

HOUSE FINANCE COMMITTEE

May 3, 2007

1:44 p.m.

CALL TO ORDER

Co-Chair Chenault called the House Finance Committee meeting to order at [1:44:16 PM](#).

MEMBERS PRESENT

Representative Mike Chenault, Co-Chair
Representative Kevin Meyer, Co-Chair
Representative Bill Stoltze, Vice-Chair
Representative Harry Crawford
Representative Richard Foster
Representative Les Gara
Representative Mike Hawker
Representative Mike Kelly
Representative Bill Thomas, Jr.

MEMBERS ABSENT

Representative Reggie Joule
Representative Mary Nelson

ALSO PRESENT

Mark Hanley, Manager, Public Affairs, Anadarko-Alaska; Tony Palmer, Vice President, Alaska Business Development, TransCanada; Kirk Morgan, President, Kern River Gas Transmission Company, MidAmerica Energy Holdings Company; Representative Andrea Doll; Representative Mark Neuman

PRESENT VIA TELECONFERENCE

None

SUMMARY

HB 177 "An Act relating to the Alaska Gasline Inducement Act; establishing the Alaska Gasline Inducement Act matching contribution fund; providing for an Alaska Gasline Inducement Act coordinator; making conforming amendments; and providing for an effective date."

CSHB 177 (RES) was heard and HELD in Committee for further consideration.

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HOUSE BILL NO. 177

"An Act relating to the Alaska Gasline Inducement Act; establishing the Alaska Gasline Inducement Act matching contribution fund; providing for an Alaska Gasline Inducement Act coordinator; making conforming amendments; and providing for an effective date."

MARK HANLEY, MANAGER, PUBLIC AFFAIRS, ANADARKO-ALASKA, referred to a handout entitled, "Anadarko - Alaska Gasline Inducement Act" (copy on file.) Slide 1 - Anadarko's Investment in Alaska-Land, which shows acreage owned by Anadarko Petroleum Corporation (APC), both APC operated and APC non-operated. He explained that there are three major prospects located in the foothills where drilling will take place in order to keep existing leases. He emphasized that if the pipeline goes forward, Anadarko will probably not be in the open season due to the high risk. He pointed out that if the open season happens 3.5 years from now, Anadarko may be involved in an expansion a year or two after. Fair access at a reasonable price is the main concern.

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Mr. Hanley referred to Slide 2 - Support AGIA. He explained that Anadarko likes the specifics and the process of AGIA. It addresses key explorer concerns such as fair access, expandable pipeline, and reasonable tariffs.

Slide 3 details why Anadarko likes the AGIA process. There are three opportunities for input and for key policy makers to consider issues before a deal is done. AGIA creates a competitive process, rather than a monopoly controlled by the three large producers. It lays out "must haves" that the state will require of any applicant.

Mr. Hanley related the specifics in AGIA that Anadarko supports - Slide 4. Anadarko supports mandatory provisions on access and rates. A pipeline (licensee) must assess market demand for expansions every 2 years. It must commit to expand in reasonable increments on reasonable terms. It

must also propose and support rolled-in rates up to 15 percent above the initial rate and agree not to enter into negotiated rate agreements that would preclude the rolled-in rates.

Representative Gara asked for a comparison of AGIA and Canadian stipulations regarding rolled-in rates. Mr. Hanley noted that the provisions regarding rolled-in rates in AGIA are critical. He said he has provided a copy of the open season regulations, and he encouraged the committee to read it. He opined that AGIA does not require a subsidy and the pipeline must request one. FERC will make the decision whether to allow rolled-in rates or not. The concern is that if producers own the pipeline, extra scrutiny has to take place. He discussed the mandatory language where FERC can force expansion. It is a burden of proof issue, not a requirement of a 15 percent subsidy. The provision that requires a pipeline to request rolled-in rates is appropriate.

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Mr. Hanley turned to Slide 5, a graph of Indicative Expansion Tariffs. The blue line shows capacity. He discussed expansion and the incremental costs which yield rolled-in rates. He maintained that everyone benefits by the first scenario under initial capacity. He explained how the tariff is affected by each expansion. He read from the definition of rolled-in rates from the bill. When looping occurs, the cost is quite high. He gave an example of Anadarko coming on during the first expansion.

