ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON OIL AND GAS
March 13, 2007
3:37 p.m.

MEMBERS PRESENT

Representative Vic Kohring, Chair
Representative Kurt Olson, Vice Chair
Representative Nancy Dahlstrom
Representative Jay Ramras
Representative Ralph Samuels
Representative Mike Doogan
Representative Scott Kawasaki

MEMBERS ABSENT

All members present

OTHER LEGISLATORS PRESENT

Representative Carl Gatto
Representative Bob Buch
Representative David Guttenberg

COMMITTEE CALENDAR

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."

- HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 177
SHORT TITLE: NATURAL GAS PIPELINE PROJECT
SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

03/05/07	(H)	READ THE FIRST TIME - REFERRALS
03/05/07	(H)	O&G, RES, FIN
03/06/07	(H)	O&G AT 3:00 PM BARNES 124
03/06/07	(H)	-- MEETING CANCELED --
03/08/07	(H)	O&G AT 3:00 PM BARNES 124

03/08/07 (H) -- MEETING CANCELED --
03/13/07 (H) O&G AT 3:30 PM HOUSE FINANCE 519

WITNESS REGISTER

PAT GALVIN, Commissioner
Department of Revenue (DOR)
Juneau, Alaska
POSITION STATEMENT: On behalf of the governor, presented HB 177.

KURTIS GIBSON, Acting Deputy Director
Central Office
Division of Oil & Gas
Department of Natural Resources (DNR)
Anchorage, Alaska
POSITION STATEMENT: Assisted in the presentation of HB 177.

ANTONY SCOTT, Section Chief
Commercial Section
Central Office
Division of Oil & Gas
Department of Natural Resources (DNR)
Anchorage, Alaska
POSITION STATEMENT: Assisted in the presentation of HB 177.

KEVIN BANKS, Acting Director
Central Office
Division of Oil & Gas
Department of Natural Resources (DNR)
Anchorage, Alaska
POSITION STATEMENT: Assisted in the presentation of HB 177.

ACTION NARRATIVE

CHAIR VIC KOHRING called the meeting to order at 3:37:47 PM. Representatives Olson, Dahlstrom, Samuels, Ramras, Doogan, Kawasaki, and Kohring were present at the call to order. Representatives Guttenberg, Buch, and Gatto were also in attendance.

HB 177-NATURAL GAS PIPELINE PROJECT

3:38:54 PM

CHAIR KOHRING announced that the only order of business would be 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."

3:40:11 PM

PAT GALVIN, Commissioner, Department of Revenue (DOR), presented HB 177 on behalf of the governor. Mr. Galvin said that an overview of HB 177, which is known as the Alaska Gasline Inducement Act (AGIA), will be presented today. The presentation is divided into two parts: the principles of the approach to AGIA, and background information on the state's $500 million contribution to the project.

3:44:12 PM

MR. GALVIN informed the committee that DOR recognizes the need to begin the gas pipeline project as soon as possible. Every delay, he said, will cost the state significant value. In addition, the state will soon need the projected revenue from the 35 trillion cubic feet (Tcf) of known gas reserves in the North Slope basin. The state, he said, is also aware of the need for an open and competitive project. The Alaska Gasline Inducement Act will provide the incentives needed for construction of the gas pipeline and will determine which of the projects deserves the state's support. Mr. Galvin explained that, for the gas pipeline project to be successful there is a need for low tariff rates for the gas flowing through the pipeline. The state must also get gas from the pipeline to Alaska communities and must ensure that all facets of the pipeline project provide jobs for Alaskans. Finally, AGIA recognizes that incentives are necessary to obtain financing and to ensure fiscal certainty for the producers.

MR. GALVIN noted that much of the information presented today is based on a prototype project. The prototype project is a gas pipeline into Canada that transports 4.3 Bcf per day. This model is built with a 70 to 30 debt to equity ratio as required by AGIA and maintains a 14 percent return on equity. The prototype computations are further based on current gas production taxes legislated by the production profits tax (PPT). The total estimated project cost of $20.5 billion is derived from prorating the current producer's estimate of $30 billion for construction of a gas pipeline from the North Slope to Chicago. The destination for the prototype is Alberta, Canada, which reduces the construction cost estimate. Mr. Galvin told

the committee that the numbers provided in the presentation today are based on the described prototype.

