

**ALASKA STATE LEGISLATURE  
HOUSE RESOURCES STANDING COMMITTEE**

April 16, 2007

1:09 p.m.

**MEMBERS PRESENT**

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

**MEMBERS ABSENT**

Representative Vic Kohring

**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  
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 04/13/07 (H) MINUTE(RES)  
 04/14/07 (H) RES AT 1:00 PM BARNES 124  
 04/14/07 (H) Heard & Held  
 04/14/07 (H) MINUTE(RES)  
 04/16/07 (H) RES AT 1:00 PM BARNES 124

**WITNESS REGISTER**

WENDY KING, Manager  
 ANS Gas Development Team  
 ConocoPhillips Alaska, Inc.  
 Anchorage, Alaska

POSITION STATEMENT: During hearing on CSHB 177(O&G), presented information and answered questions.

**ACTION NARRATIVE**

**CO-CHAIR CARL GATTO** called the House Resources Standing Committee meeting to order at [1:09:04 PM](#). Representatives Gatto, Johnson, Edgmon, Kawasaki, Wilson, Seaton, and Roses were present at the call to order. Representative Guttenberg arrived as the meeting was in progress.

HB 177-NATURAL GAS PIPELINE PROJECT

[1:09:13 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 matching 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).]

1:09:53 PM

WENDY KING, Manager, ANS Gas Development Team, ConocoPhillips Alaska, Inc., explained that ConocoPhillips is the state's largest oil and gas producer. In fact, ConocoPhillips has had 1,200 liquefied natural gas (LNG) shipments since 1969 from the facility in Kenai. Furthermore, ConocoPhillips has drilled 60 exploration wells in Alaska since 1999, including 16 wells in National Petroleum Reserve-Alaska (NPR-A). ConocoPhillips is the largest holder of acreage on the Alaska North Slope (ANS) on both state and federal lands. ConocoPhillips, the Heritage Company Phillips, was the first oil company to establish offices in Alaska. Alaska is a major part of ConocoPhillips's global portfolio with 13 percent of its 2006 production based in Alaska and 19 percent of its 2006 reserves based in Alaska.

MS. KING then related ConocoPhillips' agreement with the administration that timing is important, which is why ConocoPhillips is present today and committed to finding a way to develop the ANS gas resource. Furthermore, ConocoPhillips is also willing to consider creative solutions as there are many alternatives by which a project can be moved forward. She then thanked the members of the House Special Committee on Oil and Gas for the positive changes it made that bring the Alaska Gasline Inducement Act (AGIA) closer to resulting in a gas pipeline. However, she opined that significant additional changes are necessary to AGIA.

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MS. KING then turned the committee's attention to slide 1 of the PowerPoint presentation, which relates that from the 1970s into 2000, ConocoPhillips worked on other technologies, such as LNG, gas-to-liquids (GTL), and alternative project proposals to market this ANS gas. The graph illustrates that starting in 2000 there was an upturn in gas prices that caused ConocoPhillips to renew its focus, which it did by working jointly with BP and Exxon Mobil Corporation (ExxonMobil) in 2001 and 2002. In fact, ConocoPhillips spent \$125 million reviewing technologies, environmental regulatory work, and commercial work that would be necessary to advance a gas pipeline project. Ms. King pointed out that ConocoPhillips has focused on a southern route project since the 2002 study. Through 2003-2004, ConocoPhillips worked hard on the federal legislation, which

resulted in the Alaska Natural Gas Pipeline Act. She then recalled the reauthorization of the Alaska Stranded Gas Development Act (ASGDA) in 2003, and noted that ConocoPhillips, BP, and ExxonMobil submitted an application in January 2004. Ms. King said that ConocoPhillips has been actively working since 2000 to advance a gas pipeline project.

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CO-CHAIR GATTO asked if Ms. King was part of the negotiations requiring a signed confidentiality statement.

MS. KING replied yes, and noted that the confidentiality provisions were outlined in ASGDA.

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REPRESENTATIVE WILSON inquired as to which route is considered the southern route.

MS. KING clarified that basically [the route] would parallel Fairbanks and would cross Alaska into Canada into Alberta.

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MS. KING continued her presentation by relating that ConocoPhillips is prepared to work with Governor Palin and the Alaska State Legislature in order to develop a framework that would advance the project. "We believe that dialogue and balance [and] accommodation of each other's reasonable concerns are essential to create the alignments necessary to move this mega-project forward," she opined. She then turned the committee's attention to slide 2, which relates that in 2001 dollars the estimate of the cost of this project all the way to Chicago was about \$20 billion. Slide 2 points out that the next largest pipeline is the Rockies Express pipeline, which is currently in construction and estimated to cost \$4 billion and cover approximately 1,300 miles. The planned capacity of the Rockies Express pipeline is 1.5 billion cubic feet (bcf) a day. The next largest project is the Alliance project, a 1,800 mile pipeline, with a capacity of 1.3 bcf a day and a cost of about \$3.6 billion. She explained that the McKenzie Delta project isn't on this chart because it isn't in construction. However, the most recently publicly available cost estimates for the McKenzie Delta project are \$14 billion, including the upstream portions of the project. The McKenzie Delta project is estimated to have a capacity of about 1.2 bcf a day.

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MS. KING, in response to Co-Chair Gatto, clarified that the chart on slide 2 only relates to projects that only include midstream figures, which is why the McKenzie Delta project numbers aren't included. Ms. King then highlighted that the 2001 project cost estimate doesn't include the upstream finding, development, and operating costs that will be incurred to get that gas ready for production. Therefore, there are additional costs associated with the project beyond those on the chart. In further response to Co-Chair Gatto, Ms. King confirmed that the cost of the gas treatment plant, estimated to be \$2.5-\$3 billion in 2001 dollars, is included. Therefore, the gas treatment plant alone is a mega-project. In fact, each individual component of the Alaska project is a mega-project. The Alaska project, based on volume and cost, is significantly larger than other interstate pipelines going forward in North America.

