

**ALASKA STATE LEGISLATURE
JOINT MEETING
SENATE RESOURCES STANDING COMMITTEE
HOUSE RESOURCES STANDING COMMITTEE
October 27, 2006
1:04 p.m.**

MEMBERS PRESENT

SENATE RESOURCES

Senator Thomas Wagoner, Chair
Senator Fred Dyson
Senator Bert Stedman
Senator Kim Elton

HOUSE RESOURCES

Representative Jay Ramras, Co-Chair
Representative Ralph Samuels, Co-Chair
Representative Paul Seaton, Vice Chair
Representative Kurt Olson
Representative Harry Crawford
Representative Gabrielle LeDoux
Representative Carl Gatto

MEMBERS ABSENT

SENATE RESOURCES

Senator Ralph Seekins, Vice Chair
Senator Ben Stevens
Senator Albert Kookesh

HOUSE RESOURCES

Representative Jim Elkins
Representative Mary Kapsner

OTHER LEGISLATORS PRESENT

Representative Bill Thomas
Representative Bill Stoltze

COMMITTEE CALENDAR

Presentation by the Administration - Public Comments on the
Draft Alaska Gas Pipeline Contract

PREVIOUS COMMITTEE ACTION

No previous action to record.

WITNESS REGISTER

JIM CLARK, Chief Negotiator
Office of the Governor
PO Box 110001
Juneau, AK 99811-0001

POSITION STATEMENT: Presented information related to public
comments on the draft Gas Pipeline Contract.

WILLIAM A. CORBUS, Commissioner
Department of Revenue
PO Box 110400
Juneau, AK 99811-0400

POSITION STATEMENT: Presented information related to public
comments on the draft Gas Pipeline Contract.

MARCUS HARTLEY
Northern Economics
880 8th Street, Ste 210
Anchorage, AK

POSITION STATEMENT: Presented information related to public
comments on the draft Gas Pipeline Contract.

STEVE PORTER, Deputy Commissioner
Department of Revenue
PO Box 110400
Juneau, AK 99811-0400

POSITION STATEMENT: Presented information related to public
comments on the draft Gas Pipeline Contract.

BEN LEVINE, URS Corporation
Northern Economics Sub-Contractor
880 8th Street, Ste 210
Anchorage, AK

POSITION STATEMENT: Presented information related to public
comments on the draft Gas Pipeline Contract.

KEN GRIFFIN, Deputy Commissioner
Department of Natural Resources
400 Willoughby Avenue

Juneau, AK 99801-1724

POSITION STATEMENT: Presented information related to public comments on the draft Gas Pipeline Contract.

MICHAEL WILLIAMS, Chief Economist

Department of Revenue

PO Box 110400

Juneau, AK 99811-0400

POSITION STATEMENT: Presented information related to public comments on the draft Gas Pipeline Contract.

BOB LOEFFLER

Morrison & Foerster

Counsel to the Governor

Office of the Governor

PO Box 110001

Juneau, AK 99811-0001

POSITION STATEMENT: Presented information related to public comments on the draft Gas Pipeline Contract.

ROGER MARKS, Economist

Department of Revenue

PO Box 110400

Juneau, AK 99811-0400

POSITION STATEMENT: Presented information related to public comments on the draft Gas Pipeline Contract.

DAN DICKINSON, CPA

Consultant to the Governor

Office of the Governor

PO Box 110001

Juneau, AK 99811-0001

POSITION STATEMENT: Presented information related to public comments on the draft Gas Pipeline Contract.

ACTION NARRATIVE

CHAIR THOMAS WAGONER called the joint meeting of the Senate and House Resources Standing Committees to order at [1:04:52 PM](#). Present at the call to order were Senators Bert Stedman, Lyda Green, Fred Dyson, Kim Elton and Thomas Wagoner and Representatives Harry Crawford, Kurt Olson, Gabrielle LeDoux, Ralph Samuels, Jay Ramras, and Paul Seaton.

Administration Presentation - Public Comments on the Draft Alaska Gas Pipeline Contract

CHAIR THOMAS WAGONER announced the purpose of the meeting is for the administration to present public comments on the draft Alaska Gas Pipeline Contract.

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JIM CLARK, Chief Negotiator on the Gas Pipeline Project, informed the committee that the administration had two documents to present to the legislature. The first is the public comment overview that contains over 2,100 comments and it will be presented today. The second document is the Interim Fiscal Interest Finding, which includes the information from the public, the administration's responses, and the expert information that was gathered in the process of preparing responses to the public. That document ought to be finished and ready for presentation in the next several weeks.

COMMISSIONER BILL CORBUS, Department of Revenue (DOR), recapped the public process that began on May 10 when the draft Gas Pipeline Contract and Preliminary Fiscal Interest Finding were released. The public process, which was extended to 75 days, was broken into three phases: phase one consisted of 11 days of presentations to the legislature that were broadcast statewide; phase two was the nine public hearings that were held throughout the state; and phase three included seven public forums that included a question and answer format.

During the process the administration had an outreach program where administration members visited 70 different communities and discussed the issue with anyone willing to listen. At the same time comments were accepted by mail, email and telephonically. Also, the Senate Special Committee on Natural Gas Development and the House Resources Standing Committee held extensive hearings on the subject. He noted that much of the legislative process was mixed with the PPT legislation. The public process closed on July 24 and Northern Economics prepared the document before the committee under the direction of the Department of Revenue.

The document includes three attachments: attachment one indexes all the comments that were submitted; attachment two includes specific responses the state made to legislators and others who submitted detailed comments on the contract and the fiscal interest finding; attachment three is a presentation on basin control. The public process document will be an appendix to the interim fiscal interest finding, which is due for release in November. It consists of five sections: introduction, comment

analysis, response to public comments, detailed analysis of the public comments, and conclusion.

COMMISSIONER CORBUS said 2,169 comments were cataloged. Forty-nine were discarded so a total of 2,120 submissions were analyzed. The difference between respondents who wanted a gas pipeline and those who were addressing the contract was very clear, but it's noteworthy that sixty-five percent of the respondents favored the contract, twenty-nine percent opposed the contract, and six percent maintained a neutral position.

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The comments were summarized into fourteen general areas of concern that are found in Table 12 on page 25. The general areas of concern were further broken down into specific areas of concern. They are found in Table 5 on page 13. Some of the 2,120 comments addressed more than one area of concern so there were actually 4,285 statements of concern. Section 2 contains a demographic analysis of all comments including the community of origin and the timing of the submission.

Table 13, on page 25, is a summary of the most frequent comments including: fiscal certainty, PPT legislation, Alaska hire provision, Alaska Gas Port Authority alternative, work commitments, legislative process, in-state demand, market risk, and general project timeline. About one third of the comments related to those topics.

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COMMISSIONER CORBUS said Section 3 is largely devoted to the responses that were made to the public comments. He noted that every comment received a response such that 365 sub areas of concern were addressed and account for three quarters of the document.

Section 4 analyzes the comments in entirety. Table 15 on page 180 is a matrix of the comments by group and contract article. The top row indicates the categories of responders and the left column indicates the different issues.