3:50:27 PM

MR. GALVIN said that the structure of AGIA requires that a $500 million grant be provided, as an incentive, to the pipeline company that obtains the AGIA gas pipeline project license. To obtain the AGIA license, the company will include in its proposals the means to fulfill mandated financial terms and state requirements. The value to the state in return for the $500 million incentive is the fulfillment of the terms of AGIA.

3:51:33 PM

KURT GIBSON, Acting Deputy Director, Central Office, Division of Oil & Gas, Department of Natural Resources (DNR), informed the committee that the list of values the state receives for its incentive begins with timely completion of the gas pipeline project. Acceleration of the project will mean that the state will gain lost revenue due to delay and will recoup the $500 million incentive. Mr. Gibson explained that when the price of gas is at the Chicago land and market price of $5.50, the state will recoup three times its capital contribution, or $1.8 billion, by accelerating the project by one year. At the current price for gas of $6.75 the state recuperates five times its capital contribution in one year. These figures, he said, illustrate the importance of beginning the gas pipeline project now. Mr. Gibson noted that all of the scenarios discussed today are based on a gas pipeline with a projected life of 30 years.

3:55:30 PM

MR. GALVIN said that the AGIA timeline for the project begins when the license is awarded. The licensee will have up to 36 months to complete its binding open season process, and 24 months after that to achieve the Federal Energy Regulatory Commission (FERC) public convenience and necessity certification.

MR. GALVIN clarified that the AGIA model can be used as an example of the construction of a pipeline continuing through Canada, or an all-Alaska pipeline.

REPRESENTATIVE DOOGAN asked why there is a 36-month delay between issuance of the AGIA license and open season.

MR. GIBSON explained that this is a reasonable timeframe.

REPRESENTATIVE SAMUELS asked whether shortening this time period could shorten the entire project.

MR. GALVIN responded that the open season deadline of 36 months allows the project to be closer to qualifying for the FERC certificate. He noted that this time period was approved by interested parties. However, the licensee has the right to schedule this deadline earlier. He also noted that a change in the open season deadline may or may not change the date of the issuance of the FERC certificate.

3:59:15 PM

REPRESENTATIVE SAMUELS asked if the majority of the money [to develop the gas pipeline] is spent after open season.

MR. GIBSON said yes.

4:00:33 PM

MR. GIBSON presented information on the decline of state oil revenue to the committee. He said a North Slope gas pipeline will offset the decline in oil production, and will provide future revenue for Alaska. Furthermore, he noted that the overall U.S. supply of natural gas, without a gas pipeline from the North Slope, must be supplemented by imported liquefied natural gas (LNG). In addition, recent statements from energy experts encourage new domestic production of natural gas, even with increased production of energy from nuclear, wind, and coal sources. Mr. Gibson also stressed that the national security need to reduce U. S. dependence on foreign oil requires the timely construction of the Alaska gas pipeline.

MR. GIBSON called the committee's attention to the importance of lower tariffs for the transportation of gas through the pipeline. The relationship between market price, treatment costs, and transportation costs affect the netback value to the state and producers. For the state, higher netback value results in greater royalty value and higher production profits taxes paid to the state by the producers. The $500 million grant from the state, he said, will result in a reduction of tariffs.

4:06:09 PM

REPRESENTATIVE RAMRAS asked the presenters to clarify which statistics are "imaginary."

MR. GIBSON reiterated that the computations for the purpose of the presentation are stylized numbers based on the prototype.

4:07:52 PM

MR. GIBSON continued to say that the state's $500 million grant ultimately results in a reduction of the pipeline transportation tariff by four to six cents for the next 30 years. Furthermore, a one cent change in the tariff is worth $45 million in royalty and production taxes to the state. In addition, the $500 million capital contribution will lock-in the debt equity ratio percentages and will improve the economics of development for all parties.

4:10:27 PM

REPRESENTATIVE DOOGAN asked if the $45 million increase was discounted, for the lifetime of the project, at a rate of five percent.

MR. GIBSON answered yes. He then further explained how the $500 million grant will reduce the transportation tariff. The Federal Energy Regulatory Commission uses many components to determine a rate base for an interstate pipeline rate. Some of these components are: capital contribution, debt equity ratio, and allowance for funds used during construction (AFUDC). The $500 million grant from the state during the 5 to 10 years of pipeline construction will accrue interest. This interest can be rolled into the rate base and ultimately will be paid back to the project sponsor by the shipper. The state's capital contribution, therefore, results in a $900 million impact to the rate base.