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Mr. Hanley explained Slide 6 - AGIA helps mitigate challenge of FERC rules. He gave an example of the producers in court challenging FERC authority to ensure adequate pipeline capacity and low cost expansion. AGIA would prevent the producers from attempting to invalidate Sections in FERC regulations.

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Mr. Hanley concluded with Slide 7 - Anadarko supports AGIA because of the process and the specifics, and because it addresses key explorer concerns such as fair access, expandable pipeline, and reasonable tariffs. He voiced

concern about the upstream inducement section of the bill. He stated support for the 10-year tax lock in the royalty provisions. He had a problem with not receiving some of the upstream benefits.

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Representative Gara asked for information on why the large producers have concerns with AGIA. Mr. Hanley said he does not know about the big producers' economics. He said they shared concern about the tax rate. Anadarko does not have some of the same concerns as the larger producers.

Representative Gara inquired if there are any models that show at what price gas production would be economic. Mr. Hanley said that information is confidential. Mr. Hanley reported that Anadarko's gas has different risk than the bigger producers.

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Representative Kelly asked if Mr. Hanley thought the big producers would take part. Mr. Hanley said he could not speak for them. He maintained that some of the problems with AGIA the large companies have are not shared by Anadarko. He agreed that they want the lowest cost project, but having the lowest tariff is not necessarily as important. Representative Kelly asked for examples of FERC's involvement with ensuring adequate pipeline capacity and low cost expansion. Mr. Hanley said he does not have that information, but it would be wrong to take away FERC's authority.

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Representative Kelly wondered if Anadarko has concerns in AGIA. Mr. Hanley replied that their one concern is inducements going to only to those in open season. It creates a competitive advantage to those initial investors. Representative Kelly asked about concerns the producers have about upstream tax rates. Mr. Hanley said he could not speak for the large producers. Anadarko will follow the statutory requirements during open season. Mr. Hanley discussed missing credits on treatment facilities. He suggested that the escalator be addressed.

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Co-Chair Meyer asked if Anadarko is an explorer or a producer. Mr. Hanley said both, but primarily an explorer. Co-Chair Meyer wondered if there was gas at the Alpine field. Mr. Hanley thought there was some. He asked if Anadarko has an interest in building the pipeline. Mr. Hanley said it didn't. Co-Chair Meyer thought that producers that have a lot of gas would be more interested in developing the pipeline. Explorers don't have that same desire. He maintained that rolled-in rates are good incentives for exploration and expansion.

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Representative Foster thanked Mr. Hanley for his presentation.

Representative Thomas asked about the wording on page 3, line 29, "which may include". He thought the word should be "shall". Mr. Hanley thought the requirements later in the bill addressed a provision regarding evaluations. Representative Thomas agreed.

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Representative Gara summarized that the big producers don't want rolled-in rates because it would cost them more later. He referred to previous testimony by Mr. Scott about the risk to the state of losing substantial income if there were not rolled-in rates. He wondered how much income the state would lose if there were no rolled-in rates. Mr. Hanley reported that rolled-in rates encourage exploration. Without exploration, the capacity of the pipeline might be capped below what could be produced and dollars could be lost.

Representative Gara referred to Slide 5 and asked why the changes in tariffs are not more significant. He wondered how realistic that graph was. Mr. Hanley said he could not answer. Representative Gara asked why Mr. Hanley supports AGIA and the producers do not. He said his company likes the provision. He speculated what would happen if no one bids on the gas pipeline.

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Co-Chair Chenault suggested that those bringing gas into the first expansion should argue for incremental tariffs rather than rolled-in tariffs. Mr. Hanley related FERC's role in the process. He pointed out that, as an explorer, rolled-in rates are encouraging to his company.

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TONY PALMER, VICE PRESIDENT, ALASKA BUSINESS DEVELOPMENT, TRANSCANADA, reported that TransCanada has been involved in the natural gas pipeline network for 30 years and is one of the largest natural gas transmission companies in North America. He referred to a handout entitled, "Alaska Legislature Testimony - Alaska Highway Gas Pipeline Project" (copy on file.) He provided details about his company's holdings - Slides 2 and 3.

Mr. Palmer explained that TransCanada has a proven track record of developing basins - Slide 4. He highlighted the development of pipeline over the years within Alberta. That structure was developed under an independent pipeline model with rolled-in tolls.