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MS. KING moved on to slide 3, titled "Alaska Gas Pipeline Project Risks". With regard to the costs, she pointed out that since 2001 steel prices have nearly doubled. Furthermore, labor costs continue to rise. Therefore, the previous \$20 billion cost estimate would be significantly higher today. Moreover, significant regulatory, engineering, and commercial work would be required to obtain an updated cost estimate prior to an open season. Ms. King then highlighted that gas prices continue to remain volatile and predicting natural gas prices over a 20- to 40-year period is a huge challenge. She noted that the state and the lessees are aligned in that both are exposed to the natural gas price and cost overrun risks through the royalty and production taxes.

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MS. KING, in response to Co-Chair Gatto, confirmed that a pipeline owner with a firm shipping commitment is indifferent to what is occurring with natural gas prices. For example, if the toll was \$4 and natural gas prices for the day or month were \$3.50, the pipeline owner will still be paid \$4 while lessees and the state will receive less value for that gas in that instance. That's one area where the lessees and the state are aligned, she noted.

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MS. KING returned the committee's attention to slide 3 and pointed out that there are other risks and uncertainties. Normally, upstream oil and gas projects illicit discussions regarding cost, price, and reserves. However, this mega-project includes other risks and uncertainties that must be included. She emphasized that the Alaska project will be a world-scale project and thus there will be world-scale logistics and material procurement that must be addressed. Furthermore, one must ensure that trained, qualified workers are available when needed. Weather impacts must also be managed, she pointed out.

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CO-CHAIR GATTO inquired as to the number of employees required.

MS. KING recalled that just for the directed jobs, it would take 27,000-man years in the construction phase alone. She offered to do some calculations to break it down further for the committee.

CO-CHAIR GATTO commented on the difficulty of finding labor.

MS. KING said that she has additional data regarding labor that can be supplied to the committee. However, she reminded the committee that the data is based on a 2001-2002 study.

CO-CHAIR GATTO commented that it would be helpful for the committee to review what the state's schools can produce in terms of vocational and technical skills as well as the pipeline quality personnel that might be available. The aforementioned would be helpful in determining what can be done to reach the need.

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REPRESENTATIVE WILSON expressed interest in the number of people that would be working.

MS. KING agreed to provide the committee with more details on the workforce requirements of this project. She recalled that at the federal level, \$20 million was already allocated for training funds in recognition of the significance of having the labor trained and ready by the time the construction phases of this project are reached.

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MS. KING continued discussion of the risks and uncertainties, including how to ensure the right up-front engineering. She explained that the processes of front-end engineering design (FEED) and front-end loading (FEL) have been developed in order to help those executing a mega-project spend dollars up front that will minimize risks and uncertainties such as a significant cost overrun risk later in the project. If a project is managed correctly, dollars spent up front can save a lot of dollars later. With regard to the risks and uncertainties of reserves and deliverability, Ms. King questioned where the gas will be found. She recalled that with the base case about 50 trillion cubic feet (tcf) is necessary to have a 4.5 bcf a day pipeline. Therefore, 15 tcf more gas has to be found, which causes the following questions to arise: where will that gas be located; what will the deliverability of it be; what will the deliverability be; what will the cost of development; will the wells produce as expected; and will the compressors perform as expected. Ms. King related that she has worked on many production assets during her career, and pointed out that [ConocoPhillips] has had difficulty predicting production over just one year.

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CO-CHAIR GATTO asked if ConocoPhillips has a plan for finding 15 tcf.

MS. KING stated that ConocoPhillips has been an active explorer. In fact, ConocoPhillips is exploring in a region in NPR-A that is known to be gas prone. If a gas pipeline project is moving forward, she anticipated that ConocoPhillips would be one of the companies actively pursuing exploration on the North Slope.

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REPRESENTATIVE SEATON returned to what he characterized as a critical item, deliverability. He expressed concern with regard to where the producers have identified the source of the [gas in the quantities necessary]. He related his understanding that Point Thomson actually has been identified as an oil field and thus a blow off of gas from it might be very problematic. He asked if ConocoPhillips has requested that the Alaska Oil and Gas Conservation Commission (AOGCC) reevaluate the gas off-take from Prudhoe Bay or Point Thomson.

MS. KING pointed out that ConocoPhillips is a 36 percent working interest owner in the Prudhoe Bay field. The Prudhoe Bay working interest owners have been working with the AOGCC for over a year. Prior to an open season, it would seem prudent for any working interest owner to have that issue resolved, she opined. Ms. King highlighted that a shipping commitment means that there's a financial obligation to pay a pipeline. Although one doesn't necessarily have to have gas to back the shipping commitment, particularly for a strong financial company, it's a fairly risky prospect to take out capacity on "spec" from a pipeline of this magnitude. Ms. King said she anticipated that [ConocoPhillips] will continue to work with AOGCC regarding a new approved off-take rate prior to an open season. However, ConocoPhillips would need to work with the working interest owners in order to determine the appropriate investment level. Furthermore, there will have to be discussions with DNR regarding the plan of development. Ms. King stated that nothing in an open season would foreclose others from [being involved]. She noted that ConocoPhillips has a relatively minor interest, about 5 percent, in Point Thomson. Still, ConocoPhillips, she related, is hopeful that it will find additional exploration volumes so that it can make a nomination from other volumes as well. All of the aforementioned will come together at an open season, she said.

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REPRESENTATIVE SEATON highlighted that the producers have been emphasizing the need for certainty. However, they haven't even determined how much gas can be taken off the two major fields. The study from the working interest owners group from Prudhoe Bay hasn't produced enough information to reassess Rule 9. As to whether there's momentum toward an open season, it seems questionable, he said.

