

HOUSE FINANCE COMMITTEE
May 4, 2007
1:43 P.M.

CALL TO ORDER

Co-Chair Chenault called the House Finance Committee meeting to order at [1:43:30 PM](#).

MEMBERS PRESENT

Representative Mike Chenault, Co-Chair
Representative Kevin Meyer, Co-Chair
Representative Bill Stoltze, Vice-Chair
Representative Harry Crawford
Representative Les Gara
Representative Mike Hawker
Representative Reggie Joule
Representative Mike Kelly
Representative Mary Nelson
Representative Bill Thomas Jr.

MEMBERS ABSENT

Representative Richard Foster

ALSO PRESENT

Representative Mark Neuman; Bill Walker, Project Manager, General Counsel, Alaska Gasline Port Authority (AGPA), Anchorage; Paul Fuhs, Legislative Director, Alaska Gasline Port Authority (AGPA), Anchorage; David Keane, Vice President of Policy and Corporate Affairs, BG North America, LLC; John Norman Chair, Alaska Oil and Gas Conservation Commission, Anchorage; Brian Andrews, Deputy Commissioner, Treasury Division, Department of Revenue; Deven Mitchell, Executive Director, Alaska Municipal Bond Bank Authority, Department of Revenue

PRESENT VIA TELECONFERENCE

Kathy Foerster, Commissioner, Alaska Oil and Gas Commission, Anchorage; Frank Ingrassia, Managing Director, Goldman Sachs, New York; Tim Romer, Managing Director, Goldman Sachs, Los Angeles

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.

HB 177 was HEARD & HELD in Committee for further consideration.

TESTIMONY taken from:

Alaska Gasoline Port Authority (AGPA)
BG North America, LLC
Alaska Oil and Gas Conservation Commission (AOGCC)
Palin-Parnell Administration: Financing

#HB177

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.

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ALASKA GASLINE PORT AUTHORITY (AGPA)

BILL WALKER, PROJECT MANAGER, GENERAL COUNSEL, ALASKA GASLINE PORT AUTHORITY (AGPA), ANCHORAGE, pointed out the handout, which he intended to follow during a power point presentation. (Copy on File).

Mr. Walker referenced.

Slide 2 - Project Description:

- Gas conditioning plant in Prudhoe Bay
- Pipeline from Prudhoe Bay to Valdez
- LNG facility in Valdez

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Slide 3 - A phased-in project to provide for better cost overrun risk management:

- The 800 mile pipeline would be 100% adjacent to Trans-Alaska Pipeline System (TAPS) & 100% in Alaska;
- With the infrastructure in place for the entire line including roads, bridges, camp pads, and etc.;
- A LNG project with a lower overall cost over-run risk;

- A phased approach with LNG project proceeding with the first 2/3 less cost, equaling a 2/3 less risk; and that
- Phase 1 would proceed with only one producer, rather than three.

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Slide 4 - Project Status:

- Project route permitted
- 12 senior permits acquired
- Bechtel cost estimates, complete & updated
- Marine transportation/Jones Act
- Access to multiple markets
- Anticipated financing @ 80% federal loan guarantee & 20% private funding

Co-Chair Meyer asked if the loan guarantee would be available only if that gas was shipped within the United States. Mr. Walker advised that the facilities on the West coast applying for permits are Long Beach, California, Coos Bay & Braidwood, Oregon, one in Washington State and one in British Columbia.

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PAUL FUHS, LEGISLATIVE DIRECTOR, ALASKA GASLINE PORT AUTHORITY (AGPA), added that when shipping to Mexico, it is considered the United States (U.S.). The Jones Act addresses final destination points, not delivery. He stated that only the U.S. gas will need to be clarified as that law is not clear. Co-Chair Meyer pointed out that would be assuming, they use the same loan guarantee.

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Mr. Walker continued the power point presentation.

Slide 5 - The indicative Alaska Gasoline Port Authority (AGPA) project structure, highlighting the Port Authority's involvement during the project as the facilitator. Financing of a project this large, requires world-class participants.