Mr. Palmer referred to Slide 6 to highlight TransCanada's (TC) interest in the Alaskan project. He discussed the \$2 billion and 30 years invested in bringing Alaskan gas to market. He related that Foothills, TC's subsidiary, holds valid and exclusive certificates, without sunset dates, for the Canadian section of the project. Canada and the U.S. have a treaty for the project, as well as an easement for the entire Yukon route with an agreement between the government of Canada, the Yukon, and Yukon First Nations.

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Representative Thomas inquired if First Nations were a player in the negotiations. Mr. Palmer said that TC has specific obligations regarding First Nations' involvement and continues to communicate with the organization. He noted a right of way that was agreed to between the organization and TransCanada.

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Mr. Palmer explained that TC has key land and environmental permits in Alaska.

Mr. Palmer explained the legislative/regulatory structure, the competition held, and how the sponsor was selected for the project - Slide 7. Foothills was granted exclusive rights, which was an important factor. Slides 8 and 9 show how TransCanada is ready to move northern gas to North American markets via the Alberta hub, the most liquid hub in North America.

Representative Hawker referred to the Northern Pipeline Act (NPA) and National Environment Board (NEB) perspectives relative to how to resolve the exclusivity issue.

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Mr. Palmer responded by saying TransCanada has been clear with Alaska and Canada. TransCanada holds a NEB certificate and has constructed 1/3 of the pipeline under that certificate. There is a specific piece of Canadian legislation regarding the project, setting out the terms and conditions. These prove TransCanada ready to construct the project, unlike a party with none of those items in place. Conversely, the others would take longer because of the lack of the aforementioned. He went on to itemize and compare these factors. He noted the various ongoing negotiations with First Nations. He further noted that TransCanada wants to expedite the project. He reiterated that TransCanada has a history of interest in this project. He went on to describe other actions taken years ago to be involved.

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Representative Hawker pointed out that TransCanada does not have significant issues with the fact that the pipeline crosses the border. Mr. Palmer assured the committee that TransCanada is committed to the project and predicts success.

Representative Gara inquired if TransCanada is willing to submit an application under AGIA. Mr. Palmer replied that TransCanada, though interested in both sides of the border, has made no decision regarding applying under AGIA. They are currently putting forth concerns and amendments and when the final bill comes out they will make a judgment then.

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Representative Gara asked how TransCanada felt about the rolled-in rates. Mr. Palmer said TransCanada is a proponent of rolled-in tolls. He further noted they argued for them in front of FERC. He speculated that a system designed with a 4.5 Bcf at 48 inches, 2,500 pounds, could expand to 5.9 Bcf through compression and the tolls would decline. They would increase above 5.9 Bcf when looped. Trans Canada has assumptions on how to expand the system.

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In response to a question from Representative Gara, Mr. Palmer said that many reasonable increments were looked at regarding expansions of the mainline.

Representative Gara reported that there has been conflicting testimony regarding rolled-in rates. He asked if experience with rolled-in rates in Alberta is relevant to Alaska and would encourage expansion. Mr. Palmer opined that rolled-in rates can and will encourage exploration. He noted compromises that would have to be made.

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Representative Gara quoted one of the oil companies which said that no basin has ever been opened with rolled-in rates. He asked if that has happened in Alberta. Mr. Palmer reported that TransCanada has used that system for over 25 years.

Co-chair Chenault recalled testimony from Enbridge which reported that they are moving toward negotiated rates. Mr. Palmer related that TransCanada moved 2/3 of Western Canadian gas with rolled-in rates. He further noted that negotiated rates have a wide spectrum of features.

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Representative Thomas wondered if all the risk is borne by the transporters. Mr. Palmer disagreed, saying that TransCanada bears a considerable amount of risk. He went on to provide examples. He said that often the equity component increases. The capital cost risk is shared with the customer. There are also credit, regulatory, and operating risks.

Representative Thomas asked for details regarding TransCanada's involvement in their 1/3 of the Canadian pipeline. Mr. Palmer explained that TransCanada used its own money at a 70/30 debt equity to construct the pipeline under the Northern Pipeline Act and owns 100 percent of Foothills. The customers are mostly Alberta and Western Canadian producers.

