

**ALASKA STATE LEGISLATURE
LEGISLATIVE BUDGET AND AUDIT COMMITTEE**

March 17, 2008

8:34 a.m.

MEMBERS PRESENT

Representative Ralph Samuels, Chair
Senator Lyman Hoffman, Vice Chair
Representative Mike Hawker
Representative Mike Kelly
Representative Mike Doogan
Senator Johnny Ellis
Senator Lyda Green
Senator Gene Therriault
Senator Charlie Huggins (alternate)

MEMBERS ABSENT

Representative Mike Chenault
Senator Bert Stedman
Representative Reggie Joule (alternate)
Representative Kevin Meyer (alternate)

COMMITTEE CALENDAR

APPROVAL OF MINUTES
CONSIDERATION OF CONTRACTS

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

STEVE PORTER, Consultant
to the Legislative Budget and Audit Committee
Alaska State Legislature
Tehachapi, California

POSITION STATEMENT: Provided information and answered questions.

Cheryl Sutton, Staff
to Representative Ralph Samuels
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Answered questions on the confidentiality of the Canadian Energy Research Institute (CERI) report.

ACTION NARRATIVE

CHAIR RALPH SAMUELS called the Legislative Budget and Audit Committee meeting to order at [8:34:14 AM](#). Representatives Doogan, Hawker, Samuels, and Senators Hoffman, Ellis, Therriault, and Green were present. Representative Kelly and Senator Huggins (alternate) arrived as the meeting was in progress.

APPROVAL OF MINUTES

[8:34:43 AM](#)

CHAIR SAMUELS announced that the first order of business would be approval of the minutes.

[8:34:53 AM](#)

SENATOR HOFFMAN made a motion to approve the minutes of the February 20, 2008, meeting of the Legislative Budget and Audit Committee. There being no objection, it was so ordered.

CONSIDERATION OF CONTRACTS

[8:35:04 AM](#)

CHAIR SAMUELS announced that the final order of business would be to take up contracts.

SENATOR HOFFMAN made a motion to authorize the chair to enter into a sole source contract in an amount not to exceed \$100,000 with a financial analyst.

CHAIR SAMUELS objected.

[8:35:33 AM](#)

CHAIR SAMUELS explained that the committee experienced difficulty in obtaining an analyst who does not have a conflict of interest. Financial analysts that were willing to do business with the state are conflicted because of their current working relationship with the state. He confirmed that the amount of the contract will not change, but this motion would allow the chair to enter into a sole source contract. He

pointed out that his aide, Cheryl Sutton, spoke to one analyst who required a \$1 million minimum billing fee, which the committee could not even consider due to the amount.

CHAIR SAMUELS removed his objection.

[8:36:14 AM](#)

SENATOR THERRIAULT inquired as to whether the committee has issued a Request for Proposal (RFP) to identify a financial analyst.

CHAIR SAMUELS advised that all the major financial houses were contacted to determine availability, but all rejected the possibility of an RFP. He added that he is unsure if there is time to pursue an RFP due to the uncertainty of the timeline and whether or not the governor will forward the TransCanada Pipelines Limited (TCPL) proposal to the legislature.

SENATOR THERRIAULT inquired as to whether there is a small group of names of firms at this point.

CHAIR SAMUELS answered no. He offered that his office is in the process of developing a list. He said he had anticipated that one of financial houses in the first group would be selected. Last week, Merrill Lynch declined interest.

SENATOR THERRIAULT inquired as to whether the committee could obtain a list of companies and whether the company declined due to a conflict of interest or a minimum requirement for the contract.

CHAIR SAMUELS answered that he would provide a list of the financial houses contacted along with their response. He reiterated that the committee is not going to spend \$1 million to obtain this information.

[8:37:34 AM](#)

There being no further objection, it was so ordered.

[8:37:40 AM](#)

SENATOR HOFFMAN made a motion to authorize the chair to purchase a report entitled "Capacity of the Western Canada National Gas Pipeline System" with sensitivity runs. The purchase cost will

be shared with the state. The Legislative Budget and Audit Committee's share should be approximately \$5,000 to \$8,000.

[8:37:58 AM](#)

CHAIR SAMUELS objected.

[8:38:08 AM](#)

STEVE PORTER, Consultant to the Legislative Budget and Audit Committee, Alaska State Legislature, stated that the report being considered is one that is of interest to both the state and the legislature. He explained that the report is in two volumes. The first volume describes the actual capacity of the natural gas pipeline system, specifically as it relates to the ability and capacity of the proposed Mackenzie [Valley pipeline] gas to enter the system. The second volume details the capital costs and pipeline tolls associated with the system. It is the combination of that analysis that is important to understand if Alaska gas moves into the Alberta hub and into that system. The legislature will want to know if the system can handle it, what kind of expansion is necessary, and what tolls the state would be charged. In addition to the two volumes, the [Canadian Energy Research Institute] has agreed to provide an unpublished analysis and update after the Canadian tax has changed.

[8:39:15 AM](#)

REPRESENTATIVE DOOGAN inquired as to whether the report is about the southern tier and its capacity to absorb gas from a point in Alberta.

MR. PORTER answered that the report analyzes Alaska gas coming into the system as well. This report covers Mackenzie-Beaufort gas and Alaska's North Slope gas as it travels into the Alberta hub, the Western Canada Natural Gas Pipeline System or what is referred to as "Western Gas." This report analyzes the capacity of the system to handle the incoming gas.

[8:39:57 AM](#)

CHAIR SAMUELS inquired as to whether the report is confidential.