4:13:28 PM

REPRESENTATIVE SAMUELS asked if the state can recoup the $900 million.

MR. GIBSON replied no. If the $500 million grant is managed as a loan, the advantage would not reach all shippers.

4:14:17 PM

ANTONY SCOTT, Section Chief, Commercial Section, Central Office, Division of Oil & Gas, Department of Natural Resources (DNR) informed the committee of the importance of debt equity ratio, or capitalization, on the overall cost of transportation of the gas through the pipeline. The Alaska Gasline Inducement Act requires a licensed project to have a minimum of 70 percent debt and 30 percent equity ratio. Seventy percent debt capitalization will ensure lower tariffs for the state, the producers, and future explorers. Mr. Scott stated that this requirement is commercially reasonable and is an important protection of the state's interests. He referred to recent examples of pipeline projects for data to support the licensee minimum requirements that are incorporated in AGIA.

REPRESENTATIVE SAMUELS requested specific information on the sizes of the comparable projects.

MR. SCOTT confirmed that additional information about the comparable projects will be submitted to the committee. Furthermore, he said, he believed that a successful project could be leveraged even higher than AGIA's minimum requirements. Mr. Scott indicated that a 70 percent debt and 30 percent equity ratio results in returns to the state of $2.5 billion at a discounted rate of 5 percent over 30 years. He stressed the importance to the state regarding how the project is capitalized and the rates of the resulting tariffs.

4:18:30 PM

REPRESENTATIVE RAMRAS again requested that the presenters denote that this is hypothetical data. He then remarked:

> The debt to equity ratio, as I understand it, applies to the scope of the project. And if the project goes $10 billion over budget, ... then all $10 billion of that as, I understand it, would then also be debt financed over and above the 70:30 ratio .... What [will that] do to increasing the tariff over a 30-year life, in cents per tariff, if we say that it's a $10 billion cost overrun beyond whatever the eventual licensee scopes the project at.

MR. SCOTT confirmed that the tariffs that are being discussed are based on a hypothetical project, with a construction cost of $20.5 billion, delivering gas through a 4.3 Bcf per day pipeline, from the North Slope to Alberta. It is fair to say, he acknowledged, that no one knows what the exact project

construction costs will be. Mr. Scott pointed out that if there are cost overruns beyond what is anticipated in the application, the expectation is that the increases will be capitalized at a minimum of 70 percent debt.

4:22:58 PM

MR. GALVIN stated that AGIA recognizes the risk of cost overruns and the effect overruns would have on the tariff. The evaluation criteria method will mitigate the effect of overruns that are passed along to the shipper by higher tariffs. He said that computations indicating the effect of cost overruns, managed by different debt to equity ratios, can be provided to the committee.

REPRESENTATIVE SAMUELS asked if the percentages given for the changes in debt equity ratios are also hypothetical.

MR. GALVIN replied that the tariffs are based on the model.

MR. SCOTT said:

> You actually cannot simply extrapolate percentages increase in debt to differences in the tariff without also specifying a base capital cost. If the base capital cost were half of what we are saying, the pennies difference on the tariff would change.

4:25:52 PM

REPRESENTATIVE SAMUELS questioned whether there is a penalty for the licensee that is unable to obtain financing at the agreed upon debt to equity ratio.

MR. GALVIN responded that the debt to equity ratio required by AGIA and FERC may be different than what is required for obtaining financing.

4:27:33 PM

REPRESENTATIVE SAMUELS observed that different license applicants may qualify for different financing interest rates.

MR. SCOTT stated that the expectation is that the debt for this project will not vary, and will be guaranteed by the federal government.

REPRESENTATIVE RAMRAS tasked the presenters with providing additional information on the effect of the debt and equity structure on tariffs. He requested the amounts of estimated tariffs determined by a 100 percent debt capitalization on a $10 billion cost overrun over 30 years.

MR. GALVIN offered to provide the requested information and he indicated that he will include a range of cost overruns and their effect on the potential ratios of debt to equity.

4:30:42 PM

REPRESENTATIVE SAMUELS requested that 75 to 85 percent ratios also be included.

MR. SCOTT said:

> I will prepare a table for you showing 70:30 capitalization for the base cost, and then show what happens at different cost escalations: 10 percent, 20 percent, 30 percent, 40 percent, 50 percent, all assuming that that those cost overruns are 100 percent financed with debt.