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Mr. Palmer referenced Slide 11 - operation costs and reliability. TransCanada constructed \$15 billion worth of pipeline in the 90's over 7,000 miles. The project from Prudhoe Bay to Alberta will be 1,750 miles. The TransCanada project was on time and within budget. He said he would match that track record with any other company.

Mr. Palmer recalled past compromises of TransCanada, which are required for a successful project. He maintained that all key stakeholders are best served by having a large-scale gas pipeline in place as soon as possible. TransCanada's preference is for a five-way collaboration between the three ANS producers, the state, and TransCanada. He voiced concern regarding the obligation by the licensee to obtain a FERC certificate regardless of the outcome of an initial open season. Independent pipeline developers may not be prepared to participate in an AGIA RFP if this requirement is not amended. AGIA proposes cost sharing, in advance of the open season, by the state up to 50 percent and TransCanada supports that. The concern is that independent developers may be reluctant to commit monies to pursue a FERC certificate if the initial open season has not attracted enough gas commitments to make the project viable. TransCanada is focused on the singular way that they would benefit by this project and the risks involved. TransCanada proposes that the focus be on obtaining customers and/or credit over a period of years. He offered to draft an amendment to remove the requirement for a licensee to continue toward FERC certification unless adequate shipper commitments or an alternate source of credit are in place.

Mr. Palmer summarized that a collaborative arrangement would be most expeditious and equitable and the amendment should be made to AGIA.

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Co-Chair Meyer asked Mr. Palmer to draft the amendment.

Representative Hawker asked if TransCanada would apply if the amendment was passed. Mr. Palmer replied that with the amendment, applying would be easier to consider. He would need to consult with the board to consider what the obligations would be. If the open season is successful TransCanada would be happy to go forward with a FERC certificate. The board would ask what amount of success would be attainable in the open season. He continued to describe the board process. The focus should be on attracting customers.

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In response to a question by Representative Hawker, Mr. Palmer said the real focus should be on the customers and the credit. He noted there is a difference in opinion about the "risk reward" regarding the FERC certificate.

Representative Hawker suggested an alternative amendment with a kick-in by the state for 100 percent of the costs in going forward past a failed open season. Mr. Palmer said that would be a significant factor.

In response to a question by Representative Hawker, Mr. Palmer concluded that if the state is willing to commit 100 percent, it would be considerably easier for the company to pursue the project.

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Representative Hawker asked if it is just a matter of money or a business principal. Mr. Palmer related that it is normal that before a party pursues a FERC certificate they already have customers. This was not the case 30 years ago and he would prefer not to do that again. Representative Hawker asked if that investment return was marginal. Mr. Palmer said it was.

Representative Gara asked how much money it would be, in total terms, for TransCanada's 20 percent share after a failed open season.

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Mr. Palmer suggested an estimate: TransCanada believes that up thru an open season the total cost would be less than \$100 million. The pursuit of a FERC certificate would be in the range of hundreds of millions of dollars.

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Representative Gara asked if the alternatives are for the state to pay the full cost after open season or advance the money. Mr. Palmer emphasized that TransCanada would like not to take on the obligation to pursue a FERC certificate. If the 100 percent was offered it would be a positive option.

Representative Gara suggested a third option. He proposed that the state advance the money. Mr. Palmer would consider that option but would want the funds included in the cost of the pipeline in order to earn a return on them.

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Representative Gara reiterated that the administration has organized a team of experts and hoped that TransCanada would negotiate with the administration regarding any amendments. He further commented about problems with removing the FERC requirement.

Mr. Palmer related that the amendment is not a new proposal and there have been discussions about it with the administration, which has been unwilling to grant the request. He concluded that it is a significant issue for his company.

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Representative Gara suggested options for if, after open season, the producers don't sell the gas. Mr. Palmer thought those were policy calls. He repeated TransCanada's plan for pursuing credit and customers regarding that scenario.

Representative Kelly said he would rather see serious commitments from a company than saving a few dollars. He asked if TransCanada could make something work with just one producer and how that would be done.

Mr. Palmer reported that TransCanada has considered alternative plans. He described the optimal design. TransCanada is prepared to proceed even with variable designs.

In response to a question by Representative Kelly, Mr. Palmer said if parties commit even two-thirds of the gas the decision would be easier. He discussed the 30/70 equity ratio, the purpose of keeping the tolls as low as possible, and the risks involved.