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COMMISSIONER CORBUS summarized that nothing came up in the public process to change the administration's mind that the gas is stranded. Sixty-five percent of the people who made submissions supported the view that the original contract is good for Alaska and the state should expeditiously proceed with a gas pipeline and transition to a gas-based economy.

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REPRESENTATIVE RALPH SAMUELS mentioned the general commented letters that Trans Canada sent the administration and said he'd like confirmation that those comments weren't included as specific submissions.

COMMISSIONER CORBUS replied that entity did submit comments. The administration did not interpret them to require a response, but they would be covered in the interim fiscal interest finding.

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SENATOR FRED DYSON said he was struggling to comprehend that 65 percent of the respondents approved of the contract. He asked if that is what he intended to communicate.

COMMISSIONER CORBUS replied in most cases yes.

MR. CLARK added a lot of comments suggested changes and fixes so there was a mix.

SENATOR DYSON responded that was his assumption.

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MR. CLARK said his point is that there was a combination of responses. There were a lot of very thoughtful comments and it was obvious that people spent a great deal of time thinking about the subject. For the most part they suggested that a few changes ought to be made, which is similar to the comments that came from the legislature.

SENATOR DYSON asked how the responses were sorted into pro or con categories.

COMMISSIONER CORBUS asked Mr. Hartley to respond.

CHAIR WAGONER recognized that Representative Bill Thomas, Representative Bill Stoltze and Representative Carl Gatto had joined the meeting.

MARCUS HARTLEY, Northern Economics, Anchorage, explained that categorizing the responses includes a certain amount of interpretation. Usually when a submission was catalogued as pro, it was because the response was clearly favorable even though some changes may have been recommended. Other submitters said, "This is a good idea, but I don't like certain issues." That type response was catalogued as neutral. If the submitter

suggested another alternative or said that the approach was wrong, that comment was cataloged as con. He said it was clear that the majority of respondents were in favor of the contract as written.

SENATOR DYSON asked if he said that more than fifty percent of the submitters said don't change the contract at all.

MR. HARTLEY responded he wouldn't say that. He would say that more than half were very much in favor of the contract, but not without changes.

SENATOR DYSON said that's the point.

MR. HARTLEY continued to say he couldn't identify the specific percentage that suggested one particular change or another.

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MR. CLARK added that he didn't want to leave the committee with the impression that the administration concluded that it should proceed without some changes to the contract. He emphasized that they reviewed and seriously evaluated all public and legislative comments.

Today the purpose is to report what the public said. Discussion might touch on the administration's reaction to the comments, but the Interim Fiscal Interest Finding is where discussion will take place regarding proposals for making changes to address issues that the public and the legislature raised. The administration has certainly taken this process seriously and is not resting on the notion that people have given the green light to go forward with the contract as-is, he said.

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SENATOR DYSON asked when the legislature could expect to see the changes the administration recommends as a result of the entire process.

MR. CLARK responded all public and legislative comments are reflected in this document. He noted that the administration's thinking has matured in the process of responding to the questions and he would urge committee members to read the document. Well thought out first-rate comments were submitted and the administration tried to respond with first-rate answers.

SENATOR DYSON again asked when the legislature could expect to see proposed changes to the contract.

MR. CLARK responded in the Interim Fiscal Interest Finding that will be presented to the committees in November.

SENATOR DYSON asked if the administration had discussed that with the producers.

MR. CLARK replied there has been contact, but the producers are reluctant to negotiate with an outgoing administration.

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REPRESENTATIVE GABRIELLE LEDOUX said she was trying to understand the concept of comment interpretation. She posed a hypothetical response that included a positive comment about the contract along with several suggestions to make rather significant changes. She asked if such a comment would be interpreted as favorable or negative.

MR. HARTLEY summarized that the comment is positive with regard to the contract, but it also includes suggestions for several large changes so that sort of response would be categorized as neutral. He mentioned an actual comment that said do it even though the contract could be improved. That sort of comment would be interpreted as in favor of the contract.

REPRESENTATIVE LEDOUX noted that it's polite to say something positive initially, which caused her to question how many negative points a person would need to detail for the comment to be interpreted as negative.

MR. HARTLEY responded it is an interpretation, but they looked for tone and tried to weigh all the factors before concluding that the person did or did not favor the contract. We feel we did a good job in categorizing, he said.

1:43:49 PM

SENATOR KIM ELTON said the initial report said that 65 percent of the people who testified were in favor of the contract, but he suspects that there was more nuance. He asked Mr. Hartley to assign percentages to the pro, con, and neutral categories.

MR. HARTLEY replied that would be difficult since he did not look at it from that perspective, but he is comfortable saying that a majority of the people who commented said they would like to see the contract go forward. He clarified that doesn't mean a majority of Alaskans; it means a majority of those who elected to comment on the contract.

SENATOR ELTON said he was trying to put this into the context of the initial report, which is that 65 percent of the people favored the contract. Now it sounds more nuanced so he was trying to figure out just how nuanced it might be. He tended to agree with Representative LeDoux that people like to be polite.

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MR. CLARK said there were many thoughtful submissions, but the comments were predominantly in favor of moving forward with this contract with changes. Even if you count all the neutral comments as negative, it would still be 2 to 1 in favor of going ahead with the contract with some changes so the administration is moving in that direction.

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REPRESENTATIVE PAUL SEATON asked how a comment would be cataloged if someone wanted the pipeline to go forward, but didn't comment on the contract specifically.

MR. HARTLEY explained that if the comment said "the pipeline" that was interpreted to mean the one that is the object of the fiscal interest statement. If the person said a gas pipeline is good and it ought to go to certain places then that comment was absolutely not counted as favorable for this contract.

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STEVE PORTER, Deputy Commissioner, Department of Revenue (DOR), provided context for the relationship between the administration and Northern Economics. He explained that the contractor was asked to capture the information and the administration maintained a hands-off approach so it did not influence the outcome one way or the other. He said it's important to know that two-thirds of the comments basically said, "We like the contract; we think it ought to go forward or we don't." Page 24, section 2.3.2, contains a summary of the comments by area of concern and issue and it says two thirds of the submissions dealt with general comments on the contract. The actual comments are on the website so it's possible to get a flavor for the comments that were submitted, he said.

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REPRESENTATIVE RALPH SAMUELS commented the most telling statistic is 2,000. Of 600,000 Alaskans just 2,000 commented on this incredibly important issue that will affect all Alaskans for generations to come.

SENATOR DYSON said he was looking for the number of people who favored the contract as written, but it's also important to know what the "deal-breakers" might be.

MR. CLARK responded the thoughtful comments from various groups were very supportive of this contract, but there were also ideas about making it better. Legislators have said about the same thing, which is to go forward but make some changes. He expressed the view that that is what is happening and that the legislature is fairly well aligned with the administration. The problem is that the producers agreed with the contract that was dated May 24. As a consequence of the public process and the legislative process, changes are being made. The producers have not responded to the additional ideas and changes because they are waiting to deal with the next administration. He suggested that getting alignment there is the challenge for Alaska moving forward.

