHLSTROM asked about a risk with the loan guarantee, and the concerns of homeland security, especially with gas going through another country.

6:43 p.m.

GOVERNOR MURKOWSKI said the risk is committing to a \$20 billion project--the largest construction project ever undertaken in North America. There won't be revenue until the gas flows in 2012-2014, he added. If the price of gas is low it will be the worst investment in the history of Alaska, he said, but he believes this country is using its reserves faster than it is finding new ones. From the standpoint of the consumer it is cheaper to build a pipeline instead of using tankers. The extraordinary amount of gas makes these projects feasible, he stated. Are the economics sufficient to bring the resources to market? he asked. "We think they are."

GOVERNOR MURKOWSKI stated that homeland security is manageable. The gas line will be buried in its entirety, so it is more secure than the oil pipe line. Alaska shares many strategic interests with Canada, he added.

REPRESENTATIVE LES GARA said the producers did not think they could bring the in service date before 2014. What is the state's position? he asked.

6:48 p.m.

GOVERNOR MURKOWSKI said it was a legitimate concern, and the state is aiming for an in service date of 2012. He noted that the price of steel is rising.

COMMISSIONER IRWIN said DNR will look at it technically. "Sooner is significant for the state," he postulated.

SENATOR DYSON said one of the "real treasures" is the gas liquids, and the advantage of the all-Alaskan route is controlling that. Is there a difference between the proposals in what happens to the gas liquids and who gets access to them? he asked. He said he thinks there are some restrictions on the gas liquids in a northern pipe line agreement, and should that survive its challenges, how does that figure in?

6:51 p.m.

GOVERNOR MURKOWSKI responded that economics would dictate where the gas liquids end up. "There's no question that Alberta and Calgary have a substantial capability to ... use those liquids." He noted, however, that the market is changing, and he has instructed the applicants to evaluate the Asian markets for gas liquids. Naphtha is already going to the Asian market from a Fairbanks refinery, and that "marks a first step." He said the state is doing some internal evaluations of the Asia market, and he is excited about it. "Economics usually dictate where they end up," he stated. He said the northern pipe line agreement means different things to different people, and he noted that representatives from Trans-Canada are in the room that may want to respond.

CO-CHAIR RAMRAS you said the port authority proposal is radically different than the Alaska highway proposals. He asked if the governor has reviewed the Internal Revenue Service (IRS) correspondence from the port authority regarding the Jones Act, and if he thinks the Jones Act can be overcome.

GOVERNOR MURKOWSKI said those questions can best be answered at a later date; that process has not begun.

6:55 p.m.

MR. MARQUEZ said tax-free status and a permanent Jones Act exemption are two serious challenges the port authority faces.

REPRESENTATIVE GATTO mentioned ex-Governor Hickel's book Crisis in Common, which discouraged taking state resources out of Alaska as soon as possible instead of processing them here. "Have we ever been approached by a petro-chemical industry that looked at these quantities and maybe had some consideration for that kind of enterprise?" he asked.

GOVERNOR MURKOWSKI said the concerns are traditional; you move your refinery close to the market. It is based on economics, he said. Gas liquids would have the labor costs of petro-chemical conversion, and, "we are not a consumer of consequence."

6:58 p.m.

GOVERNOR MURKOWSKI said an Alaska timber task force tried to create primary manufacturing. "Now we have lots of timber and no method to use the 30 percent of the timber which is either dead or dying in this state cause we don't have the availability to utilize the utility timber." He said the return on investment controls the investment of capital.

SENATOR GUESS asked how the governor envisions the public hearing process; thirty days is not a long time for the public to digest and form opinions on this issue.

GOVERNOR MURKOWSKI said, "We are the recipients of your labors, and your vision in determining what is adequate and inadequate." He assumes the thirty days could be expanded moderately.

7:00 p.m.

COMMISSIONER CORBUS said he will be issuing a draft interest finding that will be made available at the beginning of the public hearing process. He envisions public hearings in the capitol and elsewhere. "We are going to do everything we can to do solicit the views of the public and the legislature during time frame."

MR. MARQUEZ said it is a short time period, so it is important to have a continuing relationship with the legislature ... so that when that 30-day public notice period starts, at least the legislature will be able to participate very quickly and effectively."

7:01 p.m.

SENATOR GENE THERRIAULT, Chair, Legislative Budget and Audit Committee (BUD), Alaska State Legislature, said it is actually a minimum of a 30-day public comment period for the gas pipeline. He added that LB&A can make it longer if needed. His committee has met with the administration five times to get briefings from the negotiating team regarding the gas pipeline proposals. With regard to Alaskan jobs, he noted that there are opportunities to shelve or delay the project if it is not in the best interests of the state.

7:04 p.m.