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KIRK MORGAN, PRESIDENT, KERN RIVER GAS TRANSMISSION COMPANY MIDAMERICAN ENERGY HOLDINGS COMPANY, read from prepared a statement:

I appreciate the opportunity to offer this testimony to the House Finance Committee on behalf of MidAmerican Energy Holdings Company (MidAmerican) concerning the proposed Alaska Gasline Inducement Act (AGIA).

My name is Kirk Morgan. I am president of Kern River Gas Transmission Company, a wholly owned subsidiary of MidAmerican. MidAmerican has assets totaling \$37 billion and an employee base of 18,000. MidAmerican, through Kern River and its sister company, Northern Natural Gas, owns and operates more than 17,500 miles of interstate natural gas transmission pipelines with a combined capacity exceeding 6.4 Bcf/d. MidAmerican's pipelines deliver approximately 8.3% of the natural gas delivered in the United States. The Kern River pipeline, which our company built in 1991, brings natural gas from the Rocky Mountain supply basins across 926 miles of rugged mountainous and remote desert terrain to customers in Utah, Nevada, and California. Kern River was the largest gas pipeline project to have been built in the United States in more than a decade. In 2003, Kern River expanded the pipeline, more than doubling its capacity, adding 717 miles of 36-inch and 42-inch diameter pipeline. The \$1.2 billion project was completed on time, \$87 million under budget, and helped restore stability to energy markets in the Western United States.

MidAmerican is a subsidiary of Berkshire Hathaway, Inc. Berkshire is one of only a few companies in the world with a AAA credit rating. Berkshire has a market capitalization in excess of \$160 billion. It is

recognized world-wide for financial strength, investment acumen and integrity.

The development of Alaska's huge natural gas reserves is essential to both Alaska and the United States. Projected market growth, combined with a decline in North American production, has created a growing supply/demand imbalance that cannot be adequately addressed by traditional gas supply basins alone. Alaska's natural gas is needed to help ensure energy security, reliability and price stability in the United States.

The Alaska natural gas pipeline project is unprecedented in its scale and complexity. The successful development of the project will require an alignment of stakeholder interests, including the state of Alaska, the North Slope producers, future North Slope explorers and producers, a pipeline developer, shippers and the federal government.

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Projects of this scale can be easily delayed. (That has been the history of this project.) Only through proper planning, organization, and execution can the project achieve its goals to accelerate development of Alaska's natural gas resources and transport gas to lower 48 markets at the lowest reasonable cost. To do otherwise will relegate this project and development of this resource to reacting to the next energy crisis, where goals are frequently compromised in the interest of expediency.

MidAmerican has a serious interest in developing this project in a manner that is consistent with the state of Alaska's interests. From our perspective, the negotiations conducted by the previous administration under the Stranded Gas Act were not fruitful for many reasons. Foremost among these were that they produced proposals not supported by the people of the state; they failed to give serious consideration to alternative proposals for development; and they consumed years without advancing the project.

We believe AGIA is a positive step toward revitalizing the gas pipeline development process in a way that will move the project forward. The bill will allow consideration of competing proposals and ideas for developing the pipeline. The state benefits from such competition. The bill offers positive inducements to

those who already have discovered gas to commit to the pipeline, while defining tariff provisions that will encourage new exploration. In addition, the bill offers inducements to a pipeline developer to advance the project in a manner that the state defines as in its best interest. Perhaps most importantly, the bill establishes a process where each party that proposes to develop the line must make meaningful commitments to development milestones for the legislature and the public to see what it will and will not do and by what time.

AGIA is a good first step. It's an open, transparent and competitive process designed to advance the project on a deliberate schedule and in a manner that achieves the overarching goals of the slate which are to 1) encourage new exploration on the North Slope, 2) provide for expansion of the pipeline as new reserves are brought into production, 3) achieve the lowest cost commercially reasonable tariff, 4) create jobs for Alaskans, and 5) provide natural gas to Alaskans for in-state use.

