

**ALASKA STATE LEGISLATURE  
HOUSE RESOURCES STANDING COMMITTEE**

April 14, 2007

1:03 p.m.

**MEMBERS PRESENT**

Representative Carl Gatto, Co-Chair  
Representative Craig Johnson, Co-Chair  
Representative Vic Kohring  
Representative Bob Roses  
Representative Paul Seaton  
Representative Peggy Wilson  
Representative Bryce Edgmon  
Representative David Guttenberg  
Representative Scott Kawasaki

**MEMBERS ABSENT**

All members present

**OTHER LEGISLATORS PRESENT**

Representative Bob Buch

**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  
03/13/07 (H) Heard & Held  
03/13/07 (H) MINUTE(O&G)  
03/15/07 (H) O&G AT 3:00 PM BARNES 124  
03/15/07 (H) Heard & Held  
03/15/07 (H) MINUTE(O&G)  
03/19/07 (H) O&G AT 8:30 AM CAPITOL 106  
03/19/07 (H) Heard & Held  
03/19/07 (H) MINUTE(O&G)  
03/20/07 (H) O&G AT 3:00 PM BARNES 124  
03/20/07 (H) Heard & Held  
03/20/07 (H) MINUTE(O&G)  
03/21/07 (H) O&G AT 5:30 PM SENATE FINANCE 532  
03/21/07 (H) Heard & Held  
03/21/07 (H) MINUTE(O&G)  
03/22/07 (H) O&G AT 3:00 PM BARNES 124  
03/22/07 (H) Heard & Held  
03/22/07 (H) MINUTE(O&G)  
03/23/07 (H) O&G AT 8:30 AM CAPITOL 106  
03/23/07 (H) Heard & Held  
03/23/07 (H) MINUTE(O&G)  
03/24/07 (H) O&G AT 1:00 PM SENATE FINANCE 532  
03/24/07 (H) -- Public Testimony --  
03/26/07 (H) O&G AT 8:30 AM CAPITOL 106  
03/26/07 (H) Heard & Held  
03/26/07 (H) MINUTE(O&G)  
03/27/07 (H) O&G AT 3:00 PM BARNES 124  
03/28/07 (H) O&G AT 7:30 AM CAPITOL 106  
03/28/07 (H) Heard & Held  
03/28/07 (H) MINUTE(O&G)  
03/28/07 (H) O&G AT 8:30 AM CAPITOL 106  
03/28/07 (H) Heard & Held  
03/28/07 (H) MINUTE(O&G)  
03/29/07 (H) O&G AT 3:00 PM BARNES 124  
03/29/07 (H) Heard & Held  
03/29/07 (H) MINUTE(O&G)  
03/30/07 (H) O&G AT 8:30 AM CAPITOL 106  
03/30/07 (H) Heard & Held  
03/30/07 (H) MINUTE(O&G)  
03/31/07 (H) O&G AT 1:00 PM BARNES 124  
03/31/07 (H) -- MEETING CANCELED --  
04/02/07 (H) O&G AT 8:30 AM CAPITOL 106  
04/02/07 (H) Heard & Held  
04/02/07 (H) MINUTE(O&G)  
04/03/07 (H) O&G AT 3:00 PM BARNES 124  
04/03/07 (H) Moved CSHB 177(O&G) Out of Committee

04/03/07 (H) MINUTE(O&G)  
 04/04/07 (H) O&G RPT CS(O&G) NT 3DP 2NR 2AM  
 04/04/07 (H) DP: RAMRAS, DOOGAN, OLSON  
 04/04/07 (H) NR: SAMUELS, KAWASAKI  
 04/04/07 (H) AM: DAHLSTROM, KOHRING  
 04/04/07 (H) O&G AT 8:30 AM CAPITOL 106  
 04/04/07 (H) -- MEETING CANCELED --  
 04/05/07 (H) O&G AT 3:00 PM BARNES 124  
 04/05/07 (H) -- MEETING CANCELED --  
 04/10/07 (H) RES AT 1:00 PM BARNES 124  
 04/10/07 (H) Heard & Held  
 04/10/07 (H) MINUTE(RES)  
 04/11/07 (H) RES AT 1:00 PM BARNES 124  
 04/11/07 (H) Heard & Held  
 04/11/07 (H) MINUTE(RES)  
 04/12/07 (H) RES AT 1:00 PM BARNES 124  
 04/12/07 (H) Heard & Held  
 04/12/07 (H) MINUTE(RES)  
 04/13/07 (H) RES AT 1:00 PM BARNES 124  
 04/13/07 (H) Bills Previously Heard/Scheduled  
 04/14/07 (H) RES AT 1:00 PM BARNES 124

**WITNESS REGISTER**

MARK HANLEY, Manager, Public Affairs  
 Anadarko Petroleum Corporation (Anadarko)  
 Anchorage, Alaska  
 POSITION STATEMENT: Testified in favor of HB 177 and answered questions.

TONY PALMER, Vice-President, Alaska Development  
 TransCanada Corporation, Inc. (TransCanada)  
 Calgary, Alberta  
 POSITION STATEMENT: Described TransCanada's interest in Alaska's pipeline project, expressed general agreement with HB 177, and answered questions.

**ACTION NARRATIVE**

**CO-CHAIR CARL GATTO** called the House Resources Standing Committee meeting to order at 1:03:40 PM. Representatives Gatto, Johnson, Kawasaki, Edgmon, Guttenberg, Seaton, Wilson, and Kohring were present at the call to order. Representative Roses arrived as the meeting was in progress. Representative Buch was also in attendance.