SENATOR THERRIAULT said he and Representative Ralph Samuels met with the Federal Energy Regulatory Commission (FERC), and a FERC package put together that was very favorable to Alaska. "Litigation has been filed in the federal courts to preserve ... an opportunity for the companies that have concerns over the package to take the issue into the court system. We are currently reviewing our obligations or our potential for entering into that litigation, and steps may have to be taken in order to preserve the legislature's right to continue to press the state's point in the FERC process."

SENATOR THERRIAULT said he and Representative Samuels met with the Senate Energy Committee in Washington D.C. regarding gas hydrates, and asked for money for research. Alaska has tremendous resources in gas hydrates, he said, and legislation has been introduced with increased funding requests.

7:07 p.m.

SENATOR THERRIAULT said LB&A is researching antitrust issues, and has hired a company to do economic modeling, which is a complicated, detailed effort. The committee has been watching the administration's research on the duty to produce under the existing terms of the leases. He said LB&A may be doing its own work on the terms of the current leases. He noted his appreciation of the willingness of the administration to share information with the LB&A, but he pointed out it is not negotiating the contract. The committee's role is to help keep legislators up to speed, but it is not sitting at the table. The committee has attorneys in Washington D.C. and consultants working on it all.

7:10 p.m.

CHAIR WAGONER announced that the parties who have applied for the contract are in the room, and they will answer questions.

TONY PALMER, Vice President, Alaska Business Development, Trans-Canada, said, "The Northern Pipeline Act has no obligations in it to remove the liquids [indecipherable] in Canada -- Alberta or otherwise." He said there is that opportunity for Alberta liquids operators to compete to remove the liquids if the project goes through Alberta--"I believe they will do so on a competitive basis." "There is also no restrictions in the Northern Pipeline Act to remove the liquids. In fact, the liquids that come out of our system--the Foothill system, which is the pre-build for the Alaska highway pipeline--does move today through the border of Alberta. Liquids are removed from those streams. The facilities we built to allow that gas to be stripped of liquids were actually constructed under the national energy board. They're in service today ... and can be used in the future if Alaska gas owners choose to do so."

7:11 p.m.

HAROLD HEINZE, Chief Executive Officer, Alaska Natural Gas Development Authority (ANGDA), said ANGDA is working on the spur line, which is a very important feature of all the proposals that are on the table. He wants to assure the members that ANGDA'S approach to the spur line is intended to be compatible with all proposals. He said the one variation that is different from what had been originally conceived, is that since all the major projects require five to seven years for engineering, procurement, design and other steps, "we've looked at the spur line as a pre-build into the project. Rather than waiting for its completion, we've looked at in on a timeline where we would build while all that diligence is going on." He noted that the spur line is technically fairly simple. He said ANGDA has applied for the right-of-way between Glennallen and Palmer and that ANGDA has included the ability to remove natural gas liquids to be used anywhere in Alaska, propane in particular. He opined that financing the spur line is more "modest" than "the big projects going down." It is in the range of hundreds of millions of dollars, he postulated. Utility financing is available for that kind of project, where the customers provide the financial security, so financing is very low interest, he noted. He told the committee to peruse www.allalaskalng.com.

SENATOR LYMAN HOFFMAN said it sounds good to deliver propane to the rest of Alaska, but he asked how feasible it is.

MR. HEINZE answered that if ANGDA extracted half the propane going down the big line to Canada, there would be about 50,000 barrels a day of propane for ANGDA to bring to tidewater. He estimates that 10 to 20 percent of that would satisfy all the energy needs of rural and coastal Alaska. There is a study on loading barges in Cook Inlet, but it would run into the Jones Act, but that is easy to satisfy, he said. Propane is very easy and cheap to move, and he said a large portion would be exported across the Pacific Rim.

7:17 p.m.

RIGDON BOYKIN, Special Council, Alaska Gas Line Port Authority, said the Internal Revenue Service (IRS) issued a private letter ruling that "all of the income received by the Port Authority would be tax exempt. We do not feel there is any issue regarding the IRS ruling. The only criticism of that ruling that we have heard by anyone is a reference to the fact that most of the gas from this project would not be used within this state." That is irrelevant for tax purposes, he said. The Port Authority is a municipal organization, so as long as it owns and controls the project, it is tax exempt. "We did also tell the IRS ... that most of the gas from this project would be used out of state ... Alaska is a small state and cannot possibly use the volumes of gas required to make this pipeline economic, and therefore a large percentage of this gas would be used out of state."

7:20 p.m.

REPRESENTATIVE RAMRAS asked to see the aforementioned correspondence.

MR. BOYKIN said he could make it available, and he thinks it already was made available under the stranded gas application.

SENATOR THERRIAULT asked as Sempra's importation sites are developed, does Sempra enter into long term financing contracts that commits the capacity of those sites long term.