AGIA recognizes the magnitude of front-end development risks and offers to share that risk, in a significant way, by offering dollar-for-dollar matching of initial development expenditures, by offering worker training for Alaskans, and by committing to expedite state permitting requirements. These, plus separate inducements offered to resource owners, are significant commitments which signal to the marketplace that the project is moving on a serious and credible path to completion. In the absence of such progress, markets will have no alternative than to seek other means to meet market demand. The most significant alternative would be to allow imported liquefied natural gas (LNG) even greater market access, uncontested by development of Alaska's natural gas resources.

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While LNG is certainly a necessary part of the natural gas resource mix, it makes little policy sense to unnecessarily increase our reliance on foreign energy from many unstable and unpredictable regions around the world. This project, in MidAmerican's view, is undeniably necessary and the time is now to push it forward. The key to moving the project forward is to determine the appropriate balance of risks and rewards for all stakeholders.

There is an alternate approach. The North Slope producers have for years articulated their "must haves" before advancing the project. You have heard these prerequisites before including: 1) tax and royalty certainty on both gas and oil, 2) regulatory certainty in both the U.S. and Canada, 3) cost reductions through technological advancements, and 4) federal enabling legislation.

This approach is effectively saying that the project will get started if and when all of the pre-conditions have been met and all concessions have been extracted. That approach has proven to be ineffective in advancing the project.

MidAmerican's approach is different. We believe the project can be advanced concurrent with resolution of issues that today remain outstanding. I want to emphasize MidAmerican's view that alignment of stakeholder interests is essential. Parties will understandably act in their self-interest and in their own business interest. That is why stakeholder interest alignment is critical to a successful project. That alignment must clearly set forth the roles and responsibilities of each party, as well as the commercial structure which will balance the risks and rewards, such that investment expectations will be known up front. Our approach does not exclude interested parties or discount new ideas which may be offered to help manage project risks. We know that even if the pipeline is developed by an independent developer, the North Slope producers will play a crucial role as shippers on the line and sellers of gas to other shippers. MidAmerican, as an independent pipeline, is impartial and in a unique position to help facilitate solutions when stakeholders' interests diverge. We are confident that an appropriate capital structure and rate design, coupled with our low cost of capital and project experience, can result in a project structure with appropriate allocations of risk and reward for all stakeholders, including the state of Alaska and the producers.

Indeed, MidAmerican believes that an independent pipeline provides the best alignment of interests. National energy policy promotes, in fact requires, competition and the unbundling of market segments. For example, the market structure in the United States typically requires that exploration and production,

interstate transportation, marketing and distribution, be performed by separate companies. Competition, not market concentration, will lead to efficient markets. MidAmerican has no upstream, downstream or global commercial interest that would create any conflicts of interest or raise any type of market power concern with respect to this project.

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Accordingly, MidAmerican's interests align extremely well with the state of Alaska and include:

- 1) Accelerating development of this critically important project;
- 2) Achieving the lowest cost commercially reasonable tariff;
- 3) Offering a commercial structure that encourages new exploration and production to both expand and extend the life of the pipeline. Thirty-five Tcf implies only a 22-year project life, and new discoveries are critical to fill the pipeline over its useful life;
- 4) Providing open-access, non-discriminatory transportation services to ensure both receipts and deliveries are provided for in-state use; and
- 5) Ensuring Alaskan jobs and workforce development. The state's commitment to workforce training and development is extremely important. Skilled labor shortage is one of the contributing factors in construction cost increases throughout the industry. A skilled Alaskan workforce will not only ensure jobs for Alaskans, but will help address an industry-wide demand for these workers.

The process set forth in AGIA will allow these ideas, and all parties' ideas and proposals, to be advanced and tested in an open and transparent manner. We support that process and while we can understand debate over what constitutes the best pipeline development proposal, it is harder to understand why parties would object to a process that calls for an open and transparent comparison of proposals.

As AGIA has moved through various committees, there have been a number of proposed amendments. I would like to offer MidAmerican's perspective on some of the issues that have arisen since AGIA was introduced.

First, a project labor agreement (PLA), which was added to AGIA, will be an important element to both Alaska workers and the project sponsor. A PLA for certain sectors of the workforce will help ensure that workers receive fair compensation, benefits, and have appropriate working conditions. A PLA will also help ensure necessary worker training, qualifications and help manage labor costs to mitigate against potential cost overruns. In concept, MidAmerican supports a PLA as providing mutual benefits to the workforce and to the project sponsor.