MS. KING said that ConocoPhillips anticipates that upon completion of the project planning phase, which under AGIA would be after a license is awarded, there would be an open season for 18 months to 2 years. ConocoPhillips, she opined, believes that it can do the appropriate reservoir engineering and subsurface work to have a plan with the AOGCC prior to the open season. She related her understanding that the working interest owners are working on that and continuing to do so. The intention, she noted, of ConocoPhillips is to continue that work with the Prudhoe Bay working interest owners.

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REPRESENTATIVE SEATON inquired as to how a pipeline company can develop a proposal based on anticipated volumes of gas if the producers aren't going to know, until just prior to the open season, what volumes will potentially be nominated for the people to design the pipeline to place a proposal and tariff forward. He related his understanding that the aforementioned must be in place prior to an open season.

MS. KING said that she would cover some of these issues in upcoming slides.

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MS. KING returned to the risk and uncertainties and highlighted the actual cost to explore and develop the known gas resources and future gas resources. She posed a situation in which the pipeline project is going forward and [a company is spending] tens of billions of dollars in the construction phases of the project. If [a company] is also trying to prepare Prudhoe Bay for gas production, there will be additional investment associated. Those developments and capital expenditures will proceed concurrently with the largest private construction project in North America. Therefore, within the state there will be competition for goods and services in order to ready the assets and the pipeline. When the pipeline is ready and it comes on stream, she said she wouldn't want to be the upstream person who hasn't "gotten the upstream development right" and the gas isn't ready to enter the pipe. There will be many logistical challenges, she opined.

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REPRESENTATIVE GUTTENBERG informed the committee that this process is something that he has been through and the producers on the North Slope do every year. Furthermore, many of the same comments being made today were made during the Prudhoe Bay expansion in the mid 1970s. Therefore, the oil industry has much experience with these risks and uncertainties. With regard to labor availability, Representative Guttenberg said that labor has been driven away from the North Slope as work on the North Slope has become less desirable than it ever was before. He then opined that the industry has done little to make the North Slope a place that people want to work and have a long-term career.

MS. KING said that she hasn't worked on the North Slope nor is she an expert on labor as she has focused entirely on the gas pipeline since arriving in Alaska. However, she related that one of the challenges with which she has been charged is to look forward. Therefore, if there is going to be a large labor demand, she expressed the need to work with others to have the labor ready. The timeframe between now and construction is critical to try to have the appropriate training facilities in place to ensure success in delivery of the project.

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MS. KING, continuing with slide 3, reiterated that predicting over a 20- to 30-year timeframe is difficult in terms of knowing and/or guaranteeing the project economics. With these risks and uncertainties, Ms. King opined that there's no entity that's capable of guaranteeing an economic return on this project. She highlighted that the magnitude of the initial shipping commitments are staggering. For example, if the toll is \$3.50 and the pipeline open season proposed signing up for a 20-year shipping commitment, that could amount to in excess of a \$26 billion financial obligation for 1 bcf a day, which would roughly amount to ConocoPhillips' share. For 4 [bcf a day] that would amount to over \$100 billion in financial obligations that would be made to a pipeline entity for a 20-year shipping commitment. Strong parties, she emphasized, will be required to have the financial strength to sit behind a shipping commitment of that magnitude.

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CO-CHAIR GATTO asked if there is insurance available against catastrophic losses.

MS. KING said, "I'm not aware that we would be pursuing something like this." She clarified that it would be ConocoPhillips that would be sitting behind that shipping commitment and guaranteeing the pipeline company that it would pay it. The pipeline company and/or the banks will assess whether ConocoPhillips is strong enough to meet that obligation.

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REPRESENTATIVE SEATON requested an explanation as to where the 80 percent federal guarantee comes in if firm shipping commitments for 100 percent of the project are being required. Representative Seaton related his understanding that if the

markets have full confidence in ExxonMobil, ConocoPhillips, and BP, the 80 percent [federal guarantee] seems to be meaningless.

MS. KING related her understanding that the pipeline entity will hold an open season and specify what size it thinks the pipe will be, how much the costs would be, and shipping commitments will be made. She explained that the shippers are agreeing to ship gas or pay demand charges for a fixed term, as specified on slide 4. Those shipping commitments can then be used by the pipeline company to repay its debt and obtain a return on equity on its contribution. Those commitments allow the pipeline to obtain the financing, and furthermore it serves as collateral for that financing. With regard to the loan guarantees, she opined that there's a fair amount left to be determined as to how the actual federal loan guarantees will actually be used. She related her understanding that the federal loan guarantees will only step in after the lenders in the pipeline have gone back to the shippers. Therefore, she surmised that the U.S. Department of Energy, in reviewing the impact of the loan guarantees, will review the likelihood of the pipeline entity and/or shippers will default in order to determine where the federal loan guarantees will step in. She likened this to a third tier. Still, more work is necessary with regard to the implementation of the federal loan guarantees. In further response to Representative Seaton, Ms. King said that she would follow up on the 80 percent federal guarantee. She clarified that she hasn't heard anyone say that they could build a 4.5 bcf a day pipeline and obtain financing if there was only signed shipping commitments for 20 percent of it. In order to obtain financing, firm shipping commitments for the full volume are necessary.

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REPRESENTATIVE GUTTENBERG pointed out that the lease holders don't necessarily have to be the same people as the shippers or the pipeline entity. He opined that the pipeline won't be built until the gas and the markets are present. Furthermore, and how it lines up will be determined by who has the ability to take the greatest advantage at the time.

[Co-Chair Gatto passed the gavel to Co-Chair Johnson.]