HB 177-NATURAL GAS PIPELINE PROJECT

1:04:04 PM

CO-CHAIR GATTO 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 contribution fund; providing for an Alaska Gasline Inducement Act coordinator; making conforming amendments; and providing for an effective date." [Before the committee was CSHB 177(O&G).]

1:06:43 PM

MARK HANLEY, Manager, Public Affairs, Anadarko Petroleum Corporation (Anadarko) informed the committee that Anadarko independently explores for oil and gas, and partners with other companies in some situations. It currently has an interest in, or contributes to, operations on approximately 5.4 million gross acres in Alaska. Its net acreage is about 1.8 million acres on the North Slope. He opined that the Foothills area is somewhat more "gas prone." He offered that Anadarko is continuing exploration activities in order to keep its leases with the state.

1:09:21 PM

CO-CHAIR GATTO asked how a lessee could lose its leases with the state.

MR. HANLEY replied that a lessee could turn a lease in at the end of the lease term. One of the ways to keep a lease is to drill a well and discover a "commercial quantity" of oil or gas. He noted that sometimes a lessee chooses to relinquish a lease if the exploration activities do not indicate good prospects for discovery. He explained that it can take a while to do research and exploration necessary to identify the most likely prospects for further exploration. He said it takes a few test wells to determine how much resource may be available. He indicated that Anadarko's exploration activities may speed up if it looks like the pipeline project is progressing. He said that under the current timeline set forth in the Alaska Gasline Inducement Act (AGIA) we "probably are not likely to be in the initial open season" if the possible timeline of 2011 holds true. He said that Anadarko could be offering an expansion for the gas pipeline two years after the initial open season, which would be "well before" construction will have started.

1:14:02 PM

REPRESENTATIVE WILSON asked how long it takes to provide gas to an existing pipeline.

MR. HANLEY replied that it depends on the situation, but it could be anywhere from five to ten years after discovery. He said that if Anadarko makes a discovery, it will proceed as quickly as possible to be ready to provide gas for a pipeline project. He noted Anadarko has already done quite a bit of exploration.

[1:17:50 PM](#)

REPRESENTATIVE GUTTENBERG noted that Anadarko explores about 200 miles south of Prudhoe Bay and asked whether there should be some type of in-pipe point in the Gates of the Arctic area.

MR. HANLEY replied yes. He suggested that there may be conversations with other companies so that they are aware of where Anadarko is working and how to best design the project to meet future needs.

[1:19:53 PM](#)

REPRESENTATIVE GUTTENBERG noted the desire for distance sensitive rates and asked about how Anadarko views distance sensitive rate issues.

MR. HANLEY responded that the Federal Energy Regulatory Commission (FERC) has addressed distance sensitive rates. He stated that Anadarko could argue to FERC that it should not have to pay the rate "if we come in 200 miles south." He agreed with an observation that there may need to be a gas treatment plant (GTP) to prepare the gas to enter a pipeline.

[1:20:59 PM](#)

REPRESENTATIVE SEATON asked whether as an independent producer, Anadarko is covered under the expansion criteria of AGIA as currently drafted.

MR. HANLEY said he believes so, but that he will look at AGIA's language again to make sure it should not say "delivery and receipt points," a change he indicated may make Anadarko "feel more comfortable." He explained that the issue of where in-take points should be will likely depend on the actual project design.

1:21:58 PM

MR. HANLEY said that Anadarko supports the process set forth in AGIA and opined that it provides three opportunities for input: the initial legislation, public comment on submitted applications, and final legislative review of the recommended application.

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REPRESENTATIVE SEATON asked how the witness views the final legislative review and whether he thinks that the license application could be modified at that point.

MR. HANLEY replied that it appears that the process for final legislative review is still being developed. He opined that whatever the process, Anadarko has the ability for input. He said he thinks AGIA creates a competitive process, noting that over 90 percent of gas reserves are controlled by three companies. He suggested that if the producers own the pipeline, the project deserves extra scrutiny, a point he claimed is borne out by prior FERC actions in the 1970s whereby the producers were prohibited from "owning this pipe." He opined that there are different motivators between pipeline companies and producers. He suggested that pipeline companies have experience working to consolidate interests so that a project can get started. He explained that pipelines are risky financially and that tensions between different interests are considered by FERC in the regulatory process. He suggested that a producer owned pipeline may not be developed with the business interest tensions that typically help establish a lower tariff. He reminded the committee that a higher tariff means a lower well-head price.

1:29:55 PM

MR. HANLEY went on to say that Anadarko approves of the "must haves" set forth in AGIA such as the mandatory provisions on access and rates. Anadarko supports requiring biennial assessment of market demand for expansions. He expressed approval for requiring the pipeline owner to commit to expand in reasonable increments on reasonable terms. Furthermore, he indicated approval of rolled-in rates up to 15 percent above initial rate and of precluding negotiated rate agreements that would preclude rolled-in rates. He said these three provisions increase the "comfort of explorers" to "get into the pipeline."

[1:32:39 PM](#)

REPRESENTATIVE SEATON asked whether negotiated rates could result in a rate of return so low that the pipeline becomes uneconomic for the builder.