We support the requirement of a project headquarters in Alaska. We see workforce training and development in Alaska, as well as Alaska hire, as valuable components of the project.

In addition, some have criticized AGIA as being too prescriptive and have argued that it limits creativity in developing a project proposal. MidAmerican disagrees. The state has set forth its overarching policy objectives and set forth certain terms that will accomplish those objectives. Those participants that seek the project alignment that AGIA creates can avail themselves of the inducements that are offered. However, AGIA is not exclusive. Any party can make a project proposal that it believes may better accomplish the state objectives or its own business objectives and the Federal Energy Regulatory Commission is free to authorize that proposal without the benefit of the inducements which the state is offering to a conforming licensed project. Put another way, if a party thinks it has a superior proposal, nothing in AGIA stops it from putting that proposal in writing.

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MidAmerican supports the concept of rolled-in rates, though we believe any variation should be tied to the initial rate, rather than the initial "recourse" rate. That will be more fair to shippers. In our experience, rolled-in rates can lead to a lowering of rates when there is expansion by compression. Further, rolled-in rates are established national policy in Canada and will apply to a significant portion of this project anyway.

Some have also questioned the need for the state to offer assurances to the licensed project, that it will be the only project to receive state inducements, including treble damages should the state provide inducements to a competing project. Similarly, some have

questioned the need to allow a five-year period of time to sanction the project, if necessary credit support to obtain financing for construction is not sufficient. In our view, these are essential provisions to provide any project developer the long-term investment protection necessary in order to commit the significant capital necessary to develop a project of this size. They appropriately balance the ability of the state to retain the legal right to change directions with the ability of the developer to rely upon the opportunity to invest in the project. MidAmerican is not willing, and no serious investor should be willing, to commit to a project of this scale without some degree of assurance. We do not wish to participate in another process which renders our efforts to advance the project simply a stalking horse to create negotiating leverage for the state. This project requires a serious commitment of stakeholders, not a series of options.

As I have stated earlier, and as you have heard from other proponents, alignment of stakeholder's interest is critical to successful project execution. In this regard, MidAmerican would favor the addition of a provision to the application requirements. Section 43.90.130., which would direct applicants to disclose existing or prospective commercial interest, business activity and/or revenue streams from upstream, downstream, or global activities which may affect or conflict with achieving the objectives of this project. Moreover, the existence or absence of such conflicts should be given significant weight in the evaluation criteria for selecting a licensee. In any commercial context, investors would want to understand, evaluate, and give due consideration to the conflicts of the other parties that could hinder you from achieving your goals. This process is no different. The state should require disclosure of, and give evaluative weight to, all conflicts a proponent might have that could motivate commercial or development behavior inconsistent with the state's goals.

Finally, we would respectfully urge the Legislature to approve this legislation this session, so that a pipeline developer can be selected in a time frame that will allow a productive 2008 field season for engineering and environmental programs to be conducted.

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In response to a question by Representative Kelly, Mr. Morgan voiced support for the concept of certification after an open season. He explained that if an open season fails because shippers fail to commit their product, then certification should go forward. He felt that the project should be economic. Representative Kelly asked if there would need to be a guarantee from the state. Mr. Morgan acknowledged that the project would be more risky without the gas sellers, and felt that 80 percent would be sufficient if the project was demonstrated to be economic through engineering studies. Withholding gas by the producers would be unsustainable.

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Representative Gara concluded that MidAmerican is supportive of the proposal as written, not that they wouldn't like to achieve 100 percent. Mr. Morgan agreed and noted that producers are obliged to provide the gas if the project is economical. Many parties would be concerned if producers withheld gas. He suggested that public and federal pressure would result in the gas.

In response to a question by Representative Gara, Mr. Morgan noted that they would supply further recommendations.

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Representative Gara questioned if MidAmerican felt that the window for development was disappearing. Mr. Morgan felt that their supply and demand gap had been filled, in part. He did not think the window has closed, but emphasized that there are different paths. He did not think that a number of proposals would be advantageous and provided examples. He suggested that LNG would have a better position once terminals were developed.

In response to a question by Representative Stoltze, Mr. Morgan noted that Mr. Buffet is not generally involved to a large degree on the project.