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REPRESENTATIVE CARL GATTO referenced Representative Samuels comment and said Alaskans are depending on their representatives so he wants to make sure that the legislature plays a very significant role. He said he is very proud of what came out of the House Resources committee on PPT and it closely resembled the final product. The legislature should be heavily involved, he reiterated.

1:57:09 PM

SENATOR BERT STEDMAN correlated the public comments and the issues the Senate Special Committee on Natural Gas Development addressed when amending the Stranded Gas Development Act (SGDA). He noted that legislation did not move from the committee and asked if it's fair to conclude that 60 percent of the comments would fall in line with the SGDA amendments. That means move forward after the changes are made.

MR. CLARK said that's spot on and page 24 has a breakdown of the concerns that were most frequently expressed. Fiscal certainty is the number one concern and that's what the legislature said. Other concerns were PPT and Alaska hire. Again he said there is quite an alignment between the concerns the public expressed and the concerns the legislature expressed.

REPRESENTATIVE KURT OLSON asked if the governor intends to sign a gas pipeline contract before leaving office in December.

MR. CLARK replied not that he knew. The administration is going through the legislative process here today and after that the Interim Fiscal Interest Finding will be presented.

CHAIR WAGONER described the process as a work in progress.

MR. CLARK agreed.

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REPRESENTATIVE GATTO referenced page 24 and asked what "In-State Demand (124)" means.

COMMISSIONER CORBUS answered that covers a wide range of issues for in-state use of gas.

2:01:57 PM Recess 2:10:43 PM

MR. CLARK told the committee that Mr. Levine, who did the actual counting, was available to provide an explanation of the process.

CHAIR WAGONER said it might clarify some things.

BEN LEVINE, URS Corporation, sub-contractor to Northern Economics, explained that he developed the database to analyze the comments. He read every comment and flagged it pro, con, or neutral and in general it was obvious that a particular comment was generally for or generally against the contract. He referenced Representative LeDoux's hypothetical comment and said he would have categorized that comment as con. Perhaps just 10 percent of the comments fell in the middle where he had to struggle to decide whether it was pro or con. A lot of comments were positive with reservations, he said.

After the initial coding, each submission was looked at and broken down into individual comments and given an issue code. Those were further broken down into statements of concern. Issue codes were neutral. For example, fiscal certainty is an issue code and is neither for nor against a provision; it is simply a topic. In the next step, Northern Economics looked at the fiscal certainty comments and broke those into specific statements of concern - very specific portions of the fiscal certainty issue. Some of those comments were positive and some were negative. An analysis on positive and negative statements of concern was not done.

SENATOR DYSON asked how many of the comments were interpreted to say, "Go forward with this contract as written, without any modifications."

MR. LEVINE replied 65 percent of the comments were coded pro and about 70 percent of those said, "Do it." and probably dozens said, "Don't do it."

[2:16:14 PM](#)

REPRESENTATIVE OLSON asked if there was any indication how many respondents had actually read the material.

MR. LEVINE replied some of them had obviously read the material while others had not. You don't know when some says, "Do it." But then he wasn't there to judge that, he said.

REPRESENTATIVE OLSON remarked copies of the contract were available in his office, but few people took advantage of that and he assumes that would hold true in other districts.

SENATOR WAGONER asked Mr. Clark to continue.

MR. CLARK asked Mr. Griffin to discuss the issues that were raised on in-state demand and use of gas.

KEN GRIFFIN, Deputy Commissioner, Department of Natural Resources, explained that the title "In-State Demand" encompasses anything that might fall under the broad umbrella of in-state demand. It might include people expressing concerns about whether Chicago prices will be charged for gas that is taken off in Fairbanks. Other comments may not actually be addressing the gas line. Rather, the comments may simply be addressing the need for gas in Southcentral or expressing concern about what getting gas to Southcentral might do for Southeast or Kodiak or Bethel.

MR. CLARK asked Mr. Marks and Mr. Williams to address the impacts of delay.

MICHAEL WILLIAMS, Chief Economist, Department of Revenue (DOR), said his comments relate to the impacts of delaying natural gas development. He reviewed three major points: fiscal impacts to the state, the loss to the Alaska economy, and the loss of potential market share for Alaska natural gas.

Fiscal Impacts to the State: Beginning in 2016 the state will receive about \$1 billion per year depending on the price of

natural gas. Because oil production is declining, it's simply a matter of time before the state runs a deficit. The Preliminary Fiscal Interest Finding analysis indicates that will occur in 2009 and the Constitutional Budget Reserve (CBR) will be depleted in 2014. He emphasized the need for diversifying the revenue base.

Loss to the State Economy with a Focus on Employment: About 11,000 pipeline related construction jobs will be available each of the roughly five years that construction occurs. With project delays, those jobs are pushed into the future. The assumption is that the state will spend most of the money that accrues to it from natural gas sales and those expenditures are recycled into products and services. The impact from state expenditures amounts to about 22,000 jobs per year over the life of the project or some 35 years. Clearly, the impacts from state expenditures dominate what is received from construction. Delaying one year reduces construction employment beginning in 2011 and reduces the additional impacts beginning in 2017.

Loss of Potential Market Share for Alaska Natural Gas: This is the most important point. If the project is delayed there may be no demand for Alaska's natural gas. First, there is currently demand for Alaska natural gas in North America and probably it will be for electric generation. Second, the recent high natural gas prices combined with the interruption of supply due to hurricanes has caused utilities to explore coal and nuclear options. The U.S. petrochemical industry is the largest natural gas consumer in the country, but it is not competitive in the world market. That is an indication that it will not be a source of demand for Alaska natural gas.

Clearly, Mr. Williams said, timing is important. If the gas isn't developed soon, other industries will seek alternate sources of energy. For example, Agrium has announced that it plans to close for part of the year due to interrupted natural gas supplies and that it is investigating coal gasification in conjunction with a local utility. If Agrium and other U.S. companies decide to make capital investments in coal, that decision will not be reversed to return to natural gas. Additional impacts related to delay include reduction to the Permanent Fund and reduced net present value of the project.

MR. WILLIAMS summarized that delaying the gas pipeline could be devastating to the state economy. There would be a loss of revenue to state government, a loss of jobs to the state economy, a potential loss of market share such that the project

may never go forward. He noted that a summary of the public comments and the responses are found on pages 65 and 66.

CHAIR WAGONER asked Mr. Williams to provide Ms. Jackson with a copy of his presentation.

MR. WILLIAMS said he would do so.

REPRESENTATIVE LEDOUX asked when the gas pipeline would be completed if the contract was signed tomorrow.

MR. WILLIAMS replied the first gas would flow in 10 years.

REPRESENTATIVE LEDOUX said in that case, why is there a rush to sign the contract before December 4 as opposed to several days after that date.

MR. WILLIAMS clarified he is not tied to a specific date; he is talking about uncertainty and the perception of whether or not Alaska gas is going to market. That uncertainty is causing utilities to look at other options.

REPRESENTATIVE LEDOUX again asked what difference it would make if the contract were signed before December 4 as opposed to early January or February.