Mr. Fuhs acknowledged that Alaska has not had a lot of experience with the Port Authority; but instead, used extensively for big public projects around the world and always done with private sector companies.

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Mr. Walker commented that:

Slide 6 - AGIA would be good for Alaska. The AGIA process consists of:

- Being open, transparent and competitive
- Identifying clear evaluation criteria
- Inducements for project applicants in exchange for specific commitments
- Empowering selected applicants to build successful consortium, leading to an open-season
- Separating the mid-stream from the upstream
- Bringing additional interested parties to help develop Alaska's gas resource

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Mr. Walker continued:

Slide 7 - AGIA recommends amendments regarding:

- If additional gas reserves were needed, a budget and timeline for the exploration portion
- Analysis of making liquids available in Alaska for value added processing
- Current project cost estimates required with an application

Mr. Walker addressed AGIA benefits in advancing a gas pipeline:

- Rolled in rates would be good for Alaska's future
- Allowing for an independently owned infrastructure
- Following successful models used in other countries that use rolled in rates and independently owned pipelines
- \$500 million dollars "skin in the game", sends a positive message about Alaska's desire to commercialize the gas
- Supporting low tariffs

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Mr. Walker referenced the handout from the TransCanada, a proven basin developer, an independent pipeline model with rolled in tolls. (Copy on File). He suggested that it would be wrong to compare the economics of a small line to a larger one, but instead, determine which line could be built now and accommodate an expansion. He thought that the Port Authority's proposal was similar to that of Trans-Canada. The market indicates that Alaska has the best opportunity

for movement of the resource. He believes that it is a low risk and a good fit for Alaska and the federal legislation.

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Representative Crawford understood that last year, it was indicated that Alaska could adjust for a 4.5 billion cubic feet (BCF) per day; however, presently the 4.5 BCF projections is causing a disruption. He asked how the pipe would be sized for a 2 BCF a day. Mr. Walker envisioned a larger line (48") to Delta Junction and then a smaller one from Valdez, with the actual size to be determined. AGPA has been advised that with the compression, they would be able to take it up to 5.9 BCF. He reiterated that the project is the right size for the off-take of Prudhoe Bay. There were many bids presented during the process; he thought there is an advantage to Alaska's stability.

Mr. Walker pointed out that when the effort started in 1998, there were issues, which changed significantly with no federal loan guarantees. He believed that the market price forecast of \$5.50 was appropriate.

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Representative Gara asked about a number recommended other than \$500 million dollars. He understood that the Port Authority was comfortable with putting the \$500 million upfront; however, recommended receiving it back in the event of a successful project. Mr. Walker thought that concept was possible and applauded anything that could reduce the tariff.

Representative Gara emphasized the provision is generous to the State. AGIA recommends the State paying 80/20 ratio from the open-season to certification. Mr. Walker commented they were receptive to the proposal and that the Port Authority would continue even after an unsuccessful open-season. Mr. Walker thought that a small volume during the initial open-season would be adequate for AGPA.

Representative Gara stated there are other options for pay-back as part of the bidding criteria.

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Representative Gara inquired the type of authority needed for re-flagging. Mr. Walker responded that AGPA had been advised by the U.S. Congressional staff that it could be done through the Coast Guard Reauthorization Act. At this time, there are questions regarding the process.

Mr. Fuhs pointed out that much of the re-flagging was done during the conversion of the U.S. 200-mile limit. It is not controversial and that it is separate from the Jones Act.

Representative Kelly pointed out that ConocoPhillips is the most aggressive of the producers. He asked if the proposed approach would bring only them to the "table". Mr. Walker said yes because of their ownership of the gas in Prudhoe Bay.

Representative Kelly asked if it could be guaranteed bankable. Mr. Walker commented that the producer's financial market would not take a reserve risk. If the producers coming to the project have sufficient control and access, that should be sufficient for financing. Representative Kelly summarized that with relationship to capacity, only one player would need to be involved; however, he did not think they had sufficient reserves to make the project work. Mr. Walker countered that one producer could have enough reserves for the project.