REPRESENTATIVE RAMRAS requested that the information be represented by billions of dollars, rather than by percentages.

REPRESENTATIVE DOOGAN asked for the amount of the maximum loan that the federal government will guarantee for the gas pipeline project.

MR. SCOTT replied that through the Alaska Natural Gas Pipeline Act of 2004 (ANGPA), the federal government offers loan guarantees of up to 80 percent of the cost of the project, or $18 billion, escalated for inflation.

4:32:36 PM

KEVIN BANKS, Acting Director, Central Office, Division of Oil & Gas, Department of Natural Resources, informed the committee that expansion commitments for the pipeline are an important aspect of AGIA. He explained that without the expansion provisions to allow in-state off taking of gas from the pipeline, new explorations for natural gas will be hampered. During the time leading up to the open season, there will be only a few producers capable of committing their gas in the open season. However, the proposals in AGIA provide that the

pipeline licensee will assess the market demand for additional capacity every two years. Sufficient market demand, he opined, will determine expansion of the pipeline.

MR. BANKS said that the U.S. Geological Survey (USGS), and the U.S. Mineral Management Service (USMMS), estimate the undiscovered and technically recoverable gas reserves on the North Slope, the [outer continental shelf], Beaufort Sea, and Chukchi Sea to be about 200 trillion cubic feet (Tcf). This total, he advised, refers to gas that is technically recoverable, but may not be economically recoverable. The expansion of one Bcf per day, to an existing pipeline, is equal to about eleven Tcf over the life of the gas pipeline project, he opined. Mr. Banks stressed that the economically feasible recovery of gas reserves depends on price, cost, access to the pipeline, access to the discovery, and other factors. Also not included in estimates is the amount of hydrates underlying the oil and gas fields. Hydrate prospects that have been mapped, but have never been tested, are classified as technically recoverable at this time.

MR. BANKS called the committee's attention to FERC's mandatory pipeline expansion process. He noted that expansions are common and are supported by a vigorous and wide-open market. The ANGPA recognizes that there will be one pipeline serving the North Slope; therefore, it requires provisions for expansion to be incorporated in the Alaska gas pipeline. These requirements mean that shippers will need to complete studies before submitting commitments of their gas at open season, and will also demonstrate their take-away capacity from the pipeline terminus. Moreover, the expansion must not adversely affect the operation, or economics, of the pipeline.

4:38:44 PM

MR. BANKS assured the committee that AGIA resolves many anticipated issues. However, many of the terms and conditions in AGIA have not been subjected to judicial review and litigation will occur, he advised. In fact, litigation regarding the rules of the open season continues today, and the state may not be able to rely on FERC regulations to assure that expansion occurs. Mr. Banks then outlined some of the costs to the explorer under the terms of AGIA. The parameters of the model prospect created to illustrate these costs, assumes that the seismic work has been completed and exploration drilling has been sanctioned. In addition, for the model, the exploration wells cost $35 million each, the three well delineation program

cost $45 million, and six years pass from the first delineation drilling to gas sales.

4:41:36 PM

MR. BANKS continued to explain that the model project is economic at a 12 percent return [net present value (NPV)]; however, after a one year delay the project operates at a loss. This illustrates, he said, the looming risk to an explorer when expansion provisions are unsuccessful.

4:43:40 PM

REPRESENTATIVE SAMUELS asked if one to five year delays on expansion have the same effect on producers as one to five delays have on completion of the entire project.

MR. GALVIN said yes. He added that the risk for the explorer is to undertake the expense of drilling wells without the guarantee that expansion will occur in a timely manner. If the explorers conclude that the risk is too great, the discoveries will not be made.

4:45:14 PM

MR. BANKS reminded the committee of the fact that the opportunity to participate in an open season every two years acts as a powerful incentive to the explorers.

MR. GALVIN pointed out that the safeguards in AGIA are provided to assure explorers that expansion will occur even if commercial and market circumstances prevent the usual marketing procedures.

4:47:07 PM

REPRESENTATIVE SAMUELS questioned whether an exploration company might decide to delay exploration until after the pipeline is completed rather than assume the initial exploration cost and risk.

MR. GALVIN replied that AGIA requires an applicant provide certain dates for the open season; this also will be the deadline for the explorer's commitment to providing gas.