MR. HANLEY opined that negotiated rates are common business practice and are the subject of at least two FERC orders. He suggested that there are ways for the owners to structure the rates so that the project is economically advantageous. He said he was not aware of whether negotiated rates could be used for leverage, but that Anadarko supports the language in AGIA that negotiated rates cannot be used to preclude rolled-in rates.

[1:35:16 PM](#)

REPRESENTATIVE ROSES noted that Anadarko does not anticipate bidding to build the pipeline or participating in the first open season, and opined that therefore only the provisions in proposed AS 43.90.130(5)-(7) would apply to it. He stated he understands why Anadarko would support subsections five and six. He opined that subsection seven on rolled-in rates would limit later rates charged to additional shippers. He noted that the prior testimony by the producers indicated disapproval with these three subsections and offered that is because the pipeline builder has concerns over accepting the risk at the first part of the project. He asked whether an expansion process could result in lower rates.

MR. HANLEY answered that yes, an expansion could "drive everybody's tariffs down."

[1:38:21 PM](#)

REPRESENTATIVE ROSES asked why an entity with gas for sale would commit all its gas during an initial open season if it could potentially wait and get a better price during a future expansion.

MR. HANLEY opined that there is incentive to participate on a large scale because economies of scale help to reduce the tariffs. He offered that during an expansion gas is offered that may not have been identified during the initial open season.

REPRESENTATIVE ROSES noted that under certain expansion circumstances initial suppliers can opt out of the volume they initially put in the pipeline.

[1:41:14 PM](#)

MR. HANLEY referred to a graph titled "Indicative Expansion Tariffs," [slide one to a PowerPoint presentation provided to the committee] which he explained shows the result of expansions on both rolled-in and incremental tariffs. The prediction is that rolled-in tariffs would result in a lower tariff, particularly if the expansion required looping rather than compression. He suggested that shippers would want to keep their gas in the line and not pull any out.

[1:43:53 PM](#)

REPRESENTATIVE ROSES noted that the samples shown on the graph predict a lower tariff after the first expansion and questioned why a shipper would not want to adjust its input to capture lower tariffs.

MR. HANLEY indicated some confusion regarding the aforementioned scenario, and stated he did not know why a shipper would "back out" volume from a pipeline.

REPRESENTATIVE ROSES asked whether the initial suppliers also benefit from later lowered rates.

MR. Hanley answered yes.

REPRESENTATIVE ROSES questioned why there was dispute over the incremental 15 percent increase above the maximum recourse rate if everyone, even initial shippers, would benefit from lowered tariffs during an expansion.

MR. HANLEY continued to describe expansion possibilities, using the examples on slide 1. He noted that a second expansion by compression would be more costly than the first expansion, but that the incremental rate would be higher than the rolled-in rate under this scenario. He said that constructing new pipeline for expansion is more expensive, and raises the tariffs, particularly if incremental tariffs are used. He explained that the issue of what constitutes a subsidy would be considered by FERC. He offered that under current FERC rules, the rate is rolled-in when it goes down for everyone, but is raised incrementally "when it goes up." However, he reminded

the committee that under FERC there is a "presumption of rolled-in rates." He pointed out that prior testimony claiming AGIA can result in one party subsidizing another could be characterized as correct, except that AGIA does not determine the rate. Instead, the pipeline owner is required to ask for a rolled-in rate "up to those certain levels." He offered that FERC will decide whether there is a subsidy or not. He opined that AGIA as written requires the pipeline to "ask for a rolled-in rate" while the initial shippers are free to argue before FERC that the rates not go up. He characterized this as a "natural tension to the system." He indicated that if the producers own the pipeline, the tensions that contribute to low rates may not exist. He concluded that FERC would make any actual decision regarding whether the future expansion rates result in any subsidy.

CO-CHAIR GATTO noted that a looping expansion could cause rates to rise for everyone; therefore there may be some incentive to not expand to 7.5 billion cubic feet (Bcf) per day.

[1:52:54 PM](#)

REPRESENTATIVE SEATON asked whether the provisions in AGIA which set a rolled-in rate up to 15 percent basically sets a negotiated rate, and therefore avoids "the problem of whether it is a subsidy or not."

MR. HANLEY opined that AGIA prohibits a negotiated rate that would prohibit roll-in and offered that FERC will still decide the subsidy question. AGIA requires the pipeline owner to ask for rolled-in rates up to 15 percent above the initial recourse rates. He explained that all providers run the risk of increased rates, but that it is important that explorers have access to the pipeline. He offered that at least one pipeline company claims it is possible to expand up to 7 Bcf per day and still be below the initial tariff if rolled-in rates are used.

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REPRESENTATIVE WILSON noted that rolled-in rates are used in Canada, and that much of the pipeline may go through Canada, where it would be subject to rolled-in rates. She offered that a pipeline owner and shipper may desire a different rate structure, but that if a shipper was also the owner it would still be able to be "able to write off things and still come out better."

MR. HANLEY opined that the producers support incremental rates and do not like the rolled-in rates.

REPRESENTATIVE WILSON offered that incremental rates may benefit the initial shippers.

MR. HANLEY said that current FERC policy "would roll-in this rate."

[2:02:23 PM](#)

REPRESENTATIVE WILSON said that she has been told by producers that AGIA requires use of rolled-in rates even though there may be a situation where they would not want rolled-in rates.

MR. HANLEY agreed and opined that rolled-in rates could require the producers as shippers to pay a higher tariff after an expansion. However, a pipeline company that would make money on an expansion would not mind rolling the costs in as it is "not that much more."