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BG NORTH AMERICA, LLC

DAVID KEANE, VICE PRESIDENT OF POLICY AND CORPORATE AFFAIRS, BG NORTH AMERICA, LLC, referenced the handout, BG North American Legislative Hearings. (Copy on File).

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Mr. Keane pointed out:

Slide 3 - BG Group snapshot:

- A world leader in natural gas
- A FTSE 20-company listed in both the Long Island & New York Stock Exchanges
- Market capitalization of over \$49 billion dollars
- Production circa of 70% gas & 30% oil
- Employs approximately 4,700 staff - with 64% outside of the United Kingdom (UK)

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Mr. Keane continued:

Slide 4 - Indicates the business model, connecting the natural gas to the necessary markets through transmission and distribution.

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Mr. Keane explained:

Slide 5 - Identifies the countries and current operations, with over 25 countries including Canada, Bolivia, Argentina, Egypt, India, China, Thailand & the Philippines.

Slide 6 - Highlights the gas market focus for connecting gas to the market.

The developed markets are in:

- North America
- UK/Europe focus

The developing markets are:

- Bolivia/Brazil
- India

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Mr. Keane pointed out that:

Slide 7 - Highlights global gas trade during the recent past.

Slide 8 - Indicates global gas trade gradually evolving into a globalizing gas industry.

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Mr. Keane stated that:

Slide 9 - Shows a couple supply projects that BG is currently involved with, the Atlantic LNG, Trinidad/Tobago & Egyptian LNG.

Slide 10 - Identifies the U.S. market summary:

- Lake Charles import terminal
- Phase I expansion Q4 2005
- Phase II expansion Q2 2006
- Elba Island import terminal

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Mr. Keane continued:

Slide 11 - Provides a chart highlighting the LNG imports from 2003 to present and that BG has been the largest U.S. LNG importer from 2003 to 2006.

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Mr. Keane indicated that:

Slide 12 - Identifies the Alaska E&P with 2.1 million acres located in the Foothills of the Alaska North Slope (ANS) and .2 million in the ENS.

Slide 13 - Addresses the AGIA plan:

- BG is investing in Alaska and exploring along the North Slope and ENS.
- BG supports AGIA because the process is fair, open and inclusive; BG supports the mandatory provisions on access and rates and BG will encourage new explorers to invest in Alaska.
- AGIA provides input opportunities for interested parties & legislators during the initial legislation, when pipeline applications are submitted and during the legislative review of the winning application.

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Mr. Keane addressed:

Slide 14 - The AGIA Plan:

- AGIA addresses BG's concerns by providing a level playing field for all participants. It will provide certainty that when gas is discovered, there will be access to pipeline capacity, providing a mechanism to ensure reasonable rates.
- AGIA creates competition to build the pipeline and perhaps an LNG export facility.
- AGIA spells out what is required of any applicant.
- AGIA clearly identifies the "must haves" for Alaska.
- BG's "must haves" are a regulated pipeline, open access provisions in the tariff and just and reasonable rates.

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Slide 15 - Outlines the key message of BG:

- AGIA is good for Alaska and for the natural gas industry.
- AGIA will encourage the continued development of Alaska's untapped natural gas reserves.
- AGIA's purpose is to facilitate commercialization of the North Slope gas resource; to promote exploration

and development of oil and gas resources on the North Slope; maximize benefits to the people of the State from development of oil and gas resources in the State; and encourage oil and gas lessees and other persons in the State to commit natural gas from the North Slope to a gas pipeline system for transportation to markets in the State or elsewhere.

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Representative Kelly asked if there were provisions in AGIA that could cause project failure. Mr. Keane noted that would happen if the Legislature was "not on board".

Representative Kelly asked the connection between BG and BP. Mr. Keane replied that they are completely separate yet both are head-quartered in the UK.

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Representative Gara inquired about the fears & threats presented by the three major producers. Mr. Keane said he could not speak for the producers. He anticipated that shareholders would expect their companies to bid and to commit their reserves to capacity. He could not imagine that if the project is economically viable, why reserves would not be moved to market.

Co-Chair Chenault noted the pressures placed on producers by the State, the federal government and the shareholders; he did see shareholders carrying much weight in those decisions.