MR. WILLIAMS replied his perception is that utilities realize there are problems with getting Alaska gas; he isn't talking about a specific date or signing a particular contract. The idea he is trying to convey is that the market is uncertain whether Alaska gas is coming forward or not.

REPRESENTATIVE SAMUELS referenced the mention of \$1 billion per year and asked what the price of gas would be.

MR. WILLIAMS replied he would need to check the Preliminary Fiscal Interest Finding to be certain, but he believes \$5.50 MMBtu was used for the calculations.

REPRESENTATIVE SAMUELS pointed out that a delay does not benefit anybody and the message that needs to be sent to the oil companies is that from this day forward their net present value drops too so be careful.

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MR. CLARK said that is the essential message and the fundamental reason for moving forward with dispatch. The particular date

doesn't really matter; what does matter is that the transition from an oil-based regime to a gas-based regime is managed such that there is not a revenue gap. Regardless of when the contract is signed, there will be the 8-10 year lead-time before gas flows. But the longer the gap before the process begins the greater the revenue dip as oil revenues decline. The challenge before the legislature and the new administration is to manage the transition so there isn't an issue of how to fill the revenue gap.

[2:32:44 PM](#)

REPRESENTATIVE HARRY CRAWFORD said he and probably everyone at the table feels the urgency, but this contract has a built-in four-year gap to get to project sanction and the window of opportunity could be closed before a decision is made. He suggested that if the contract isn't signed within the next few months then there ought to be a new contract.

MR. CLARK responded part of the lead-time includes four years to determine whether there is a project. That means going through the permitting process, the design-engineering phase, and the FERC process. Large projects are built in a series of sequential steps and the contract is one of those steps. The Fiscal Interest Finding deals with the project in its entirety while the contract deals with management of the fiscal terms of the project. The urgency is to get the process started and if the project is economic, then go forward. He emphasized that economics can't be judged without going through the process.

[2:35:42 PM](#)

REPRESENTATIVE CRAWFORD commented it seems as though the project has been studied over and over and he would suggest that it's time to "put up or shut up." If the state can't get a commitment, then it should not give an exclusive right to build a pipeline.

MR. CLARK responded he is not aware of any permits that have been issued for this project and other than the 2001 study he is not aware of any design engineering specific to this project.

REPRESENTATIVE SAMUELS clarified that FERC has indicated that it would be six years to project sanction and four years to build so that's the ten year window.

BOB LOEFFLER, Morrison & Foerster, Counsel to the Governor, agreed with Representative Samuels about the timeline. Ground cannot be broken without a FERC permit and by statute that

process is 20 months. The open season process, which entails a lot of detailed engineering, takes at least a year. As the engineering and regulatory process goes along, the financial community enters the picture, but won't lend any money until the certificate is issued. That could take another year so you're right on the time-line, he said.

REPRESENTATIVE SAMUELS said that goes back to the impacts related to a delay, but in any event it will take ten years and it can't be speeded up.

MR LOEFFLER agreed and mentioned that he went through the first failed attempt.

REPRESENTATIVE SEATON asked about the validity of the commitments to start the Alaska line after McKinsey in light of the fact that McKinsey Valley has been held up.

MR. LOEFFLER replied it has been rumored in the press, but he is unaware of any such commitment and it is not in the contract.

MR. CLARK affirmed the administration has made no such commitment.

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MR. PORTER noted that he has been working with the LLC agreement, which is the gas pipeline agreement, and he wanted to reemphasize what Representative Samuels said. The critical issue is not whether you commit to build today or four years from now; the critical issue is to move forward so it can happen ten years from now.

SENATOR DYSON asked Mr. Loeffler to comment on the potential for the federal government citing national interest and taking over management of the project if the state doesn't take decisive and timely action.

MR. LOEFFLER replied that sort of thing happens in times of war and national emergency. He doesn't see it at this point, but it can't be ruled out.

SENATOR DYSON said if did it happen, what would be the revenue impact to the state.

MR. LOEFFLER offered the view that the federal government isn't entirely benevolent toward Alaska. The federal government would take its share and, in some sense, Alaska would be a loser.

SENATOR DYSON asked for clarification that Alaska wouldn't lose out entirely.

MR. LOEFFLER responded it wouldn't be a total loser.

REPRESENTATIVE GATTO asked if the six-year FERC timeframe depends on the diameter of the pipe and if a smaller pipe could be put in first to shorten the timeline.

MR. LOEFFLER replied the regulatory process would take the same time regardless of pipe size and putting in a small pipe followed by a larger pipe would likely be problematic and not make a material difference in time.

REPRESENTATIVE CRAWFORD said he does not dispute the timeline, but he does not want to spend five or six years just to have the oil companies say they don't have a project. He wants the companies to commit today to move ahead with the project at that point.

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MR. LOEFFLER said project sanction wasn't invented for this contract; it's the point that a company commits its full financial resources to do a project. It's not possible to say what the cost of long-term debt or the cost of steel will be six years from now just as it's not possible to say what conditions FERC will put on the tariff. The state could hypothetically write a commitment to say the company will go ahead if certain conditions are met. You can't do better than that, he said.

REPRESENTATIVE MIKE KELLY questioned whether it might be wise to conduct a professional survey to perfect the knowledge of what the public said.

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CHAIR WAGONER said 2,100 is not a large percentage of the population, but he is comfortable that those who wanted to testify have done so.

REPRESENTATIVE KELLY said he didn't disagree, but there are 648,000 people who haven't weighed in and if there is a better way to find out what they want then he questioned not pursuing that information.

SENATOR STEDMAN asked if Congress asked FERC to look at what process would be created if the federal government were to go forward and take control.

MR. LOEFFLER said yes, a requirement in the October 2004 federal statute says if an application is not made at a certain point, the federal government would study alternatives. He said he believes that has started.

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SENATOR STEDMAN said the other issue on a timeline is the loan guaranty for 80 percent backing.

MR. LOEFFLER responded that has a longer time limit; but it's hard to tell what will happen if the leadership in Congress changes.

REPRESENTATIVE SEATON asked if the process would be accelerated if the producers decided to inject gas into oil and transport it on the TAPS because that wouldn't require FERC approval.

MR. LOEFFLER said it's an interesting question because advance FERC approval is not necessary to build an oil pipeline. If the owners could build the infrastructure for gas to liquids, the only FERC involvement would be a new tariff case.

REPRESENTATIVE SEATON asked whether a new tariff would be necessary if the gas liquids were mixed with heavy oil such that it was a single-phase liquid.

MR. LOEFFLER said yes and no. There would be a much greater volume down the TAPS and the carriers would want to keep the tariff based on a smaller volume to earn more money. The state and others would say the tariff ought to go down because there's a greater volume over which to spread the cost.

CHAIR WAGONER added, whether it's feasible or not has to do with why you would mix a sought-after fuel with oil and then have to recondition it.

REPRESENTATIVE SEATON asked if it's correct that a change in a tariff proposal would come after and wouldn't necessitate a delay.

MR. LOEFFLER said yes, the fight with FERC about the right tariff would come later.