MR. SCOTT presented information on AGIA's terms for rolled-in rates (RIR). He explained that AGIA requires that expansion costs receive RIR treatment as opposed to incremental rate

treatment. However, rates, including pipeline fuel costs, can not exceed 15 percent of the initial in-service tariffs. Rolled-rate treatment, he said, will foster exploration and development.

MR. SCOTT continued to explain that expansion shippers will pay lower rates on expansions, thereby increasing the likelihood of exploration. A lower tariff will result in a higher economic value. Under RIR treatment all shippers will pay the same rate, whereas incremental rate treatment results in varying rates for shippers. Mr. Scott gave the following example: If the initial cost of a project is $100, and throughput is 100, then the base initial toll will equal $1 per unit of throughput. In the case of a subsequent expansion cost of $30 and expected throughput of $18, a RIR will be calculated by the entire capital costs divided by the entire throughput, which would equal $1.10 per unit. In comparison, with a subsequent expansion cost of $30, and an expected throughput of $18, calculated under incremental rate treatment, only the expansion costs would be divided by the throughput and the rate would equal $1.67 per unit. For this reason, initial shippers would pay $1 per unit and expansion shippers would pay $1.67 for the same service.

REPRESENTATIVE GATTO surmised that the initial shippers will resist expansion of the gas pipeline.

MR. SCOTT clarified that, generally, shippers who are interested in exploration and who do not own the pipeline prefer RIR treatment for expansion costs because their prospects will be more economic. He then introduced to the committee three scenarios that illustrate how RIRs encourage exploration. The scenarios take into account varying engineering expansion variables, such as fuel costs associated with compression stations, and FERC policy on expansion shipping rates.

4:57:29 PM

MR. GALVIN further explained that, based on scenario one, a shipper that is projecting the value of an exploration prospect based upon the rate of a RIR tariff and with a one Bcf per day increase from 4.5 to 5.5 Bcf will value the prospect at $6 million. However, with compression, and an increase from 4.5 to 5.5 Bcf per day under the incremental rate treatment, the shipper will value the prospect at $6.5 million.

MR. SCOTT pointed out that scenario one and scenario two are both examples of projects that are profitable to drill. Under

these circumstances the state would expect pipeline expansion to occur.

4:58:57 PM

REPRESENTATIVE RAMRAS noted that the scenarios presented do not include the possibility of developing a gas pipeline terminating at a liquefied natural gas (LNG) plant in Valdez. He remarked:

> It looks like [the Palin Administration] is on point toward a 4 Bcf, the larger pipe .... If that is the case and we are looking at the "y" plan, where then a rolled-in rate in expansion in a "y" plan, could be a part of this, in which case ... some expansion could lead to a "y" line going down to Valdez for an LNG plant somewhere down the line.

5:00:22 PM

MR. GALVIN responded that a 4.3 Bcf per day, through Canada, gas pipeline is the model for AGIA. However, the principles of AGIA do allow for the licensing of either project.

MR. SCOTT agreed that AGIA's provisions facilitate expansions to serve a "y" line for a LNG project or to increase the diameter of a gas pipeline to Alberta. The practical reason, he explained, to base the model on a 4.3 Bcf per day gas pipeline to Alberta is that preliminary studies have been completed. Mr. Scott continued to explain that scenario two, which uses an addition of 1 Bcf per day, with compression from 5.5 to 6.5 Bcf per day, results in a total value to the shipper of $4.5 million with RIR and a negative value of -$5.4 million with incremental rates. This scenario illustrates that given the higher fuel prices of today, without RIR treatment, the state may not get full expansion of the pipeline. Scenario three illustrates the addition of 700 million cubic feet (Mmcf) per day, with "looping" from 6.8 to 7.5 Bcf per day, and indicates the total value to the shipper of $.9 million with RIR and a negative value of $25 million with incremental rates.

5:04:19 PM

MR. SCOTT then called the committee's attention to three scenarios that illustrate both the rate and fuel impacts of each scenario, under incremental and RIR treatment, for existing and expansion shippers. He indicated that he would discuss this information with members at their convenience.

MR. GALVIN added that these additional details support the previous scenarios presented to the committee.