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ALASKA OIL AND GAS CONSERVATION COMMISSION (AOGCC)

JOHN NORMAN, CHAIR, ALASKA OIL AND GAS CONSERVATION COMMISSION (AOGCC), ANCHORAGE, discussed the AOGCC's role in the North Slope gas sales by providing a status report.

He indicated that most knowledgeable Alaskans know the significance of 35 TCF of natural gas; however, few realize millions of barrels of oil and condensate could be lost if gas off-take is not correctly managed. Mr. Norman stressed that oil is Alaska's nest egg. The AOGCC is responsible for setting the gas off-take allowable from the North Slope oil fields to ensure that there is no harm to the investment. Maintaining reservoir pressure enhances oil recovery, but producing gas depletes reservoir pressure. Therefore, gas reserves in most fields are usually sold only after most of the oil has been produced. Until that time, the gas that is produced with the oil is used to promote increased liquid production.

Mr. Norman pointed out that North Slope gas sales are going to involve trade-offs between oil and gas recovery. It is not practical to get all oil out of the ground before starting gas sales.

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Mr. Norman advised that the AOGCC does not take such a position; however, the State needs to ensure that the trade-offs result in greater recovery of both gas and oil. It is important to understand that Prudhoe Bay does have an existing gas off-take allowable, which is 2.7 BCF per day. That rate was set in 1977. The AOGCC usually waits for an application from the operator to modify pool rules including off-take rates. In 2005, it was recognized that:

- Serious discussions were taking place concerning major North Slope gas sales;
- The 2.7 BCF per day gas off-take allowable for Prudhoe Bay was set in 1977, when the field first began to produce. The off-take rate was based on the best information available at that time; however, now the State has 30 years and 11 billion barrels of production and production-related data to help determine a better number;
- Most of the publicly discussed pipeline options could require more than 2.7 BCF per day off-take from Prudhoe Bay;
- Performing the necessary studies to determine an appropriate current off-take rate would take time; and
- AOGCC does not intend to be the cause of any project delays.

Mr. Norman continued, therefore, to acquire the most current information, BP and the other Prudhoe Bay working interest owners agreed to provide the AOGCC staff and consultants access to the simulators including the underlying engineering, geologic, and geophysical information. They voluntarily set up a data room in BP's Anchorage offices, equipped with computers and software, allowing for the review of simulator results.

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Mr. Norman said it is important to note that data and information provided falls within the standards of AS 31.05.035(d) and 20 AAC 25.537(b), governing confidentiality of information. On February 28, 2007, AOGCC published a summary report, which is now available on the website - a multi-variable equation. The right off-take volume will

depend on when sales start how aggressively the oil has been produced and what the mitigating steps are in-place and planned. There are legal restrictions on what results of the study can be shared. As soon as an application is received or they otherwise have enough information to make a meaningful determination, AOGCC will convene public hearings to make information available as needed and legally allowed to support changes in the allowable off-take assigned natural gas.

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Mr. Norman added, there is sufficient information in the record to support any decision that the Commission reaches.

Representative Gara asked if the AGOCC statutory mandate requires that it be the most efficient means of reaching gas and oil or if there is flexibility, while not destroying the project. Mr. Norman affirmed there are some general principles, one which address gas off-take, natural deterioration recoverability.

Representative Gara questioned if the gas efficiency could be off-loaded and if there was a chance to loose the pipeline project. Mr. Norman explained they could consider practical considerations to an extent but that the Commission can not excuse waste of the resource. He clarified that for each day the oil passes through the pipeline, the conservation risks become less. The Commission recognizes a point of diminishing returns; the oil and gas must both contribute to the economics of the project.

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Mr. Norman addressed Slide 4, pointing out the intent to complete the evaluation by holding hearings and making a final ruling on allowable gas off-takes for both Prudhoe Bay and Point Thomson in time for the "open season" process. At this time:

- (1) The later the gas sales begin, the smaller the oil losses;
- (2) The lower the off-take rate, the smaller the oil losses;
- (3) The more the oil production is accelerated before gas sales start, the smaller the oil losses;
- (4) The more that is done to mitigate detrimental effects of gas sales, the smaller the oil losses;
- (5) Oil loss is more sensitive to the acceleration of oil production and mitigating steps than it is to start-up timing or off-take rates;
- (6) Depending on the life of the North Slope infrastructure, delaying gas off-take too long can result in a decreased gas recovery.