25636

MR. WILLIAMS agreed with Chair Wagoner that converting gas to liquid produces a very clean and light fuel, but it might not make economic sense. Second, he cautioned the committee to remain cognizant of outside events that might determine whether or not there is a market for Alaska gas. Be aware that there is a renewed interest in coal and nuclear energy so this window may close if the debate goes on too long

MR. CLARK said Commissioner Corbus would discuss the key issue of how the document deals with whether the gas is stranded or not.

COMMISSIONER CORBUS directed attention to page 48 on stranded gas and read the following from the report:

STRND_01(26 Comment)

Statement of Concern: Statements on the determination of stranded ANS gas, including (1) the gas is stranded, (2) the gas is not stranded, (3) the gas is stranded only until a contract is signed and (4) the decision to declare the gas stranded is a policy decision rather than an empirical one.

COMMISSIONER CORBUS explained that the definition for stranded comes from the Stranded Gas Development Act and it's gas that is not marketed because of cost and prevailing market conditions. Prevailing is defined as over the life of the gas pipeline, which is between 40 and 45 years. To reach a conclusion some quantitative, but mostly qualitative considerations are made. That includes: the future predictability of the price; the volatility of the price; the magnitude of the project in relation to other opportunities available to the investors; the risk of cost overruns; and competition.

The supply side of competition includes: LNG, the Rocky Mountain area, and the Gulf of Mexico. The demand side is tempered by the demand for clean coal technology and the renaissance of nuclear power.

3:02:12 PM

COMMISSIONER CORBUS continued to say that in November 2003 the state made a preliminary numerical analysis as to whether or not the gas was stranded. On November 1 the price of gas was \$3.63 MMBtu and the conclusion was that the internal rate of return was 9.7 percent, which was inadequate. The conclusion then and now is that the gas is stranded. The numerical analysis supports

the qualitative judgment. He noted that Michael Williams and Roger Marks helped prepare the analysis.

REPRESENTATIVE GATTO posed worst-case hypothetical scenarios and questioned what would happen if the gas pipeline was partially built and it became apparent that there was no hope for financial payback.

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COMMISSIONER CORBUS replied that brings up the question of risk. During open season a few years from now, binding commitments will be made to reserve capacity on the gas line. Those commitments must be honored whether nuclear power comes on line or not, but it is a worry that when open season comes there may not be a demand for the gas.

REPRESENTATIVE GATTO asked what happens to the investors in the event of default.

MR. LOEFFLER replied the pipeline establishes credit standards just as a bank does, so a company would have to have the assets to back up the size of the particular commitment. In the event of default, the capacity would become available to someone else.

MR. LOEFFLER made the point that the commitments made at the open season are conditional upon the project being built at a certain cost for a certain tariff. That provides an escape if things blow up. Also, the state has an op-out provision in the LLC agreement such that at project sanction if it does not want to move ahead with its pipeline investment - not its firm transportation (FT) investment, - it can put its share back to the other pipeline owners and receive reimbursement for everything it spent to that point. That's a way of reducing the state's exposure and ending up with the money that was put in, he said.

MR. CLARK said if the contract is signed soon, then the owner/marketers would figure out where the gas is going. Compare that with the situation where there's a several year delay before trying to put a contract together. The market uncertainty could create demand destruction that Representative Gatto's horror scenario raised. As Representative Crawford said, legislators recognize the urgency to get a contract signed so reservations are made in the market under the open season, which is two or three years after the contract is signed.

MR. GRIFFIN said the future is uncertain in many respects, but once the contract is signed the process is very systematic and orderly. The world will see what is happening and the market and the state's competitors will respond accordingly. The sooner the state gets on deck the better, he emphasized.

REPRESENTATIVE SEATON asked if the high transportation costs related to the gas being stranded have to do with building a \$20 billion to \$30 billion pipeline or the operational costs of transporting the gas.

COMMISSIONER CORBUS replied the high costs for constructing a pipeline translates to high tariffs so it's both.

[3:12:39 PM](#)

MR. CLARK said the project is so monumentally large and has such huge asymmetrical risks that smaller less risky projects tend to cycle in ahead of this one.

MR. MARKS added he believes the issue of project size is under appreciated. It's hard to comprehend \$20 billion to \$25 billion so it might help to consider that it took about \$25 billion to put the first man on the moon and that the insurance industry estimates that Hurricane Katrina payouts will amount to about \$25 billion. That's how much has to be paid before the first molecule of gas is sold, he said. If something goes wrong prior to that point it could well be a financial catastrophe for the company. In terms of financial symmetry, John Maynard Keynes put it very succinctly when he said, "Markets can remain irrational longer than you can remain solvent." A company could diversify its risk exposure if it builds 25 \$1 billion projects compared to one \$25 billion project. That is the prime reason that the administration believes the gas is stranded, he said.

CHAIR WAGONER asked if he would agree that the companies aren't afraid of the \$25 billion construction costs it's the unknown cost overruns that are frightening.

MR. GRIFFIN said yes.

REPRESENTATIVE SEATON asked whether the gas would no longer be stranded if gas to liquids technology was economic and the TAPS was used for transportation.

MR. CORBUS replied he did not have an answer because he did not know about the feasibility of liquefying.

REPRESENTATIVE SEATON said a concern of his is that the administration didn't analyze and present gas to liquids to the legislature. If that had been done it probably would have elicited more than just the one public comment. A 2001 analysis that was mentioned in the 2006 report said that is the best alternative of: going through Canada, LNG through Valdez, or converting and using the TAPS. It would extend the life of the TAPS by 20 years and the gas would be pumped as a single-phase liquid. TAPS is not designed to pump the heavy North Slope oil but gasifying it would work. The producers are doing gas to liquid technology now and have planned projects of 8.1 Bcf per day yielding 690,000 barrels of liquids. The state's 6 Bcf would yield about 520,000 barrels per day that would go into the TAPS.

Another concern is that after the contract is signed the state won't have any say if the LLC changes the project from a gas line to gas to liquids technology and injects it. It's inherent upon the legislature to look at liquefying in the public comments, address whether or not the gas is stranded, and whether all the economic uses of gas are evaluated, he said.

MR. LOEFFLER responded it wouldn't be the end of the world if North Slope gas left in a gas to liquids form, but the down side is there would be no in-state use of gas.

MR. CLARK said he didn't want it to appear as though anything was withheld. The administration pursued the stranded gas process that was developed in 2003. It analyzed the applications it had and it didn't have a gas to liquids application. The administration isn't resisting looking at another idea, it is simply reporting on the comments received on the project.

CHAIR WAGONER commented this administration doesn't have time to look at another proposal.

MR. GRIFFIN explained that gas to liquids (GTL) and LNG are very different processes. Gas to liquids essentially makes diesel or gasoline out of gas in an expensive and low efficiency process. Then it is mixed with crude oil and many of the advantages of the product are lost. The other problem relates to the market issues of dumping a single narrow product on the West Coast. The projects in Qatar are LNG projects similar to Cook Inlet, which can't be used in the TAPS because it's incompatible. That's why the plan was to have a gas pipeline to Valdez and then manufacture LNG there. The producers have reviewed and dismissed LNG and GTL projects in the past. Right now we have the Stranded Gas Act and the issue is how to move forward.