MS. KING clarified that the pipeline entity will be a separate pipeline entity that will be formed as an affiliate, even if it's a BP, ExxonMobil, ConocoPhillips pipeline. In fact, the model discussed before was a limited liability corporation

within the Alaska portions of the pipeline with a different but equivalent structure for the Canadian portions of the pipeline. It's quite likely that the gas treatment plant (GTP) would also be owned by the same pipeline entity or by a separate GTP entity. "The lessee, when I talk about the lessee, that's when I'm talking about when we're, say for example, as an owner in Prudhoe Bay and Prudhoe Bay lessees will make decisions based as a working interest owner," she explained. However, the decisions regarding the shippers and the shipping commitments will be made by ConocoPhillips alone. ConocoPhillips will make an independent decision on a shipping commitment to that project. There's no requirement as to specific amounts from specific fields. The timeframe, in a success-based schedule, between an open season and first construction is roughly eight years and ConocoPhillips might have plans to actively explore. When making a decision regarding a shipping commitment, ConocoPhillips will review whether it believes the market supports a shipping commitment. ConocoPhillips will have a marketing affiliate that will review and make decisions regarding how to market the gas. Therefore, there are a number of affiliates available that are regulated by the Federal Energy Regulatory Commission (FERC).

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REPRESENTATIVE GUTTENBERG surmised then that when ConocoPhillips has a specific unit of gas available to it in reserve, it might use smaller percentages and look for a second open season to ship more if a larger market can be found.

MS. KING said this is entering a really complex area because if, for example, ConocoPhillips, as a working interest owner, decided not to take its share of gas in a field while other parties did, the Gas Balancing Agreements could be used in order to ensure that parties produce consistently. It could be problematic if parties get out of balance and something happens in the reservoir. If ConocoPhillips wanted to take out some capacity on spec, then it's ConocoPhillips' obligation to pay the pipeline company if the gas wasn't found or try to get its exploration and appraisal program in place to deliver the gas. Again, it would be an independent decision that ConocoPhillips would make based on the risks and uncertainties of the market as well as the cost of the project at the time.

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MS. KING commented that ConocoPhillips is going to use a rigorous investment-making process to assess making those long-term shipping commitments on the project or to sanction a project. ConocoPhillips will review the risks and uncertainties and won't review a single financial metric. On such a large project, ConocoPhillips will review a number of financial metrics and weigh the risks and uncertainties against those metrics at the time the investment decision is made.

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MS. KING said that ConocoPhillips will establish processes to manage those risks and uncertainties as things move forward. She opined that the authors of AGIA must have recognized that the project sponsors could see the possibility of the project being unsuccessful in the future.

[Co-Chair Johnson returned the gavel to Co-Chair Gatto.]

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MS. KING reminded the committee that ConocoPhillips has a 36 percent working interest in Prudhoe Bay, which circulates approximately 8 bcf a day of gas into the producing oil reservoir. That gas keeps the reservoir pressure up in order to get more oil out of the ground and to convert to a miscible injectant that's used to inject in fields to also produce more oil. Furthermore, ConocoPhillips is extracting natural gas liquids and placing them in TAPS to the extent possible. The gas in Prudhoe Bay is currently being used to produce more oil every day. The Prudhoe Bay owners have invested billions of dollars in Prudhoe Bay gas to increase oil recoveries out of the Prudhoe Bay field. She said that Prudhoe Bay gas continues to work hard to produce more oil; the gas nor the owners are sitting idle. Ms. King then turned to the discussions of litigation, which she characterized as a losing proposition because while litigation occurs, costs could continue to increase, gas demand could be lost, and progress toward this project could be stalled.

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CO-CHAIR GATTO said that in the Prudhoe Bay field there is an ideal amount of gas to reinject. He asked if it's past that point.

MS. KING said that although she's heard references to that, she doesn't understand that conclusion. The gas is currently [being injected] and more oil is being produced. There will be a point at which all parties can agree that it's appropriate to take gas off. Ms. King opined that currently both the state and ConocoPhillips are the beneficiaries of the amount of oil being produced out of Prudhoe Bay. She said that she isn't aware of a particular crossover point by which gas has to be produced.

CO-CHAIR GATTO asked if there is a point at which it could be helpful to place more gas in the ground.

MS. KING said the discussion is moving into a complex area of reservoir engineering. She further said that there will be a lot of work done on Prudhoe Bay and in fact, some of the most sophisticated models and engineering is being done on that asset on a daily basis. There are ways to mitigate any impacts on oil, which is what will be studied along with the cost effectiveness of those once the process moves to take the gas off. However, when the gas is taken off, that's a different production mechanism on the Prudhoe Bay field. In further response to Co-Chair Gatto, Ms. King clarified that FERC's job is in relation to interstate commerce. The parties that would assess engineering solutions so that oil isn't left in the ground unnecessarily would be DNR and AOGCC.

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MS. KING directed the committee's attention to slide 5, titled "Success Case Project Timeline". The timeline is roughly a 10-year period from the project planning to the actual delivery of full capacity. She said she anticipated that it would take approximately a year from moving gas to the full ramp up of all compressors. She highlighted the permitting and engineering bars, which illustrate that the "forward plan" requires a tremendous amount of additional work that would be required on the project. The hope is that the aforementioned work would reduce the uncertainties and risks around such areas as materials procurement and engineering. She estimated that to proceed through the project planning in the first four years would be a \$1 billion gross expenditure under the 2001 estimate. Once the project reaches the point of project approvals and the project has received FERC and National Energy Board (NEB) certificates and completed permitting and right-of-ways, the project sanction decision is at hand. At that point, under the 2001 study, that's when one would make the decision to invest \$19 billion-plus. She pointed out that it will cost roughly

\$400-\$500 million to conclude an open season, which would get one through the first two years.