By the time a pipeline project is ready, selling gas from Prudhoe Bay could proceed at a higher off-take rate than the current 2.7 BCF per day, provided BP and its partners continue working toward:

- Accelerating oil production; and
- Mitigating gas losses.

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Co-Chair Chenault asked the limiting factors from removing oil out of the ground.

KATHY FOERSTER, (TESTIFIED VIA TELECONFERENCE), COMMISSIONER, ALASKA OIL AND GAS COMMISSION, ANCHORAGE, explained that the Prudhoe Bay owners were working within the constraints of the number of rigs & people available. Currently, every available rig is working, testing water injection into the gas cap while undertaking multi-lateral drilling. They are working to capacity.

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Mr. Norman stressed all possible interruptions need to be avoided and that any shut downs will increase the risk and defers production, which ultimately, creates competition for future gas.

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Representative Crawford voiced surprise with Ms. Forester's comments. He understood that oil production was down because it had been maxed-out with what the facilities could handle.

Ms. Foerster clarified that they are looking for wells with a higher oil cut and lower gas & water cut, replacing more marginal wells. Another option is a facility expansion, but those are very expensive. She recommended that BP be asked the question. Representative Crawford asked if a facility expansion would be the place to hold the gas, such as a pipeline. Ms. Forester did not think that would be a good facility expansion.

Representative Crawford suggested that there will come a point during the life of Prudhoe Bay that the gas could be taken in addition to the oil. Ms. Forester agreed and was optimistic that by the time the State has a pipeline, gas sales would be right; now is too soon.

Representative Gara worried about the seriousness of the producer's attitude since they have not requested AOGCC's for the new off-take ruling.

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Mr. Norman acknowledged that he expected an off-take petition. Ms. Foerster added that the producers were asked to work with the Commission. If a filing had been made before the study was complete, the process would have been extended.

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Mr. Norman referred to the Commission's mitigation plan; she wanted to see the mitigation measures employed. If the slate is wiped clean of any oil discoveries, Prudhoe Bay [with just the remaining oil] would still be the largest in the United States. Prudhoe Bay has reserves of 2 billion barrels remaining, which equates to \$120 billion dollars in gross revenue, approximately \$15 billion in royalties. He stressed the importance of the oil to the State.

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Representative Kelly asked if the Commission might conclude that the capacity of the pipeline was too small. Mr. Norman explained that the Commission has received confidential information, which allows certain considerations. The AOGCC works like a court in that they wait for parties to come to them, before a ruling can occur. The AOGCC can act if they believe waste is eminent. It would be improper for the Commission to declare a number at this time, without the public process. The Commission can not provide specific numbers. They are as comfortable as they can be with the information they have at this time. Discussions have been happening for a number of years, and explained the Commission intends to work with the producers. He noted that there are a number of variables; the Commission is not as comfortable with Point Thomson as it is with Prudhoe Bay.

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Representative Kelly referenced the first phase of Prudhoe Bay; he asked how comfortable they were. Mr. Norman stressed it is important not to get ahead of the public process. He observed that estimated numbers of off-take continue to change. The Commission needs a specific & tangible project; otherwise, they are speculating. The AOGCC has gathered information and believe they could rule quickly on Prudhoe Bay.

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Mr. Norman commented the AOGCC is confident that unless a substantial delay occurs, they will be adequately prepared to make a determination of the correct Prudhoe Bay gas off-take allowable rate when the application is received.

Mr. Norman added, there is confidence in Point Thomson. A year ago, AOGCC and Exxon agreed on a similar process for studying allowable gas off-take from that area. The AOGCC contracted reservoir evaluation consultants to assist the technical staff in performing that study. Exxon and its partners agreed to give the AOGCC staff access to data from the Exxon's Houston office. Unfortunately, AOGCC was not able to follow the required time line; there were delays in preparing the Exxon data room and information. The process was finally slated to begin late last year; since then the study has been pending resolution for legal issues. Without a thorough study, it is difficult for the AOGCC to have sufficient information to make a gas off-take ruling on Point Thomson; it remains a "wild card".