[3:25:11 PM](#)

CHAIR WAGONER reminded everyone of the purpose and topic of the meeting today.

MR. GRIFFIN said the administration is simply laying the foundation for declaring North Slope gas uneconomic. He is considering whether or not to declare it stranded - not based this contract, but based on the fact that it is stranded, thus a contract could go forward and be negotiated on that basis.

[3:26:15 PM](#)

SENATOR DYSON asked if it is true that the governor could not sign the contract until small but important modifications are made to the Stranded Gas Act.

COMMISSIONER CORBUS responded he would interpret it that way.

MR. CLARK agreed and noted that all the Stranded Gas Act amendments the administration presented previously and those that will be provided in the Interim Fiscal Interest Finding are those necessary to allow the legislature to authorize oil fiscal certainty in this contract, he said.

MR. GRIFFIN said Mr. Marks would address the key issue of the state taking gas in-kind.

[3:28:32 PM](#)

ROGER MARKS, Economist, Department of Revenue, related that the key goal was to improve the status quo fiscal system to fit the large, costly and uniquely risky project. Modeling indicated the project had a low rate of return thus the focus for restructuring the fiscal system was to improve the rate of return.

MR. MARKS explained that the status quo fiscal system takes tax or royalty in-value, which means the producers sell the gas and give the state its proportion in cash. In that system the state gets about 20 percent of the gas and pays for its share of the pipeline over time through tariff deductions on taxes and royalties. Basically, the producers pay up front for 100 percent of the cost of the pipeline and receive about 80 percent of the gas.

DOR determined that if the state were to take its gas in-kind and the commitment to ship the gas, which is financially the same as owning it, then the producers would pay 80 percent of

the cost of the pipeline up front and the state would pay 20 percent. That significantly increases the rate of return and also addresses the criticism that the contract has no agreement about in-state gas sales. Twenty percent of 4.5 Bcf per day is more than enough gas to cover all the anticipated in-state needs, he said.

[3:31:47 PM](#)

MR. CLARK said Mr. Loeffler would address the issue of project description and pipeline route.

MR. LOEFFLER directed attention to the statements of concern on pages 48 and 49. The categories of concern include whether or not the southern route is locked in and whether or not the size of the pipeline is adequately described. He noted that he previously testified about why the provisions are adequate, but he would concede that the explanation could be simplified. Therefore language will be added to further clarify that the southern route will be followed. Also, a new provision will require legislative approval to amend the contract in certain ways. Examples are a change from the southern route and a change in the key fiscal terms. Finally, more specific language relating to the project description will be included as the public comments requested.

REPRESENTATIVE SEATON asked if the administration would consider including language saying that switching to a gas to liquids project is not possible.

MR. LOEFFLER responded he doesn't recall any testimony that under the contract or the LLC the project could be switched to a gas to liquids project. He asked Mr. Clark to give the administration's point of view.

[3:34:29 PM](#)

MR. CLARK said he would agree with what Chair Wagoner said, which is that the discussion today is not about gas to liquids; the topic today is about this project. If the chair wishes to hold a hearing on gas to liquids that would be fine, but not today, he said.

CHAIR WAGONER clarified that he did not say he wanted to hold a gas to liquids hearing.

MR. CLARK said what he means is that the administration is not prepared to discuss that today.

CHAIR WAGONER said he appreciates Mr. Loeffler reiterating that the over the top route isn't an option. Not only is it precluded by the state it's also precluded by federal law.

REPRESENTATIVE SEATON clarified that he wants to make sure the contract and the stranded gas amendments will apply to a gas use phase pipeline and that the project that goes forward provides economic impetus to Alaska. It seems that this is the appropriate place to put in that restriction, he said.

MR. LOEFFLER responded the administration believes the contract already requires a gas pipeline.

MR. CLARK added this clearly contemplates a gas contract.

REPRESENTATIVE SEATON said he would appreciate working with the administration to clarify that.

[3:37:46 PM](#)

MR. CLARK asked Mr. Loeffler to address fiscal certainty.

MR. LOEFFLER said the administration continues to believe the original terms of fiscal certainty is consistent with international practice and consistent with what the legislature authorized in the Stranded Gas Act. Furthermore, it was justified. He noted that the administration is quite sensitive to legislative and public views and is prepared to shorten the period of fiscal certainty. For gas that means reducing the contract period by 10 years. Oil is more complex in that there would be no fiscal certainty until project sanction. Also, whatever the scheme of oil fiscal certainty is, it would be frozen as of the end of the legislative session in 2011. He reminded members that in the PPT statute there is opportunity for the legislature to look at how the PPT is functioning or the FERC application date, whichever is later. Then there would be a 14-year period from project sanction after which there would be a small period for balancing.

He emphasized that the administration has not discussed this with the companies, but the idea is to shorten the period of fiscal certainty and start later for oil fiscal certainty.

CHAIR WAGONER remarked he didn't believe the legislature would wait to review whether PPT is working or not until 2011. In fact, he asked the DOR to submit a quarterly report.

MR. LOEFFLER responded that date was taken from the PPT legislation.

CHAIR WAGONER agreed the date is in the legislation, but the Finance Committee and the Legislative Budget and Audit Committee will be requesting a quarterly report.

3:42:05 PM

REPRESENTATIVE SEATON said when the House Resources Committee looked at that issue the agreement related to project sanction and then 12 or 14 years. Fiscal balancing beyond that point was specifically deleted.

3:42:38 PM

DAN DICKENSON, CPA, Consultant to the Governor, directed attention to page 107 and reported that 142 comments dealt with fiscal certainty so it received a great deal of focus. There were more comments on what was inappropriate than there were positive suggestions so part of the challenge is to find what works.

MR. CLARK asked Mr. Loeffler to address the issue of work commitments.

MR. LOEFFLER said the administration looked at the comments and feels that the original work commitment clause is sensible and could work. Comments on the issue included: there is no timetable, no one will understand how this applies, why is the prudent operator standard used, and why aren't there penalty clauses.

MR. LOEFFLER explained that the diligence standard requires that the project be advanced as diligently as is prudent under the circumstances. It contains a lot of the prudent operator standard, which was addressed in the Preliminary Fiscal Interest Finding. Prudent behavior considers what is reasonable in the circumstances. What people miss is that it's not applied in a vacuum. As of May 10 companies provided a project summary that includes scheduling dates that will be incorporated into the contract. Basically, the contract requires the planning phase that leads to the pre-filing phase that leads to the open season phase that leads to the FERC application process. All that activity is known measurable and understandable.

MR. LOEFFLER mentioned the presentations by Independent Project Analysis, Inc. (IPA) and noted that the problems associated with schedule driven projects provide a powerful lesson. The

administration believes that the balance that was struck with the work commitments in the original contract was right. At the same time there was testimony about considering some sort of letter of credit scheme. That is that if activity had not progressed some measurable point in time, the company would forfeit a large sum of money. So it's sort of a penalty scheme. That seems to run counter to the teaching of IPA, but the administration would be willing to discuss that concept because it appears to satisfy a number of public concerns. He clarified just one of the three companies put forward this suggestion. It would be an alternative approach, he said.