2:01:30 PM

MS. KING moved on to slide 6. She explained that in the oil industry, it's been learned that projects that become schedule driven usually fail. Therefore, ConocoPhillips has established a "gated decision-making process" by which risks and uncertainties can be managed and reduced as more engineering and environmental work is performed. In the first two years, the feasibility phase, she anticipated spending between 1-2 percent of the total project costs. The feasibility phase would be when the preliminary design basis and hopefully when fatal risks are identified. The feasibility phase is the best opportunity to reduce risk with the least amount of cost and thus it's a very critical part of the front-end engineering design timeframe. The next phase, referred to as the design phase, would be after an open season and while the permits are sitting with FERC and NEB. She anticipated spending 5-7 percent of the total project costs during this time. The design phase is when the major permits are obtained and 10 percent of the detail design is completed. Much design optimization work is performed at this point, she said. Furthermore, risk mitigation plans are implemented during the design phase. After the first four years, the project sanction decision would be made and the execution and construction phase of the project would proceed. Ms. King commented that the execution phase is by far the most expensive time to re-engineer the project.

2:05:25 PM

REPRESENTATIVE WILSON returned to slide 5. She inquired as to how a company can make commitments in an open season without having decided how everything fits together.

MS. KING said that the tough question is how comfortable the state is in making a firm shipping commitment to a pipeline entity, probably eight years in advance, with the level of information available at the time of the open season. She reiterated that it's critically important to determine as good a cost estimate as possible going into an open season. One of the scenarios of concern is that an entity wouldn't expend very much financially prior to an open season, but put forth a project estimate. Ms. King opined, "Sometimes when people are going to buy something, those that know the most about it may be more constrained in their ranges, those that maybe have not studied

it as much might ..." say they can deliver it for a specified amount. Therefore, it's very critical for the right engineering, permitting, and environmental field data work to be performed in parallel to an open season process so that there is an understanding that the shippers can deliver what was said during the open season.

2:08:02 PM

REPRESENTATIVE ROSES commented that the aforementioned is part of his concern as well. However, it would be in an entity's best interest to spend as little as possible to reach the open season and then spend as much as possible after the open season because at that point the state will potentially spend 80 percent up to the \$500 million rather than the 50 percent matching funds prior to the open season.

MS. KING said that by establishing a system in which the state's matching is different on both sides of the open season is clearly an area of concern because entities may be motivated to pursue an open season quickly, which places the entity in a position of receiving the 80 percent matching funds from the state. The aforementioned places a shipper in a difficult position when the licensee has promised something on which it can't deliver. This proceeds down the losing path. Ms. King explained that her hope with some of the graphs she's presented is to highlight some of the complexities pointing to the need for a clear, gated decision-making process in order to deliver this project in the most effective manner. No one benefits if the project ultimately costs \$40-\$50 billion because the state will receive less royalty value and tax production value and less value is received from the gas. She acknowledged that some have said that if the appropriate engineering work isn't done initially, one could argue that some of the costs weren't legitimate and shouldn't be included in the toll. However, she opined that it's an incredibly difficult argument to make before FERC. Therefore, [ConocoPhillips'] focus on work commitments is how to best establish a process by which the state can gain comfort and that there's a clear commitment to advancing the project while providing [ConocoPhillips] the ability to manage the project using a gated decision-making process.

2:11:21 PM

REPRESENTATIVE ROSES recalled that the other producers have concern with regard to waiving the right to an appeal. The problem is knowing that the up-front data is really the best

data so that the decisions being made are the best decisions. He opined that it seems that [AGIA] establishes a situation in which an entity would proceed to the point of the [open season] and the 80:20 match from the state when it would then call for change orders.

MS. KING indicated her agreement.

[2:14:08 PM](#)

REPRESENTATIVE GUTTENBERG surmised that this is a negotiation process for what goes into AGIA and what doesn't.

MS. KING said she will try to address those points during her testimony.

[2:15:37 PM](#)

MS. KING related ConocoPhillips' agreement that a public transparent process is desirable. Furthermore, ConocoPhillips believes that a balanced deal is critical so that all involved share in the rewards and challenges. She further related that ConocoPhillips believes it can bring some value to the project. As an owner, ConocoPhillips can bring financial strength, its Arctic and Alaska experience, project management skills, mega-project skills, as well as much interest and expertise in other pipeline projects. ConocoPhillips also views itself as unique, she said, in that it's a producer as well as an explorer. As the state's largest explorer, ConocoPhillips is disappointed with comments discounting ConocoPhillips as an explorer. Ms. King said that ConocoPhillips wants to work through some critical issues with the legislature and the administration. She emphasized that ConocoPhillips isn't locked into the old proposal. Ms. King said:

We need to find a framework that addresses the critical resource issues that are needed to support those billion dollars of shipping commitments, those long-term shipping commitments that will facilitate the construction of the largest project in North America," she opined. My primary focus today ... is to convey that we want to work with you in a constructive way and we believe changes are needed to AGIA to deliver a successful gas pipeline project. The risk-reward balance is very different between the regulated portions of the project, particularly if they've been backed by strong firm shipping

commitments. The majority of those risks pass through to the initial shippers on this project.

2:18:15 PM

MS. KING then identified the following areas of key questions of concern related to HB 177 as specified on slide 7. She said that ConocoPhillips believes that the current structure of AGIA hinders competition and creative alternatives. She questioned why the state would want to block alternative projects rather than let the free market work most efficiently. The passage of AGIA as drafted seems to make it very difficult to see how an alternative project could be advanced over the next decade. She drew attention to the licensed project assurance clause on page 23 of CSHB 177(O&G). This provision, page 23, lines 16-22, is problematic because parties could be spending hundreds of millions of dollars advancing this project. Therefore, this language specifies that the state could be exposed to triple damages, in the amount of billions of dollars. "This provision, we see, severely constrains the state's right to change tax terms and royalty terms, and royalty terms are a contractual arrangement, for a project other than the licensed project, even when the licensed project is not moving forward or is not fully subscribed for over a decade," she highlighted. Furthermore, the state could have litigation exposure as well as billions of dollars in damages. Drawing upon her experience, she opined that the term "preferential" can easily be disputed.