[2:04:39 PM](#)

REPRESENTATIVE ROSES clarified that a rolled-in rate would apply to all who ship gas in the pipeline. He asked if the same holds true for incremental rates - does the incremental cost increase apply only to the new gas being shipped while everybody else "would stay at the old rate."

[2:05:37 PM](#)

MR. HANLEY agreed that everyone shares rolled-in rates, while incremental rates apply only to the new shippers.

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REPRESENTATIVE ROSES clarified that the AGIA provisions on rolled-in rates limits the rates to not more than 15 percent above the initial rates. If the rate increased more than 15 percent, would any excess "then fall back on the person that is adding the gas," he asked.

MR. HANLEY replied that the pipeline owner will be free to argue that any increase over 15 percent be by incremental rates, but said that FERC will make the decision.

[2:06:38 PM](#)

CO-CHAIR GATTO asked if the contract provisions limiting the increase to 15 percent would limit the ability of the pipeline owners to make this argument.

MR. HANLEY responded that under the bill, the shipper is free to argue against the rolled-in rate limitation. The pipeline owner is required to support rolled-in rates up to "those levels" before FERC, while the shipper is free to argue against use of rolled-in rates and in favor of incremental rates.

[2:07:21 PM](#)

CO-CHAIR GATTO asked if the initial rate will stay the same should the pipeline not be expanded.

MR. HANLEY stated he believed the rates can change even absent expansion.

CO-CHAIR GATTO noted that inflation alone could potentially raise rates and questioned how that would affect an expansion if the 15 percent rate increase is already reached due to inflation at the time of a proposed expansion.

MR. HANLEY responded that AGIA addresses that by putting a cap on the rate increases. He suggested that the language regarding the terminus of expansion be clarified so that the rate increases apply only to the sections of the pipeline being expanded.

[2:09:31 PM](#)

REPRESENTATIVE WILSON requested clarification as to whether AGIA requires a shipper to argue for rolled-in rates before FERC even if it prefers incremental rates.

REPRESENTATIVE GUTTENBERG noted that the owner will receive a return on its investment regardless of whether rolled-in or incremental rates are used. However, if the owner is also a shipper, "you would argue the other way." He suggested that there may be a benefit to "separating those out," and to either not allow a shipper to be an owner, or to require a shipper to be an independent subsidiary of its owner-parent company.

MR. HANLEY stated that his understanding of AGIA is that the pipeline owner is required to request rolled-in rates, but the shipper is not. He opined that the bill tries to separate owner

and shipper interests to maintain some competitive tension that would not exist were the shipper and owner combined.

CO-CHAIR GATTO noted that this is a monopoly pipeline as there are no competing projects in the vicinity. He said that he believes FERC is aware of this and will move in the best interest of the public.

REPRESENTATIVE GUTTENBERG noted that prior testimony was that the percentage of ownership of the gas should be equal to the percentage of ownership of the pipe; therefore "we only have that problem if the producers build this line."

[2:14:08 PM](#)

REPRESENTATIVE SEATON asked the witness' opinion of requiring expansion to be substantially similar to the original pipe size [AS 43.90.130(6)(B)].

MR. HANLEY replied he did not know why this requirement would be in the bill, although he has asked others for this information.

REPRESENTATIVE SEATON asked whether there should be a provision in AGIA about places for future in-pipe points and where those should be.

MR. HANLEY agreed this was a valid point, and could use some additional discussion and clarification.

[2:17:14 PM](#)

REPRESENTATIVE SEATON asked whether applicants should be required to specify where their gas will come from and the amounts thereof. He noted there may be a risk of authorizing a project that cannot supply the amount of gas necessary to make the planned project work.

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MR. HANLEY opined that the shippers or others need to ask the Alaska Oil and Gas Conservation Commission (AOGCC) about the amount of gas available. As to whether a project could be designed absent this knowledge, he noted that the state is "asking folks to come up with some rough idea of what they would do in an application process." He offered that whether the amount of volume needed for a particular project would be available is a question that needs to be answered at some point.

REPRESENTATIVE SEATON asked about possible future carbon emissions tax issues and whether funds from carbon trading should go into reducing the tariff.

MR. HANLEY replied "we like anything that reduces the tariff," and noted this is a potential issue that could be addressed by applicants in their proposal.

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CO-CHAIR GATTO asked how carbon emission issues, such as taxes and caps are handled by his company.

MR. HANLEY answered that his company is aware of these issues and has done work so as to recover more oil in at least one situation.

CO-CHAIR GATTO noted that the gas is rich in carbon dioxide and the issue of where to put it will come up.

MR. HANLEY replied that in Prudhoe Bay the gas is re-injected to help recover more oil and noted there are some engineering issues involved regarding what to do with gas that "comes back up" after re-injection. He offered to provide the committee with more information on this issue.

The committee took an at ease from [2:25:26 PM](#) to [2:41:39 PM](#).