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Representative Hawker observed the importance of securing a customer base. He asked if MidAmerican would take the financial risk if the state was not subsidizing the effort

after a failed open season. Mr. Morgan responded that the focus may be different, but that they would not anticipate quitting the project. Ultimately, there must be the right balance of risks and rewards with the North Slope producers. He noted that all parties are needed. He did not believe that producers would withhold the gas if the project were economic. FERC certification could be necessary. Firm transportation commitments are not the only issue. Other parties would take the gas.

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Representative Hawker termed it a "what if" situation. He felt that it would be reasonable to pursue a FERC certificate. Mr. Morgan noted that facts and circumstances would dictate the path.

Representative Hawker spoke to the pre-open subsidy. Mr. Morgan observed that they did not ask for a state subsidy, but felt that it was a good idea and would send a signal that the project would advance in a timely manner, and lower the tariff.

Representative Hawker summarized that the subsidy would reduce the tariff, but a direct construction subsidy would also be an option. He stressed the need to consider what would be best for protecting the state's wealth. Mr. Morgan did not think that a subsidy on construction would jumpstart the project and move it forward.

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Representative Hawker suggested that having all parties at the table would make the market feel better and did not see a reason to put \$500 million of the state's resources at risk. Mr. Morgan felt that the state match would align the state, jumpstart the project, and send an important message.

Representative Gara agreed that the state should not subsidize unnecessarily. He acknowledged that there is a risk that major oil companies would not supply the gas. He suggested that the state could promise support until construction. Mr. Morgan reiterated that the \$500 million would attract producers and lower the tariff. He suggested that the economics would not change for the pipeline

owners, but would change for the resource owner and would impact royalties to the state.

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Representative Kelly asked why the first open season is more likely to succeed and, if it doesn't, why would it be advantageous to have MidAmerican in the next round. Mr. Morgan explained that if the project fails then they would have to start over. He did not know if the state would be better off in terms of convincing producers to commit the gas. There are a number of ways to commit shippers and share the risk. Rates do not have to be designed on a 100 percent load factor. Rates could be designed on a 90 percent load factor. All the terms would have to be in the applicant's bid. One shipper committing is an under-subscription and would not sustain the project. He did not know if two shippers would be sufficient.

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In response to a question by Representative Kelly, Mr. Morgan noted that it would be doubtful that they would have any commitments of shippers at the time of their application. It would require a couple of years of environmental and engineering studies to know that the project is viable.

Representative Kelly asked how MidAmerican can help the state solve the next step. Mr. Morgan responded that the work of the licensee would provide understanding on the economics of the project. The process will allow the state to make the necessary determinations.

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Representative Hawker observed that the Committee has an obligation to spend time to discover how MidAmerican would proceed and noted that Pat Galvin, Commissioner, Department of Revenue, indicated their importance. He spoke to assurances to the midstream. He related that shippers could be producers or consumers. He expressed difficulty providing assurances without knowing the state-imposed economics. Mr. Morgan stated that assurances are not related to ft, but to the triple damages items. Five years of the project sanction was another concern. Boycott by producers out of a desire to build it themselves would not

be appropriate. The five-year period would allow them to convince the producers to commit the gas. He did not think a 10-year period was appropriate relating to assurances to resource owners. He stressed the importance of providing tax certainty on the entire amount that was committed. They are looking for certainty for the life of the project. The level is important to the economics of the project. Representative Hawker noted that customers are looking for the same certainty and suggested that MidAmerican could become the state's long-term durable partner.

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Mr. Morgan reiterated that they are not seeking assurances through the state, but through FERC-approved contracts. Everyone wants to understand the risk and awards to the project, as do all investors.

Representative Gara recalled statements regarding tax stability and questioned if a promise was necessary. Mr. Morgan stated that he was comfortable doing business in Alaska. He noted that he does not have the same concerns as the producers.

Mr. Morgan commented on rolled-in rates. He noted that their pipeline has both rolled-in rates and incremental rates. He explained that incremental rates can be substantially higher when priced on a stand alone basis. He recalled that they had to wait for a rate that could clear the market. Rolled rates do not require a wait to make an expansion economic, but can be responsive. Drillers will quit if the costs double. He felt that the state was doing the right thing in regards to rolled-in rates.

ADJOURNMENT

The meeting was adjourned at 4:58 PM.