2:20:42 PM

MS. KING, in response to Co-Chair Gatto, questioned why the state would tie itself up for over a decade and expose itself to litigation and treble damages.

2:22:30 PM

REPRESENTATIVE SEATON opined that competition is being limited because there's no incentive for an early proposal or a competitive proposal because there's no detriment.

MS. KING commented that she would hope that the common objective is to get the gas pipeline project regardless of who or how. She expressed concern with a situation in which the state awards the bid, but that entity can't deliver on it. The aforementioned situation places ConocoPhillips in a position in which it couldn't discuss tax and royalty terms with the state without exposing the state to litigation and/or the triple

damages clause. Ms. King then pointed out that if the project was permitted outside of the AGIA license, the language seems to expose the state to litigation when it grants a permit to perform environmental field work.

[2:25:18 PM](#)

CO-CHAIR GATTO opined that the aforementioned has been considered and two commissioners have been selected with staff to select the licensee. He related his belief that if the commissioners feel that an entity has done an inadequate amount of work, then no one receives the [bid] and the process would begin again.

[2:26:07 PM](#)

REPRESENTATIVE GUTTENBERG directed attention to the sentence beginning on page 23, line 16, which seems to come back to the state. He opined that simply issuing a permit to perform field work isn't preferential treatment for royalty tax or monetary treatment. He further opined, "In the world of risk, I think these are the things that everybody should be wanting to see in this contract, even if you're the successful bidder and even if you're just somebody going into this process because on the other hand, certainly the three producers that have come before us have wanted all kinds of fixed resource issues."

[2:27:40 PM](#)

MS. KING clarified that the tie to the streamlined permitting is on page 23, lines 13-16. She then pointed out that the inducements referred to in that sentence are the \$500 million plus the benefits of the AGIA coordinator. The AGIA coordinator was modeled off the federal legislation in the Alaska Natural Gas Pipeline Act, but the federal [legislation] specified that it would apply to any Alaska natural gas pipeline project. Therefore, if a winner was established and the project stumbled a few years later, it wouldn't require an act of Congress to have that process available to any project. With respect to the upstream terms, Ms. King noted that the last contract included the upstream model contract which was designed such that other working interest owners in the fields have the same resource terms if they were willing to make a long-term shipping commitment. She explained that if one entity is trying to advance something in NPR-A but that entity has different resource terms than the partner in the field, it's very difficult for that initial entity to obtain alignment with

regard to how to move forward with development. Therefore, ConocoPhillips believes it's important that all resource provisions are available to all parties that might take long-term shipping commitments. Ms. King then pointed out that AS 38.05.020(b)(9) offers an alternative vehicle for streamlined permitting. Although there are benefits to the AGIA coordinator, those provisions should be applicable to any natural gas pipeline project that's moving forward.

2:30:30 PM

MS. KING returned to slide 7 and addressed ConocoPhillips' second concern, which is the prescriptive bid requirements as outlined on page 3, proposed AS 43.90.130. The current version of HB 177 has about 20 requirements. In addition, the legislation provides that future preparation of requests for applications (RFA) could establish more requirements. If an applicant has demonstrated that he/she has met the commissioner's satisfaction for each requirement, then the bid would be considered for public and legislative review. However, an applicant that doesn't meet even one of those requirements would be rejected as a nonconforming bid, although there could be scenarios under which the best solution might be one of those rejected bids. For example, ConocoPhillips may have estimates for the project size, receipt, and delivery points since it knows that those will change, which is what the open season is supposed to address. If ConocoPhillips said that it projects a 4.5 bcf a day pipeline, ConocoPhillips and Anadarko might be successful in NPR-A and may develop a \$500 million nomination during open season and thus the pipeline would need to determine how to do a 5 bcf a day pipeline.

2:32:47 PM

REPRESENTATIVE SEATON asked if Ms. King is saying that there should be a proposal without any terms.

MS. KING replied no. She clarified that under the current legislation, a specific set of requirements must be bid. If those requirements needed to be changed due to an open season, it's left to the commissioners to approve or disapprove the change. Ms. King acknowledged that the state needs to know the route and other such particulars as the current design basis. However, the reality is that it will change at an open season. Ms. King said that the provision includes quite a bit of prescription that needs to reflect that those items will be updated as the project proceeds.

2:34:02 PM

REPRESENTATIVE SEATON asked if Ms. King is saying that a redesign should be allowed without commissioner approval.

MS. KING acknowledged that the majority of this would need to be seen as a bid requirement, but there are some components within the proposed provision, AS 43.90.130(2), that seem to be variable over time. Some common language needs to be developed in order to address the aforementioned. ConocoPhillips' base design is for a 4.5 bcf a day project, but if in open season it turns out to be a 5 bcf a day project everyone would be aligned. However, she questioned what would happen if in the open season it's determined to be a 4.3 bcf a day pipeline.

2:36:12 PM

REPRESENTATIVE SEATON pointed out that currently the approval has to be reasonable with the commissioners, which is an administrative process. He asked if ConocoPhillips wants the determination of a reasonable modification to come before the legislature rather than the commissioners or have the licensee make the determination.

MS. KING said that she would be happy to provide the committee with an answer on that. She explained that she's envisioning review of an existing open season process and the federal regulation of that in order to bridge the gap. She said that she understands the legislature's need to have enough information to be able to evaluate [a modification].

2:37:37 PM

CO-CHAIR GATTO pointed out that this pipeline is a monopoly rather than a free market. Within the monopoly are established parameters within which the companies must work. Co-Chair Gatto opined that it's advantageous to work within the specified parameters and that violation of any one parameter would require mutual agreement.