[2:42:03 PM](#)

TONY PALMER, Vice-President, Alaska Development, TransCanada Corporation, Inc., (TransCanada) referred to a PowerPoint presentation that was provided to the committee and explained that the company has been in business for 50 years and owns 36,500 miles of regulated natural gas pipeline which moves 15 Bcf of gas per day. The company owns approximately two-thirds of the take-away capacity from the Alberta Energy Company Ltd., (AEC) hub to North American markets. He offered that the AEC hub is the most liquid trading hub in North America, which he opined would be beneficial for Alaska's gas. He said that TransCanada also owns significant storage capacity, which can allow for storage of gas during the summer for sale during the winter when the price may be higher. He noted that one-third of Alaska Highway pipeline, called the Foothills pre-build, is currently in the ground and transports 3 Bcf a day. He mentioned that in 2006 TransCanada's cash flow was \$2.4 billion,

which he claimed was sufficient to cover the entire equity of the Canadian section of the Alaska project for one year. He explained that TransCanada recently successfully raised approximately \$1.7 billion in equity. He relayed that successful pipeline projects require more than engineering; they also require the ability to obtain necessary regulatory approval. He emphasized that TransCanada has operated with an independent pipeline model and rolled-in tolls [rates] to develop its Canadian resources. He referred to slide 5, which shows the proposed Alaska Highway Project and how its current infrastructure is integrated into the planned Alaska project. He characterized TransCanada as being a lead player in the Alaska gas pipeline project since its inception. The company has invested over \$2 billion over the last 30 years in this project. He explained that TransCanada's subsidiary, Foothills Pipe Lines Ltd., (Foothills), holds exclusive certificates under the Northern Pipeline Act (NPA) for the Canadian section of the Alaska project and that these certificates do not have an expiration date. He told members that Canada and the United States have entered a treaty regarding this project which identifies Foothills as the Canadian sponsor and sets out the rights and responsibilities of each nation. He said that TransCanada holds an easement for the proposed right that is recognized by the Canadian government, the Yukon Territorial government, and Yukon First Nations.

[2:53:20 PM](#)

MR. PALMER explained that 30 years ago, the Canadian National Energy Board (NEB) held competitive hearings to select the Canadian project sponsor and Foothills was selected as the Canadian sponsor. Subsequently, Canada and the United States negotiated a treaty for the Alaska gas project whereby Canada obtained benefits in exchange for access across Canada for Alaska gas. This treaty also established a single-window regulator to complement the NEB. TransCanada has used NPA to construct and expand the pre-build sections of the pipeline. He emphasized that Foothills was granted exclusive rights with regard to the Alaska project and that no party would invest the huge sums necessary without that exclusivity.

MR. PALMER referred to slide 8 and explained that in 1976 TransCanada received a conditional FERC certificate granted under the Alaska Natural Gas Transportation Act of 1976 (ANGTA). He said that in 2004 further enabling legislation updated these provisions to give TransCanada further options as to how to proceed under AGIA. He reminded members that

TransCanada has applied to Alaska for a state right-of-way and is still awaiting a decision on this matter. He mentioned that TransCanada has openly offered to vend its Alaska assets to whoever successfully commercializes the Alaska portion with one caveat - to connect to TransCanada's system at the Alaska-Yukon border. He described the route of the Canadian section and noted it follows highway routes fairly closely in many sections.

[2:58:09 PM](#)

MR. PALMER referred to slide 10 and emphasized that TransCanada has a federal easement for the pipeline route through the Yukon Territory. He indicated that work is still being done for the route through British Columbia and Alberta, but mentioned that the route passes through very little private land and through no First Nations' reserves in British Columbia and Alberta. He offered that six of eight First Nations groups have recognized the pipeline route and settled for their land claims with the Canadian federal government. He characterized the project as providing significant benefits to First Nations' people such as employment, local natural gas availability, representation on the Foothills Board of Directors, environmental protections, equity participation, and zonal tolls.

[3:07:05 PM](#)

REPRESENTATIVE WILSON asked about the process of working with First Nations groups in British Columbia and how long it may take to settle some claims.

MR. PALMER clarified that within the Yukon Territory the Kaska and White River groups are the only parties without final land claims settlement at this point. There are some groups in British Columbia that do not have a final land claims settlement, however the proposed pipeline route would not go through any First Nations' reserve land in that province, he explained. He said that now is not the appropriate time to secure those right-of-ways needed in British Columbia, but opined that obtainment of the necessary right-of-ways could be done expeditiously once the Alaska gas pipeline project was underway.

[3:08:56 PM](#)

CO-CHAIR JOHNSON asked about whether the tax rates were "locked in with regard to Canada." He asked what the rate was, and for how long it was guaranteed.

MR. PALMER explained that the treaty between the United States and Canada established the structure of Canadian property taxes within Canada for this project. Under the terms of the treaty, the parties agreed that the Canadian provinces with existing pipelines will charge the Alaska pipeline the same property tax rate applied to domestic projects. At the time of the treaty, there was no pipeline within the Yukon Territory, so the treaty established some specific numbers regarding what rate could be charged. He said that the rates in Canada do change, and are not uniform between provinces, but opined they are competitive with Lower 48 rates. He explained that the rates are established for the duration of the treaty, which continues through 2012 and beyond, unless either country revokes the treaty. He clarified that those parties agreed that the tax rates for the Alaska project would be the same as for domestic Canadian pipelines. The parties did not establish a specific rate within the Canadian provinces but they agreed to apply the Canadian rate to Alaska gas, he explained.

[3:13:00 PM](#)

CO-CHAIR GATTO asked about the term "greenfield project."

MR. PALMER explained that a greenfield project would not use the NPA or the treaty and that TransCanada and Foothills are not proposing a greenfield project.

CO-CHAIR GATTO asked about project labor agreements and whether TransCanada would want to participate in such an agreement.

MR. PALMER suggested that for Alaska sections of the project TransCanada would look to Alaska standards and for the Canadian sections would look to Canadian standards. He offered TransCanada will do whatever is appropriate at the time to insure the project can be completed economically.