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Mr. Norman summarized:

- There is a lot of oil and condensate at risk if Alaska does not manage their natural gas off-take properly.
- The AOGCC is charged with setting gas off-take allowable that will prevent loss to the State's valuable hydrocarbon resources.
- The AOGCC intends to perform its function before an open season in order that the project is not delayed.
- The AOGCC has done the technical work to address Prudhoe Bay's off-take without causing a delay.
- A lot of work remains for the Point Thomson area; delay is quite possible.

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Representative Gara asked if the AOGCC statutes allow for the encouragement of the producers to drill & produce faster. Mr. Norman replied they do not; it is not the place of the Commission to dictate development, but rather, the landowner determines the developmental functions. Representative Gara pointed out that timing is not as imperative in the lower 48, emphasizing that Alaska has one shot at a pipeline.

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Representative Hawker referred to Point Thomson and the reservoir's dynamics. He summarized that liquids are removed and the gas is taken off at the end of the field's life. He noted that Point Thomson has unknown factors relating to high pressure and questioned if the structure would change. Mr. Norman responded that the Point Thomson reservoir is counter intuitive. Until recently, it has been treated as an oil reservoir. It is below the threshold of a reservoir. The Commission will need to have a plan for development from the operator. Ms. Forester added that in a retrograde reservoir, pressure is the key & when dropping below a certain pressure, the hydrocarbon liquids drop out in the reservoir, impeding the production. Pressure is essential for maximum gas production.

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Representative Hawker inquired if there could be a situation in which the gas & the condensates must be produced simultaneously early or re-injecting at high pressures to protect the condensates. Ms. Forester acknowledged that without regard to economics, only maximizing the hydrocarbon recovery could be accomplished by re-injecting the gas. The reservoir pressure must be retained.

Representative Hawker questioned if regulation would be different for oil versus gas field. Ms. Forester replied it would & explained that a gas field does not need an off-take allowance; it is classified as an oil field, then the AOGCC would need to do an off-take. If classified as a gas field, indicates that the gas/oil ratio was above 100,000 standard cubic feet per barrel, which would stipulate that the liquid recovery was lean and a secondary concern.

Representative Hawker asked if there should be a legislative change identifying Point Thomson as an oil field and not a gas field. Ms. Foerster said yes.

Representative Hawker asked how a producer could go about declaring Point Thomson a gas field. Ms. Foerster explained that they would have to go to someone other than the AOGCC. The AOGCC is charged with maximizing hydrocarbon recovery & preventing waste. Representative Hawker inquired if that would be a legislative decision. Mr. Norman affirmed that the Legislature has the authority to override the Commission; however, he cautioned that the rest of the world would be watching and questioning.

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Representative Hawker concluded that the probability of having Point Thomson as a gas field, discounting oil was nil. Mr. Norman recommended the best approach is to move forward, obtaining more information. He stated that no one

has come before the Commission providing a vehicle to answer these questions. Representative Hawker applauded the work of the Commission and noted his confidence in their abilities.

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Representative Crawford commented there is a dropping production; he questioned why Point Thomson has not been developed. He asked how much gas has been used in the production of Prudhoe Bay to operate the field and how much has been lost from attrition. Mr. Norman advised that questions regarding production should be directed toward the operators, noting the Commission would be delighted to see Point Thomson active.

Representative Crawford thought that [the producers] want new wells with a lower cut of gas and water & higher oil. Mr. Norman observed that Point Thomson presents its own set of challenges. He observed that they have received well applications that are two years away.

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Ms. Forester explained that it will be more involved than simply drilling wells at Point Thomson. There will need to be a lot of investment infrastructure in production facilities before production can actually occur. Representative Crawford suggested a spur will need to be determined.