MS. KING offered that some of those requirements will not be paid by a pipeline entity as many of them are costs that FERC allows to be passed through the toll. This is illustrated in the earlier example in which the appropriate up-front engineering work wasn't done and the project costs much more. In such a situation, it's difficult for a shipper to say that

more engineering work should've been done as it would've reduced the cost. Ms. King opined that she could foresee a scenario in which parties could promise things without necessarily having to pay for them and then applicants that will end up paying for it may charge that it's commercially unreasonable. Many of the provisions seem to usurp the way in which FERC manages the terms and rates associated with pipelines. She opined that some of the provisions obligate parties to act a certain way before FERC in order to influence FERC's decision in a particular scenario.

[2:40:04 PM](#)

CO-CHAIR GATTO characterized the two commissioners as a set of judges and once [an applicant] passes the gates, the proposal must stand on its merits. The commissioners could not choose anyone and call it a failed open season.

MS. KING pointed out that his supposition pre-supposes that these requirements would allow a party to bid. She reiterated that some of the requirements are problematic. Ms. King emphasized that ConocoPhillips would at least like a process by which the legislature and the public could see its proposal, which could still be rejected. Therefore, ConocoPhillips, she related, believes that moving from bid requirements to bid variables would be [appropriate], although she said ConocoPhillips is open to alternatives. In further response to Co-Chair Gatto, Ms. King assured the committee that her materials were prepared by a team at ConocoPhillips and any common themes across companies is due to the view of common risk.

[2:43:04 PM](#)

REPRESENTATIVE ROSES returned to whether the bid is conforming. If an entity put a considerable amount of funds into a bid, he questioned why that entity wouldn't submit a bid that relates the costs per size of pipe. However, under "this scenario" [proposed in AGIA] there's no knowledge as to whether such a bid would be considered in compliance. Therefore, he said he agreed with Ms. King that some of the requirements may be too prescriptive.

[2:45:23 PM](#)

CO-CHAIR GATTO indicated that it's reasonable to have the requirements, and therefore he said he wasn't sure that the overall structure of the requirements should be changed.

2:46:46 PM

CO-CHAIR GATTO recessed until 15 minutes after the conclusion of the House floor session.

4:13:24 PM

CO-CHAIR GATTO called the meeting back to order at 4:13 p.m. Representatives Gatto, Roses, Seaton, Wilson, and Edgmon were present at the call back to order. Representative Johnson arrived as the meeting was in progress.

4:13:34 PM

MS. KING continued her presentation and drew the committee's attention to slide 7, titled "Proposed AGIA." With respect to the bid requirements, she related that ConocoPhillips has been struggling to develop a work commitment package that allows a project to be implemented. The legislation specifies three fixed date requirements such that in order to make a conforming bid, an entity has to commit the following: that within 36 months an open season will be concluded; a date certain by which the entity could begin the National Environmental Policy Act of 1969 (NEPA) pre-filing process; a date certain by which the entity would submit its FERC applications. The concern, she opined, is that an entity might have a proposal in which it can meet two date requirements while the third is a challenge and results in parties potentially offering an alternative to demonstrate work commitments. However, she read the legislation to mean that the aforementioned situation would result in the rejection of the bid as a nonconforming bid. For about a year, ConocoPhillips has been on record saying that it can offer more on work commitments. Furthermore, ConocoPhillips is concerned with hard dates, which seem contrary to the best way in which to implement a mega-project. She acknowledged that people want to see a commitment to the project, which could be fulfilled by committing dollars. The aforementioned is a situation in which the prescriptive nature of the bid requirements could be problematic.

4:17:06 PM

CO-CHAIR GATTO asked if there's some way to [put in place] a variable such that the commitment is for either 36 months or something else.

MS. KING identified alternatives that ConocoPhillips could work through as variables in which the bid could include either one [requirement] or another, or there is a specified minimum. "Something that opens it up, that doesn't just say you have to do these three dates or you'll be rejected as a nonconforming bid," she explained.

[4:17:40 PM](#)

REPRESENTATIVE WILSON questioned why an entity couldn't propose the date it felt it could meet and maintain that it can't guarantee it.

MS. KING answered that she understood the aforementioned, under the language of the legislation, to be a caveat to the bid. Therefore, there would be the ability to reject that as a nonconforming bid if conditions were placed on it.

[4:18:34 PM](#)

REPRESENTATIVE SEATON directed attention to the requirement on page 5, lines 14-17, in CSHB 177(O&G), which requires the conclusion of an open season no later than 36 months after the date the license is issued. However, the evaluation of the project will be based on the net present value and on the speed of the proposal. Therefore, an entity that says it can [conclude an open season] in 24 months would provide an extra work commitment. Representative Seaton related his understanding that Ms. King wants to be able to say that the entity won't be able to [conclude an open season] within 36 months and that be considered acceptable. However, the legislation seems to say that the only acceptable bid is one that provides an open season within 36 months. He questioned why it's unacceptable to specify an outer time limit.

MS. KING opined that this comes back to the point that schedule driven mega-projects have not had a successful track record. Therefore, the largest concern with any fixed date is that it could result in a scenario in which an entity isn't spending enough up front because it's trying to meet an arbitrary date requirement, which could result in that entity having significantly higher costs in the later years. The aforementioned is a challenge for the industry. However, she acknowledged that the state wants to see a project move forward. One solution proposed by ConocoPhillips is that with the appropriate fiscal framework, an alternative might be to commit to a certain amount of dollars while advancing the project. For

example, some of the steps to completion of a FERC application aren't within the project sponsor's control. Therefore, if ConocoPhillips were to draft date requirements, they would be heavily caveated by those things outside of the company's control. However, the company could still offer an alternative that could be accepted or rejected. The aforementioned allows companies to bring forward alternative work commitments and ask whether it meets the state's needs.