3:48:40 PM

MR. CLARK asked Mr. Loeffler to address dispute resolutions.

MR. LOEFFLER said some people have questioned using arbitration, but every royalty agreement the state has entered into has provided for arbitration to deal with royalty reopener issues. That works much better than fighting out royalty tax issues in the courts. Another point is that if this contract succeeds, there won't be tax and royalty disputes as in the past because the gas is taken in-kind under the royalty statutes and the tax payments are taken in a fixed formula under the tax statutes. It's a novel change to get a tax payment in gas, he said.

A number of comments related to the Alaska Arbitration Act versus Uniform Arbitration Act, the number of strikes in certain circumstances, and discovery limitations. A package of changes was put together to address each of those. The administration proposes going to the Alaska Arbitration Act and that an award would be enforceable only by appropriation from the legislature - not in court. Strike provisions were clarified so that there would be no discovery limitation in any dispute.

MR. CLARK asked Mr. Loeffler to address the expansion process.

MR. LOEFFLER said the three ways for expansion are voluntary expansion, state initiated expansion under the fiscal contract, and the FERC power of expansion. Most, but not all, of the explorers prefer the new FERC power to order expansion and the voluntary expansion provisions of the LLC. Because of criticism, the administration is ready to drop the state initiated expansion in favor of the voluntary expansion provisions of the LLC. Any member, including the state, can put in an expansion proposal to the LLC. The proposal is evaluated, put out for study, and then voted on. Whether the pricing is rolled in or incremental is a decision that is made later on. Also, any

affected shipper that is outside the LLC membership can approach the LLC and propose an expansion if it thinks it would succeed at the FERC. So there are really two different options within the voluntary expansion.

MR. LOEFFLER expressed enthusiasm with the new FERC powers and the ruling on rolled in pricing as a presumption. He reiterated that the administration listened when the people said the state initiated expansion might complicate the choice and that either the voluntary or the FERC powers might be better.

MR. CLARK said Alaska hire received considerable public comment and Commissioner O'Claray would talk about that.

[3:55:40 PM](#)

GREG O'CLARAY, Commissioner, Department of Labor and Workforce Development (DOLWD), reported that the 174 comments related to Alaska hire primarily suggested that the language is not strong enough. The administration decided that the easiest way to constitutionally guarantee Alaska hire was to promote the adoption and negotiation of project labor agreement covering this particular project. That would include recommendations for hiring halls in rural areas to promote rural access to these jobs. The negotiations would begin as soon as the contract is approved.

The administration continues to maintain that a trained available workforce is the key to maximizing Alaskan access to these jobs. The state's financial commitment of \$35 million to \$45 million would be a combination of step grants. That is in addition to the federal funds that will be available once the project is under way. The legislature has already moved in the direction of a trained Alaska workforce in construction so the state is well on its way to achieving its goals. Also, there is a proposal about how to incorporate the reference to the project labor agreements in the contract.

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MR. CLARK mentioned that the Special Committee on Natural Gas Development dealt with that subject. He said Commissioner Menge would address the issue of process in Canada and whether it would cause delays.

[3:58:25 PM](#)

MICHAEL MENGE, Commissioner, Department of Natural Resources (DNR), said the administration believes the existing Canadian process is designed to handle all the complexities associated

with permitting a pipeline through Canada. Canadian counsel was hired and did a tremendous amount of research and it boils down to the fact that the Canadian government will act in the best interest of the Canadian citizens. In doing so it will have acted in the best interest of the project as well as Alaska and U.S. consumers.

CHAIR WAGONER related that he's had discussions with authoritative and knowledgeable Canadians and it sounds as though there's a battle brewing regarding which province will pull the liquids off and manufacture product with the liquids in Canada. But unless the liquids are kept in Alaska, it's beyond the state's control.

COMMISSIONER MENGE agreed and said his belief is that it will all turn on whether or not the affected governments decide to subsidize the production of a product because that would skew the economics. If straight economics rules, the highest value obtained will be the process that is embraced. The rest is simply saber rattling.

CHAIR WAGONER said he didn't discuss subsidies; he discussed the cost of shipping and market location and he was simply noting there will be some problems.

REPRESENTATIVE SAMUELS said he would agree that Canada is benefited if the project moves forward. The problem he has with Canada is that the producers aren't dealing with Canada at the same time they are dealing with Alaska. He suggested that the potential for delay would come in the contractual agreements in the private sector. He said he was really talking to "the guys in the back of the room."

COMMISSIONER MENGE remarked that the committee members could certainly appreciate that the Canadian government doesn't have a strong majority and so asking it to make a controversial decision when there isn't a whiff of gas is asking too much. That being said he stated the belief that the Canadian government will make decisions once a decision has been made on this side of the boarder.

MR. CLARK asked Mr. Griffin to address the question of PPT and whether oil ought to be included in the contract.

[4:05:20 PM](#)

MR. GRIFFIN corrected a previous statement and said several major gas to liquids plants are under development notably in Qatar.

MR. GRIFFIN explained that oil and gas businesses are fundamentally integrated in that when exploration is undertaken, there's generally some chance of finding oil in the ground and some chance of finding gas. When the values of both options are added, the total value of the exploration project is increased. Imagine, he said, if one arm has zero value due to no market then the value of the exploration project changes dramatically such that it's more likely that the explorer will decide that the project isn't worth undertaking. That is basically what brought the companies to the table to negotiate fiscal certainty that extends to oil. When the state looked at the idea it was clear that it had to be considered under a more appropriate tax system than ELF, that is PPT. Extending fiscal stability helps encourage exploration in both sectors and minimizes risks for this project and projects to come.

REPRESENTATIVE SAMUELSON commented he would agree to an extent, but for this project there is little to no exploration risk for a number of years because the gas reserves are known to exist.

4:08:46 PM

MR. GRIFFIN directed attention to page 99, which addresses capacity management and access. He explained that the state doesn't control development decisions, production decisions, or exploration decisions upstream, which is different than the producers. In light of this, the state negotiated for three principles. First, guarantee that the state can get its gas to market when it is produced just like the producers. Second, if the pipeline is not full, the state will not bear a disproportionate risk of empty capacity. Third, the state has access to gas and capacity rights for in-state use.

Various comments suggested the state reserve capacity for the explorers or for in-state shippers, but both suggestions would shift cost risk to the state and are inconsistent with FERC requirements for managing capacity by regulation. However, provisions of the capacity management article assure that in-state capacity is reserved separately from the full haul capacity to Alberta, or wherever, and that shippers can reserve that capacity and make sure there is gas dedicated to state use.

The suggestion of posting unused state capacity also falls under FERC regulations for fixed capacity commitments and in his view

the state has a capacity management article that has a reasonable chance of receiving FERC approval. If it isn't acceptable, then FERC will offer recommendations. In any event, FERC provides explorers equal access to gas through its process and it's not something that can be dealt with contractually.