[3:14:23 PM](#)

CO-CHAIR GATTO asked whether under AGIA, TransCanada would be willing to submit an offer, or whether there are some parameters in AGIA "that aren't livable."

MR. PALMER responded that he would like amendments to the provision that requires the chosen applicant to pursue a FERC certificate through an unsuccessful open season. He offered that TransCanada would like that provision amended so that an

applicant could continue to pursue customers and alternate forms of credit, but would not be required to pursue a FERC certificate if insufficient volumes had been tendered at the initial open season. He offered that he understands that the state has many potential benefits from the project, such as royalties and taxes. However, the pipeline company only has one form of reimbursement - the return on the investment it makes in the equity component of the project. He indicated TransCanada would like to hold off from pursuit of a FERC certificate if there was not sufficient credit or an adequate customer base.

[3:16:27 PM](#)

CO-CHAIR GATTO characterized the provision regarding FERC certification [AS 43.90.130(3)] as one of the twenty "must haves."

CO-CHAIR JOHNSON asked if the treaty required TransCanada to provide off-take points to the Yukon communities of Beaver Creek and Whitehorse.

MR. PALMER clarified that TransCanada has an obligation through the treaty and NPA to install an off-take valve to allow those communities to take gas from the system. He characterized the volume that would go to these communities as minimal compared to the whole volume of gas in the pipeline, but important to those customers.

CO-CHAIR JOHNSON asked if AGIA's distance-sensitive rates would be taken into consideration in providing access to gas to Canadian communities.

MR. PALMER explained that the pipeline in Canada would have "zonal tolls" in which customers pay only the upstream portion of pipeline tolls. For example, a customer in Beaver Creek would only pay tolls for the section of pipeline from Beaver Creek to Whitehorse.

[3:19:02 PM](#)

CO-CHAIR JOHNSON asked if rolled-in rates in Canada are calculated the same as rolled-in rates in the United States.

MR. PALMER replied no. He explained that within Canada rolled-in tolls [rates] are the norm. When there is a pipeline expansion the new rate is charged on an "average, rolled-in" basis to all customers regardless of whether the rate increases

or decreases. However in the United States, FERC has tended to allow rolled-in rates when tariffs decline as a result of an expansion, but not when they increase. Furthermore, when the volume of gas decreases, the rate would increase on a unit basis.

[3:21:43 PM](#)

CO-CHAIR JOHNSON asked if the toll to Canadian shippers will decrease when Alaska gas reaches Alberta due to the additional volume of gas.

MR. PALMER responded that TransCanada expects that the total pipeline system leaving Alberta will have sufficient spare capacity in 10 years' time to move Alaska's entire volume of gas to market without incremental facilities. He opined that this would benefit Alaska by providing market diversity to Alaska's gas. Second, it should reduce the risk of capital cost overrun by abbreviating the project. However, under the current toll mechanism in Canada, Canadian customers would benefit because the toll rates would decrease due to the volumes of Alaska's gas. He offered that there would also be benefits to Alaska because the toll would be lower than would apply to a new pipeline.

CO-CHAIR JOHNSON asked if there is anything in Canadian law that prohibits Alaska from sharing in the tariff reduction.

MR. PALMER replied that the "tolling mechanism" in place in Canada would result in a lower tariff for all pipeline shippers; however it would not specifically designate value solely to Alaska gas.

[3:23:59 PM](#)

REPRESENTATIVE ROSES asked if increased in rates in Canada would also apply to Alaska gas since under the Canadian system, rates are "rolled-in" for both increases and decreases.

MR. PALMER answered yes-each shipper would pay the average rate.

[3:24:39 PM](#)

CO-CHAIR GATTO asked whether it is unusual for gas to move from one country to a second country and back to the first country.

MR. PALMER replied that such a situation is "very rare". He noted that gas is moved from Canada, through the northern mid-western United States and back into Canada. He indicated that United State's markets are served from the segment of the line in the United States.

[3:25:49 PM](#)

REPRESENTATIVE ROSES asked if there is a minimum volume necessary for TransCanada to be interested in the Alaska gas pipeline project.

MR. PALMER replied that is a difficult prediction to make as it depends upon natural gas prices and markets over the coming years. However, if the design were to be for a 48 inch pipeline, it would be appropriate that volume be somewhere between 4 and 4.5 Bcf a day to start. He opined that the volume could be slightly less and "still make the economics work," although the tariffs would increase. He observed that if the volume was estimated to be significantly lower than 4 Bcf a day for some time, then the parties should "look clearly" at a smaller diameter pipeline, and noted that with this approach, if volumes increased, one "would see higher costs." He said these decisions would need to be made based on the expectations of initial and predicted future gas flow. He reminded the committee that TransCanada's system started at less than .5 Bcf a day but it now has a series of six pipelines that carry approximately 7 Bcf a day. He concluded that much of the design is based on available gas, expected market prices, and market demands. TransCanada has estimated that the Alaska project would have 4 to 4.5 Bcf of gas available at the beginning of the project and be expandable "quite readily" up to 6 Bcf with compression alone.

REPRESENTATIVE ROSES asked whether a volume of 2.5 Bcf would still allow for a viable project, and noted that if there was an in-state line to Valdez it would reduce capacity available for a pipeline through Canada.