MIKE MORGAN, Vice President, Sempra Energy, said Sempra contracts long term for capacity in the LNG regasification. Sempra has facilities on the West Coast. There is a market for the capacity to those facilities, and there is a lot of interest

from LNG producers all over the world, not just Alaska, he said. "Some of our facilities are considered to be open-access facilities, and if there's demands to contract expansion ... no choice but to oblige those demands. There is a race to serve the West Coast market, "and it will be won in a matter of months."

7:23 p.m.

CHAIR WAGONER asked about the potential for litigation for the Canadian right-of-way.

MR. PALMER asked if he was speaking about the Northern Pipeline Act or the right-of-way. He said Trans-Canada has held the right-of-way through the Yukon for 20 years, and there has not been a legal challenge.

REPRESENTATIVE BETH KERTTULA asked about an exemption to the Jones Act.

JOE GELDOFF, Alaska Council, Marine Engineers Beneficial Association (MEBA), said MEBA was founded in 1875 and is the oldest maritime union, representing licensed deck and engineering officers in the United States. He said MEBA has a relationship with Sempra and the Alaska Gas Port Authority (AGPA). MEBA's obligation is to deal with the Jones Act and training for moving Alaska's gas to market. He noted that MEBA is an ally with Sempra and AGPA, not a full partner. Sempra has a real market with real customers--it is not a notional market, "and they approached us seeking assistance and guidance on how to deal with the Jones Act."

7:26 p.m.

MR. GELDOFF said the Jones Act is often vilified by Alaskans. If and when the financials drop into place and the state decides "this is a bona fide market with a legitimate transportation plan, and you assist Sempra and AGPA in getting our gas into the pipeline that they want to build, at the risk of sounding both naïve and arrogant, the Marine Engineers and our affiliated maritime unions will work diligently to get a limited project-specific--from one aspect of the Jones Act." He said it is premature to talk about how that will take place, "but there is too much at stake with this entire project, not to seek a limited project specific exemption from the American-build provision of the Jones Act." He said MEBA and other mariners "are not going to hold real jobs for shore side people in Alaska ... hostage to what's really a theoretical job protection,

because the yards in the United States of America are not capable right now, in our opinion, of building LNG tankers." He concluded that, "If and when the financials drop into place, as I think they will with the Semptra and AGPA proposal, we are going to bust our pick to get a limited exemption, and we think we can do it."

MR. HEINZE said he wanted to offer other perspectives on the Jones Act, "because it is a very important issue." He noted that ANGDA is concerned about how the act will impact the inter coastal movements in Alaska. He said the Alaska delegation may be able to get an exemption for that. Secondly, he said, as the world trade in LNG develops, the advantage of Alaska being close to the west coast can be captured by circular trade routes. He said it is not necessary for the ships to sail back and forth to California. He told the committee to envision a circular movement of Indonesian gas going to California, then the empty ship sails to Alaska and picks up cargo, which is taken to Tokyo, and then the empty ship goes back to Indonesia and continues the loop. "You garner a great deal logistically of that ... closeness of Alaska to the West Coast without ever sent a ship from here to the West Coast."

7:30 p.m.

WALTER HICKEL, Former Governor, State of Alaska, said this is an important moment in Alaska's history. He noted he is almost 86 years old. A vast supply of natural gas urgently needed by the American people awaits a decision. How will the gas get to market? he asked. He thinks the whole future of the state is dependent on that decision, and it is not difficult to "sort out." He reminded legislators that they swore to uphold the Alaska constitution, and Article 8 says the legislature shall provide for the utilization and conservation of all natural resources "for the maximum benefit of its people--not for the benefit of any special interest, not for the benefit for those that contribute to all the campaigns." He said it was not for the benefit of lobbyists, but for all Alaskans. "That is our solemn promise and pledge."

MR. HICKEL said Alaska won statehood to free it from exportation of the colonial past. "Outside countries ripped our resources from our land and shipped them across our borders ... leaving little behind for our people." He said to keep four benefits in mind: Will the route do the most for Alaska's consumers? Will the homes of Alaskan's be warm and light by this resource? Will the people's gas be available to all our people by a spur line?

Will the route generate the most revenue to Alaska? Will the route create the most jobs for Alaskans, not just to build the line, but for future generations? Which route can be started first? He said worldwide competitors are moving fast to capture the United States' market. "We need to start building that pipeline now." He said in the early 1980s Governor Jay Hammond appointed the late Bill Egan and him to study the gas pipeline issue. "From that time on I have believed in and fought for the all-Alaska route. It has been a 35-year battle." He said, "You and Governor Murkowski have to make it happen. And you may have to have the courage to use all the powers at your disposal."

ADJOURNMENT

There being no further business before the committee, the joint House and Senate Resources Committee meeting was adjourned at 7:36 p.m.