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RECONVENE: [3:57:46 PM](#)

PARNELL ADMINISTRATION: FINANCING

BRIAN ANDREWS, DEPUTY COMMISSIONER, TREASURY DIVISION, DEPARTMENT OF REVENUE, referenced the handout, The Alaska Gasline Inducement Act - Alaska Gasline Project from the Lender's Perspective. (Copy on File).

He mentioned his investment experience and provided perspective from his understanding. The Administration has received much enthusiasm in the AGIA project within the investment community. He described the fundamental considerations of lenders:

- Capacity and the debt repayment capability of the pipeline project;
- Collateral and the secondary source of debt repayment;

- Character/Credit and the project sponsors who are experienced in the pipeline industry, with solid credit history;
- Commitment, both financial and non-financial commitments from sponsors indicating their incentives to the success of the pipeline project; and
- Conditions for future markets including regulatory, economic and environmental conditions could impact the viability of a project.

Mr. Andrews continued, the critical items for agreement of a natural gas export pipeline from Alaska include a firm long-term commitment to ship natural gas at a price, quantity and term sufficient to service and repay the necessary debt financing; equity funding typically at 20%-30% of the project's forecast capital structure; and division of cost overrun risks among the parties, which have the financial strength and skills to manage that risk; and Federal Energy Regulatory Commission (FERC) and other regulatory approval. Each of the critical elements are magnified due to the size of the project and that federal loan guarantees would be helpful to maximize the quantity of debt and to limit the cost of the pipeline debt financing.

Mr. Andrews pointed out the firm transportation commitments to ship natural gas at a price & quantify to service and repay the debt financing; the bulk of the shipper commitments would likely come from the parties that own a gas supply. Equity commitments are a pre-condition to debt financing and federal guarantees; the FERC regulation pipeline project would be funded with 20%-30% base equity given the opportunity to attract equity sponsors. Cost overruns are a key financing concern. Substantial increases in cost of large capital projects have occurred in recent years across the globe. He noted that because of the market conditions and the project size, there is a limited ability to shift cost overrun risks to the contractors and suppliers. The magnitude of the cost overrun risks and the modest equity returns typically associated with the pipeline equity will drive the need for sharing the risk between equity investors and shippers.

The Alaska Natural Gas Pipeline Act of 2004 gave the U.S. Department of Energy the ability to issue up to \$18 billion dollars in loan guarantees in support of the project. The key loan guarantee provisions are favorable. Favorable legislative terms may be limited by practicalities of the Department of Energy implementations.

Mr. Andrews summarized that AGIA has helpful elements:

- Up to \$500 million dollars of risk sharing;

- FT commitments; and
- Requirements that an application should describe the means for preventing & managing cost overruns.

A pipeline would not be built without lenders' debt financing and the financing of the pipeline project should be supported by firm transportation commitments and a robust federal guarantee. He acknowledged that there are many questions and unknowns within the project; however, there is nothing in AGIA that precludes project financing.

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FRANK INGRASSIA, (TESTIFIED VIA TELECONFERENCE), MANAGING DIRECTOR, GOLDMAN SACHS, NEW YORK, reinforced previous comments that there is nothing in the legislation that would prevent successful financing of the pipeline. The legislation in its current state is a "skeleton that needs meat on the bones", to allow for successful financing. The project needs:

- Firm transportation commitments;
- Positive project economics including a cost structure resulting in gas prices well within the forecast of the commodity prices; and
- A tight contractual structure with an appropriate risk allocation [construction risk];
- A strong, credit worthy team with a record of success in other large project financings.

Mr. Ingrassia reiterated the legislation is permissive, putting out a financable plan. He offered to answer questions of the Committee.

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Co-Chair Chenault asked if there would be concerns for a federal loan guarantee with gas moving through foreign countries. Mr. Andrews knew that a federal loan guarantee could be used through Canada; he was uncertain of gas sales through other countries.

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Representative Gara noted that since the loan guarantees were backed by the federal government, would it be possible to secure a lower interest loan. Mr. Andrews said that the guarantees allows for an increased quantity of debt as well as lower cost tariffs.

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HB 177 was HELD in Committee for further consideration.
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ADJOURNMENT

The meeting was adjourned at 4:11 P.M.