MR. PALMER replied that under the aforementioned scenario, tolls [tariffs] in Canada would be higher. The project could still be economic if customers were prepared to sign shipping agreements based on the higher prices. He offered his belief that the potential buyers "would look very carefully" at the pipeline tariff and that "would be significant factor" in their decision.

[3:29:46 PM](#)

CO-CHAIR GATTO asked whether in approximately 10 years, "Alberta would need 1 Bcf to operate the Tar Sands."

MR. PALMER replied that there are different forecasts for demand and observed that "oil sands and heavy oil" developments are significant factors that are expected to drive demand in Western Canada. He said that he has seen differing estimates for the amount of future demand for gas. He said that there has been a very large growth in Western Canada's demand for gas, but a relatively low production profile. He expected that gas production in Western Canada is expected to decline over the next 10 years which will open up more gas pipeline capacity. Some estimates are that within 10 years' time there will be 4.5 Bcf of spare capacity in the gas pipelines leaving Alberta, he said.

CO-CHAIR GATTO observed that if Alaska shipped 6.5 Bcf to Alberta, Alberta could take off 1 to 1.5 Bcf and leave gas in the pipeline for transport to other markets. He asked about the estimated future demands for gas.

MR. PALMER reiterated that he expects that Alaska's gas volume would start at around 4 to 4.5 Bcf a day. If the gas started at 6 to 6.5 Bcf a day, then there may be a need to construct other facilities away from Alberta to ship Alaska gas to other markets. He explained that TransCanada expects a continued increase in the market's need for gas. He also expects that gas production in Western Canada will continue to decline in the future.

[3:33:04 PM](#)

CO-CHAIR GATTO asked whether the future demand for gas may decrease due to other energy sources and whether the future price of gas "may be somewhat reliable over the long term." He relayed that gas is currently priced at "around \$7.90."

MR. PALMER recalled that energy forecasts predict natural gas prices in 10 years to be around \$6.60 (in future dollars), which is lower than today's prices. The expectation is that additional supplies will moderate the price of gas. He offered his belief that higher gas prices have a "dampening" effect on demand. However, if the estimates for lower prices are correct,

he predicted one would "see a modest increase in natural gas demand over the next decade."

[3:35:50 PM](#)

CO-CHAIR GATTO asked about the future development of coal-fired power plants in Canada.

MR. PALMER explained that Alberta has historically had a great number of "mine mouth" coal-fired power plants. He expects coal plants to continue, although there may be future carbon or climate change taxes imposed that would change the economics of coal plants. In eastern Canada, energy comes from coal, nuclear, and hydropower plants. He explained that the current Canadian federal government plans to phase out coal plants over the course of several years. In further response, he explained that Ontario has had a significant nuclear presence for many years and TransCanada is an investor in at least one nuclear power plant. The aforementioned change to nuclear power is related to environmental concerns as well as to the fundamental economics of power generation in certain areas of the country.

[3:39:00 PM](#)

REPRESENTATIVE SEATON asked about the possible future effect on pipeline tariffs due to changes in regulations based on greenhouse gas concerns. He offered that a three percent through-put for compression and operation of the pipeline could double the carbon dioxide emissions for Alaska.

MR. PALMER replied that although TransCanada will be facing those issues, it does not expect there will be a significant impact on pipeline tariffs. He offered that it is up to legislators to decide what laws will actually be passed in this area.

REPRESENTATIVE SEATON asked about TransCanada's efforts to comply with voluntary emissions' reduction standards.

MR. PALMER responded that TransCanada follows the voluntary requirements in Canada and the United States. He said it has a high quality performance record for compliance with environmental standards.

REPRESENTATIVE SEATON asked whether AGIA should require applicants to address whether they are in voluntary compliance with environmental standards.

MR. PALMER opined that inclusion of such a requirement is not necessary because any party that is responsible and has a track record will follow voluntary environmental standards.

[3:42:43 PM](#)

REPRESENTATIVE SEATON asked if AGIA's provision regarding a commitment to rolled-in rates up to 15 percent is unusual [AS 43.90.130(7)].

MR. PALMER explained that within Canada there is not a numerically capped limit to rates. Toll [rate] increases and decreases are generically rolled-in and applied to all shippers. Due to the large pipeline base in Canada, even a significant expansion to the pipeline does not have much of an effect on the rates, he explained. He told members that TransCanada has analyzed the Alaska project assuming an initial project volume of 4.5 Bcf a day. Under its estimated scenario, if expansions were made through compression in year one, the rolled-in rates would decline from 4.5 Bcf a day to a lower number, "right through 5.9 Bcf. Even if future expansions up to 7 Bcf a day require looping [construction of additional pipeline], the rolled in rate would still be below the initial 4.5 Bcf rate, he opined. He emphasized that TransCanada generally supports rolled-in tariffs and would do so for this project.

[3:45:52 PM](#)

REPRESENTATIVE SEATON referred to proposed AS 43.90.130(6)(B) which requires that an applicant commit to looping with a pipe size that is substantially similar to the original pipe size. He asked whether it is usual to use the same pipe size as the original pipe for looping and whether this provision should be included in AGIA.

MR. PALMER replied that normally an expansion that required looping "would see a pipe diameter of equivalent size," although sometimes larger pipe is used. He went on to say the decision of how to proceed is based upon the expectation of long-term supply and demand. He opined that it would introduce significant system inefficiencies if looping was done with differing pipe sizes or with different sized compressors. He offered that the language in AGIA regarding expansion is

appropriate as it would increase future efficiencies for pipeline expansion.