He recapped that the contract and the capacity management article do a good job of meeting these needs while not shifting undue risk burden on the state.

4:13:01 PM

REPRESENTATIVE SEATON asked if that means that the entire contract would fall if FERC doesn't approve the capacity management article.

MR. GRIFFIN said no, but the state will need to explain to FERC how it is different from the other shippers and how the state's capacity management provisions provide an equal playing field that FERC regulations are intended to provide. History has shown that if FERC doesn't approve the state's capacity management article, it will explain why not and offer recommendations.

REPRESENTATIVE SEATON asked if the FERC portion is severable such that the rest of the contract would stand.

MR. LOEFFLER said if the capacity management article falls, the contract remains. An additional clause says the companies will work with the state in good faith to develop a substitute that conforms to FERC that achieves the same purpose.

4:15:15 PM

MR. GRIFFIN highlighted in-state use issues found on pages 87 and 91. He explained that the concerns include: getting gas off the pipeline for in-state use, what it will cost, and where the gas may be needed. To begin with the Natural Gas Pipeline Act (NGPA) contains provisions requiring reasonable access for gas use in state, so the contract contains eight provisions specific to that. First the pipeline must go through Alaska so that the gas gets into the center of the state. The pipeline is about 20 percent longer so it will cost more. Second, there is a timetable for studying in-state gas needs. Third, there is a requirement to study in-state liquids opportunities. Fourth, the mainline project must construct and pay for off-take points. Potential tie-in points include the Yukon River, Fairbanks, Delta, and perhaps one near the Canadian border. Fifth, the contract requires mileage sensitive rates and segmented service so the state won't underwrite shipping gas to Canada and the

Lower-48. Sixth, in-state capacity is offered and is awarded separately from full-haul capacity so the state won't compete with shippers that want to go to Alberta, for example. That portion of the pipeline will be sized for in-state service and that increment will be there for Alaskans. Seventh, there is a commitment to cooperate with the entities that will take gas off for in-state use. Eighth, the contract assures the opportunity to develop a true natural gas market so all parties, not just the state, can sell gas in Alaska.

CHAIR WAGONER asked Mr. Griffin if he got the sense that quite a few people feel the state should provide in-state gas at less than market value.

MR. GRIFFIN acknowledged there were several comments to that effect, but there is a constitutional requirement to manage resources for the benefit of all Alaskans. Discussion did take place about a policy to round out statewide needs and balance the benefits in different areas. That isn't addressed further because in-state gas use is an Alaskan issue and not the producer's call.

MR. GRIFFIN said the issue of in-state use falls into three broad categories. First are the needs for gas in Southcentral. Second is the opportunity for power and gas supplies at a reasonable cost in the Fairbanks North Star area. Third are reasonably priced energy supplies for other Interior areas. He noted that a fourth category might be the in-state liquids industry.

Near term needs fall into two general areas. The first is to identify and encourage development of in-state infrastructure for gas storage issues, for power generation issues, and for gas distribution issues. Second, other state entities as well as public corporations need to be involved in building the in-state infrastructure to dovetail with this project when it comes together.

MR. CLARK asked him to discuss the state marketing its own gas. Some of the concerns that were raised stem from the belief that getting gas in value is free, but that isn't really the case.

[4:23:02 PM](#)

MR. GRIFFIN said he already touched on market uncertainty. The second issue is the state marketing its own gas and that issue is the result of the decision to take gas in kind. He noted that some concerns about this stem from the belief that taking gas in value is free. He mentioned the past royalty oil valuation

disputes and said that isn't entirely true. Because gas marketing is much more complicated than oil marketing, valuation controversies would be much more extensive for gas than they were for oil.

The marketing issues are that the state will be competing with very agile marketers in a very expensive environment. Another issue is uncertainty because for gas the state has to make the sale to get paid. To address these issues the state has to build an organization and the opportunity. It can do that in a number of ways ranging from selling at spot in Alberta or Chicago to having an intensive marketing organization that uses financial tools to manage risk and gain return. Also the state could go it alone or enter into a joint venture arrangement with companies that range from financial institutions to astute gas marketers. Right now DNR is working to develop marketing alternatives.

MR. GRIFFIN asserted that the administration did a good job of conservatively looking at the costs of marketing the gas once it is taken in kind.

4:27:38 PM

MR. CLARK said he'd like Mr. Dickenson to discuss payments in lieu of taxes (PILT) and the impacts on communities.

MR. DICKENSON explained that a Fairbanks company conducted a study that concluded that the impacts on the state, in 2004 dollars, would be roughly \$121.6 million. That number was rounded up to \$125 million and considerable comment questioned why the numbers didn't jib and what would happen if the pipeline were delayed. Other comments said the money should go directly to the impacted communities rather than through the legislature. That isn't possible, but more than likely the recommendation will be to start with that 2004 dollar amount and then reflect inflationary increases if there are delays. The issue did receive a surprising number of public comments and a technical fix might be preferable to what was in the contract, he said.

Comments on the tax issues included: why not more quid pro quo, why are taxes occurring, and why are the tax benefits or detriments occurring early in the process rather than at project sanction. He noted that Mr. Loeffler discussed the PPT and allowing a couple years to evaluate the tax since it's new. Similar periods might be created for other oil-based taxes such as the income tax or the property taxes on TAPS for example.

MR. CLARK asked him to address the questions that were received regarding payments in lieu of taxes.

MR. DICKENSON said a lot of the comments focused on the question of the tradeoff. Some entities around the state questioned who would benefit from this. He noted that the idea was to not change the status quo very much and to that end a number of mechanisms were imported. Clearly the folks along the pipeline corridor where the work will occur are going to experience both the positive and negative effects, but it's important to look at the big picture. He referenced Commissioner O'Claray's discussion about outreach programs, but in terms of creating a structured answer through the PILT he said the state would need to educate the public in this area rather than the other way around.

4:32:36 PM

MR. CLARK added Mr. Dickenson and his crew redid part of the contract on three different occasions to try and make PILT work so the administration has certainly invested a lot of time trying to figure this out. He suggested the ultimate construct is pretty good and they do meet the requirements of the Stranded Gas Act.

MR. DICKENSON pointed out that the legislature would be the final determinant about where the impact payments would go and for the other PILT there is a formula so the legislature can speak to what mil rates are permitted.

The administration met the concerns of the Stranded Gas Act in terms of back loading, stability, and transparency. Also the legislature the right to control those in terms of distribution within the state.

MR. CLARK concluded the presentation and said there was good response from the public and thoughtful response from the legislature and he believes the document reflects how the administration's thinking has matured on these issues.

CHAIR WAGONER asked if the administration would be prepared to present answers to the questions that were raised sometime in November.

COMMISSIONER CORBUS drew attention to Table 15, on page 180, that contains comments by group and article.

REPRESENTATIVE SEATON asked that the administration be prepared to address: the comment about Qatar, gas to liquids, and the availability of feedstock from comment 0724. He also asked that consideration be given to the three studies he submitted.

There being no further business to come before the committee, Chair Wagoner adjourned the meeting at [4:36:24 PM](#).