CHERYL SUTTON, Staff to Representative Ralph Samuels, Alaska State Legislature, stated that the reports will not be confidential. She offered that the Chair wanted to purchase information that could be shared with the public. The sensitivity runs and all information contained within the report

will be posted to the Legislative Budget and Audit Committee's web site.

[8:40:46 AM](#)

SENATOR THERRIAULT referred to the last page of the CERI document titled "Research Report Available" which explains that if the Alaska gas comes into the market, it would be deliverable to the Pacific Northwest, California, eastern Canada, Chicago, and the northeast United States. It further states that utilizing the capacity on the TCPL Alberta system and the associated export pipelines would also offer Alaska shippers a 20¢-30¢ per thousand cubic feet of natural gas toll savings and savings to the existing shippers that transport gas from the Western Canadian Sedimentary Basin (WCSB) to the eastern markets. This report should support statements by TCPL in its proposal, that these connections will allow existing shippers access on the lower tier of the existing pipe and will share a portion of that savings with Alaska.

MR. PORTER said this report could certainly validate those issues. He referred to the transportation costs on the previous page, which discusses transporting Alaska gas to Chicago by the Alliance pipeline system and Alaska gas to Chicago via the TCPL Alberta [Foothills Pipe Lines Ltd.] He offered that the report should validate TCPL's statements that have been made on record.

[8:42:04 AM](#)

CHAIR SAMUELS removed his objection.

There being no further objection, the motion to authorize the chair to purchase a report entitled "Capacity of the Western Canada National Gas Pipeline System" with sensitivity runs was adopted.

[8:42:12 AM](#)

SENATOR HOFFMAN made a motion to authorize the chair to enter into a contract with Dick Peterson of the Alaska Natural Gas-to-Liquids (ANGTL) to develop a report on Gas-to-Liquids opportunities in Alaska.

[8:42:25 AM](#)

CHAIR SAMUELS objected.

8:42:30 AM

MR. PORTER explained that one issue is to review alternatives to a pipeline through Canada, whether it is by TCPL, ConocoPhillips Alaska, Inc., or by any other company. One of the responsibilities of the Alaska Gasline Inducement Act (AGIA) is to look at the likelihood of success of a particular proposal. To understand that one needs to understand the relative economics of all the other proposals being considered. One of those is the economics of GTLs. Mr. Porter related that Mr. Peterson has worked on GTL issues on the North Slope and Cook Inlet for many years and will work with Peter J. A. Tijm, who is called the "father of Shell's gasification program." Mr. Tijm offers tremendous expertise from Shell [Western E&P Inc.'s (Shell)] standpoint as well. He offered that the committee can gain from a thorough analysis of GTL economics, including batching issues, GTL technology, all elements of the GTL plant, economics of GTLs, and the downstream market. This contract would be for \$32,000, which represents approximately 160 hours each for Mr. Peterson and Mr. Tijm at \$100 per hour. The contract also includes \$3,000 for other costs such as travel, copies, and to provide a presentation to the committee, if desired.

8:44:21 AM

SENATOR HOFFMAN made a motion to amend his earlier motion such that the motion would be to enter into a contract with Dick Peterson for an amount not to exceed \$50,000.

8:44:32 AM

CHAIR SAMUELS removed his objection.

8:44:38 AM

SENATOR THERRIAULT requested further information regarding Mr. Dick Peterson and Mr. Peter Tijm, and whether they are located in Alaska or have worked in Alaska.

MR. PORTER answered that Mr. Peterson is in state, although he is currently in South Africa working on GTL issues with one of the major GTL corporations. He anticipated that Mr. Peterson would be in Alaska later this week. He offered that Mr. Peterson has been working on Cook Inlet coal-to-liquid issues as well. He opined that Mr. Peterson is one of the resident experts on GTL. He related he does not personally know Mr.

Tijm. He quoted Mr. Peterson as saying, "He is the father of Shell's gasification program and the person in charge of taking Shell's GTL design from the lab to the commercial plant operating in Malaysia." Mr. Porter related that Mr. Tijm is a person who has been on site and has the expertise to take a GTL plant from start through basic commercial operations.

[8:45:46 AM](#)

SENATOR THERRIAULT offered his Internet research that Shell is increasing the size of its smaller plant in Malaysia and is building one in Qatar. He opined that the proposed consultants will provide useful information.

[8:46:10 AM](#)

REPRESENTATIVE KELLY inquired as to whether Mr. Porter is familiar with the administration's work.

MR. PORTER responded he could not answer that.

[8:46:29 AM](#)

There being no further objection, the amended motion to authorize the chair to enter into a contract in an amount not to exceed \$50,000 with Dick Peterson of the Alaska Natural Gas-to-Liquids (ANGTL) to develop a report on Gas-to-Liquids opportunities in Alaska was approved.

[8:46:38 AM](#)

CHAIR SAMUELS noted that members have made requests on the GTL. We have had other requests from members including Senator Huggin's inquiry for a comparative in-depth analysis of gas fiscal regimes. Chair Samuels said that he is assessing interest and will currently hold off on that discussion until further information is available.

[8:47:02 AM](#)

REPRESENTATIVE KELLY inquired as to the timing on the information provided by Mr. Peterson and the Western Canada information.

MR. PORTER answered that the consultants will require at least a month to complete work but they should be able to meet the

estimated timeframes prior to the potential special legislative session.

[8:47:42 AM](#)

ADJOURNMENT

There being no further business before the committee, the Legislative Budget and Audit Committee meeting was adjourned at 8:47 a.m.