[3:48:53 PM](#)

REPRESENTATIVE SEATON asked whether there are situations where the initial shippers pay a negotiated rate of 85 percent of the initial maximum recourse rates.

MR. PALMER noted that he has not seen an analysis in which shippers pay 85 percent of the initial recourse rates. He explained that aforementioned situation could occur in the following scenario: If the project were to proceed with 4.5 Bcf a day initial volume with 25 year contracts, he would expect that pipeline "would establish tolls" that would collect the depreciation on the project over the course of the 25 years. For the purposes of the example, the toll [rate] would be \$2.00. However if the recourse rates were established to collect the entire depreciation of the pipeline over 15 years, the toll [rate] would be significantly higher, such as \$2.50. He opined that in that circumstance, negotiated rates could be established for 25 years that are significantly below the recourse rate using a 15 year depreciation period. However, if both the recourse and negotiated rates had similar recovery periods for depreciation, then there would not be "anything like a 15 percent difference" between the recourse rate and the negotiated rates, he offered.

[3:51:16 PM](#)

REPRESENTATIVE SEATON recalled TransCanada's desire for an amendment to the requirement that an applicant pursue a FERC certificate after open season. He asked for an explanation of this issue.

MR. PALMER replied that he understands that prior to an open season the state would pay costs up to 50 percent, and would pay costs up to 80 percent after open season. Based on this, the pipeline sponsor would pay 50 percent prior to open season and 20 percent after open season. TransCanada believes it is a positive development that the state share costs after open season, as such an arrangement would have the state sharing the risks as well as the benefits of the project. However, in the event of an unsuccessful open season, TransCanada would very much prefer to focus its efforts on obtaining additional customers or credit rather than to pursue a FERC certificate. He told members pursuit of a FERC certificate is a "significant

initiative" that requires much effort and a substantial expenditure of funds that could be used instead to attract additional customers.

REPRESENTATIVE SEATON asked how a pipeline licensee would proceed to obtain gas for the pipeline if there is an unsuccessful open season. He noted that if there is a FERC certificate, the holders of the gas would be required to sell the gas if it is economic, but would not be so required absent a FERC certificate.

MR. PALMER related that TransCanada has held a conditional FERC certificate on this project for some 30 years. The lack of customers and credit has caused the project not to proceed. He stated that he understands the state's desire for a FERC certificate and its willingness to pay up to 80 percent of the costs to obtain the certificate. However, obtainment of customers and credit are the critical factors for a successful project, he explained. Although a FERC certificate is important, he reiterated that an amendment to this requirement would increase TransCanada's ability to bid on this project.

REPRESENTATIVE SEATON inquired as to what TransCanada could do to secure gas if there is a failed open season.

MR. PALMER responded that TransCanada would review the proposal made during initial open season and would review comments from customers who signed as those who did not to determine how to improve the proposal and attract more customers. He suggested they may propose a "follow-up" open season. TransCanada would look to the state to see if it would take any additional actions. Additionally, it would look to the producers to see if they were increasing exploration activities.

The committee took an at-ease from [4:00:08 PM](#) to [4:01:36 PM](#).

[4:01:48 PM](#)

REPRESENTATIVE ROSES asked if it would make more sense to hold open season prior to issuing a license.

MR. PALMER answered that he is not sure how that would work and expressed uncertainty as to who would conduct the open season in such a case. He opined that the state would be required to perform a significant amount of pipeline work to be in the position to put forth a credible proposal. He questioned

whether the state could choose a party outside of AGIA to prepare for an open season.

4:02:54 PM

REPRESENTATIVE ROSES asked about AS 43.90.130(5) regarding a commitment to review market demand for additional capacity every two years.

MR. PALMER replied that the aforementioned subsection is not of concern as TransCanada will seek to expand this project.

REPRESENTATIVE ROSES asked whether TransCanada has concerns about AS 43.90.130(10) regarding commitment to any proposed GTP based on "a capital structure for rate-making that consists of not less than 70 percent debt."

MR. PALMER replied that it is not uncommon for large projects to be highly leveraged with 70 to 75 percent debt. He noted that the United States federal government is willing to provide a loan guarantee of up to 80 percent. He opined that the project will require long-term transportation contracts to be able to reduce the business risk on the project so that it can bear the substantial financial risk of 70 percent or more debt. He concluded that the debt ratio is not of concern to TransCanada if it can obtain properly structured firm transportation agreements. In further response, he indicated that the requirement in subsection 14 that an applicant have local headquarters in Alaska is not of concern and TransCanada would look to have a local headquarters.

REPRESENTATIVE ROSES asked whether TransCanada has concerns about AS 43.90.130(16) which requires an applicant to waive its right to appeal the award of the project to another applicant.

MR. PALMER replied that TransCanada has participated in many projects that require responses to requests for proposals. He opined that if the process for decision-making is fairly established, "we take our chances as to whether we win or lose." If the government of Alaska establishes a fair process and if TransCanada is not chosen, it "will live with the consequences."

REPRESENTATIVE ROSES set forth that AGIA is basically the structure for the upcoming proposal and asked whether based on that, TransCanada "can live with the lack of appeal process."

MR. PALMER reminded members that there is not yet an actual request for proposal [request for application], but assured the committee that if the application comes out on a fair basis and establishes a process that is equitable to the parties, we "will live with the consequences."

[HB 177 was held in committee.]

#### **ADJOURNMENT**

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at [4:09:03 PM](#).