MR. BANKS noted that AGIA presumes that the initial expansion of the gas pipeline will lower tariffs for all shippers. However, because of fuel costs and shipping costs, subsequent expansions under RIR and incremental rates will be higher. Further expansion of the model illustrated in the presentation today results in the gas pipeline increasing delivery of gas from 5.5 Bcf per day to 6.5 Bcf per day. Mr. Banks pointed out the impact of the tax and royalty offset. This offset, he said, is the result of the increased tariff, and hence, lowers the royalty revenue due the state. The third scenario, illustrating a 700 Mmcf per day looping expansion, reflects similar effects. Mr. Banks reminded the committee that the state benefits from expansion even though RIRs effect all production.

5:08:24 PM

MR. GALVIN concluded the presentation and asked for questions from committee members.

5:08:49 PM

REPRESENTATIVE SAMUELS asked for clarification of the term in AGIA, page 6, line 23, that limits the increase of shipper's rates to 15 percent over the initial rates.

MR. GALVIN explained that the 15 percent is based upon the original tariff and that it is a fixed rate.

5:10:56 PM

MR. BANKS further explained that tariffs are expressed in nominal dollars and usually do not increase with inflation.

REPRESENTATIVE SAMUELS asked for clarification of what is meant by the royalty offset.

MR. BANKS noted that the scenario of a 700 Mmcf per day expansion with looping indicates that the production profits tax increase to the state is $3 billion.

MR. SCOTT stated that the model scenario computations are based on gas of which one-half is produced from state land and one-half is produced from onshore federal land.

MR. BANKS continued to say that the model indicates shippers are experiencing higher tariffs due to the RIR. Therefore, other taxpayers are going to be paying less tax because their net tax has been reduced.

5:13:21 PM

REPRESENTATIVE SAMUELS asked how offshore production will affect the taxes, royalties, and tariffs of the scenarios presented.

MR. SCOTT assured the committee that the offshore affect is factored into the models. This is illustrated, he said, by the negative effect on production profits tax values associated with higher tariffs for the remainder of the state's gas.

5:14:11 PM

REPRESENTATIVE RAMRAS asked the following questions: How do you increment in the $500 million dollar-for-dollar match? [How do "we" answer] Key Coalition of Alaska, and other deserving constituents, who request a portion of the funds designated to the construction of the gas pipeline? What if one of the proposals comes in and declines the state matching money? How will that affect your comparison of the proposals?

MR. GALVIN responded that AGIA provides for the state to match costs dollar-for-dollar up to the open season. After open season, the state will allow applicants to propose suggested cost splits necessitated by the results of the open season. The cost splits would be a procedure to offset perceived risks. Moreover, the disbursal will be spread over a number of years. He said that his answer to organizations interested in reducing the state's inducement, is that the earliest completion of the gas pipeline project will result in value to the state, and thereby, more value to each Alaskan. Finally, an applicant who meets the licensee qualifications and does not require the state's participation will be looked upon favorably during the licensing process.

5:20:26 PM

REPRESENTATIVE SAMUELS observed that testimony from the producers, pipeline companies, regulators, and explorers is expected. He said he is also interested in information on how questions of corporate behavior will be addressed. In addition, he requested further discussion by Commissioners Galvin and

Irwin about the weighing of the criteria that will be used to evaluate the applications. He then remarked:

> Is there enough gas at Prudhoe and Kuparuk right now to finance a project, absent explorers? How does Point Thomson play into it? The timeline on the lawsuit; if it gets in federal court, if it does not get into federal court, when can we take action? Can you drop it and make a deal? All those things, how does Point Thomson play in to the entire picture with that amount of gas, or can you do it without Point Thomson?

REPRESENTATION GATTO asked if the basis for the model is predicated on installation of 52 inch pipe.

MR. GALVIN confirmed that the model presented today assumes the construction of a gas pipeline transporting 4.3 Bcf per day, but the pressure and design will determine the diameter.

REPRESENTATIVE GATTO asked if a scenario for two smaller parallel pipes has been considered. He suggested that if a smaller pipeline were built initially, that pipeline could begin operation and then an additional pipeline could be added when necessary.

5:25:16 PM

MR. GALVIN explained that during the development of AGIA, the drafters decided to let the applicants propose various projects. The DOR has studied many different projects to ensure that AGIA's incentives are applicable to the potential proposals, but it has not made a determination of their value. The state's role, he said, is to establish the rules of the competition so that the private sector can make proposals for the state to evaluate.

[HB 177 was held over.]

5:27:19 PM

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Oil and Gas meeting was adjourned at 5:27 p.m.