[4:23:13 PM](#)

CO-CHAIR GATTO related his belief that three years is enough time [to conclude an open season], but it seems that ConocoPhillips is saying that one never knows what amount of time is enough.

MS. KING questioned whether the distinction between 36 months and 37 months, if that was the difference in something substantial in the project, would be a large value driver. She opined that there are other ways, beyond hard dates, for applicants to demonstrate a commitment to advance the project. In further response to Co-Chair Gatto, Ms. King said that with all of these requirements there would be a tendency to go through them and modify them to make it a minimum. The concern is that each individual will weigh each [minimum requirement] differently. Ms. King opined that ConocoPhillips is attempting to find a way in which to implement the project in such a way that it's successful, take care of how ConocoPhillips' shareholders' money is spent, and deliver the best project possible. Therefore, she clarified that if [the requirements] can be opened up across the board, ConocoPhillips can make a proposal to which the legislature has the right to reject.

[4:26:39 PM](#)

REPRESENTATIVE WILSON said that she could see why the producers would like it to be a money amount instead of a specified date because they are large corporations that can handle such. However, that seems to eliminate the pipeline builders. Representative Wilson opined that [the legislation] attempts to make a level playing field for all.

MS. KING clarified that she only speaks on behalf of ConocoPhillips. She further clarified that she didn't want to infer that her comments related to the work commitments are representative of what all the producers want. Ms. King explained that if the work commitments could be converted to a

variable, the pipeline company could propose dates for the legislature to consider. She reiterated ConocoPhillips' desire for an alternative to fixed dates by which it could demonstrate work commitments to the state. Moreover, proposals received with fixed dates will have to be reviewed in terms of whether those dates can be met. She further clarified that she isn't trying to eliminate an entity's ability to bid a fixed date and the state giving them extra points for such.

[4:29:35 PM](#)

REPRESENTATIVE ROSES said he understood the need for flexibility, but also understands the need for a timeline commitment. With regard to the earlier mentioned dollar commitment, Representative Roses questioned to whom does it go. He recalled Ms. King's earlier statements with regard to the time, effort, and money ConocoPhillips has put forth on this proposed pipeline and opined that ConocoPhillips' ability to meet the 36-month deadline will be easier than others who haven't been in negotiations or performed studies.

MS. KING clarified that the \$125 million and 1 million man-hours was spent collectively by BP, ConocoPhillips, and ExxonMobil. With regard to fixed dates, there are many decisions within the timeline and ConocoPhillips' ability to meet those decisions are dependent upon many third parties, whether that's negotiations with contractors or other state agencies. A fixed date places an entity in a difficult position with regard to managing those negotiations on a mega project. Although an entity might be willing to take that risk on some projects, the dollars are significant on this project. "If we find ourselves being driven by a schedule, we get increasingly concerned about our ability to predict the costs and avoiding a cost blow out. Ms. King again reiterated that on a project this large, one can't predict that those dates will be met. Ms. King related that ConocoPhillips is trying to find a way to develop a legitimate work commitment proposal that can be weighed and if it doesn't meet the state's needs, then it could be rejected.

[4:34:29 PM](#)

CO-CHAIR GATTO pointed out that if an entity fails it has the right to cure. If it can't cure, [the legislature] has the right to dissolve the relationship and take all the assets and award them to another entity.

MS. KING stated her agreement with the right to cure, but emphasized that again it returns to the willingness of a party to accept that cure. If an entity has agreed to a certain date, but it can't maintain that date, the other side needs to be willing to say that the entity has the right to cure. She opined that there will be many wading through whether the requirement wasn't met due to actions within their control or without their control. Such questions and debates could result in disputed areas. She acknowledged the legislature's need to see solid work commitments. However, ConocoPhillips is asking whether more flexibility can be offered in order to allow creativity with a proposal.

[4:36:45 PM](#)

REPRESENTATIVE WILSON returned to slide 5, and related her interpretation that there is a commitment in that certain things will be done in each phase.

MS. KING said that's why the title of the graph on slide 5 is "Success Case Project Timeline." She pointed out that areas such as field data collection could add additional time. She explained that the four seasons of environmental field data has to be completed before an application can be submitted to FERC and NEB. Furthermore, prior to obtaining that environmental field data, permitting must occur. Moreover, the weather would be a factor in an entity's ability to obtain the data. She questioned what would happen if the weather prohibits an entity from obtaining the data within the prescribed timeframe.

[4:38:53 PM](#)

CO-CHAIR GATTO related his understanding that if the reserves tax had passed, ConocoPhillips would be on the hook for annual taxes and the legislature could say the 90 days isn't necessary because the state is collecting money until the licensee produces gas. "Without that inducement, which is an inducement not for the bidder and we don't have it to offer any more, then our fear is that 90 days can become any number of days ... unless there's something in there that gives ... the bidder a penalty," he said.

MS. KING said this goes back to the exclusivity point. If the state chooses a licensee that's a pipeline entity and that entity can't deliver, she questioned upon who the gas reserves tax would be imposed. She opined that those who have been asked to make the shipping commitment would face the punitive damages.

If ConocoPhillips isn't chosen as the licensee, but the licensee promises something ConocoPhillips doesn't believe it can deliver and ConocoPhillips' options to do something outside that process are closed off by signing a 10-year exclusive agreement, it's a lose-lose situation.

[4:41:04 PM](#)

CO-CHAIR GATTO said that the penalty would be given to whoever is the licensee, regardless of whether they own gas.

MS. KING said that the legislature will still have to weigh proposals and the work commitment included in them. Ms. King further said:

The problem is: is that there's probably 8 or 10 of these buckets ... but they've been manifested in 20 different requirements of which some of them the customers of the actual pipeline will pay, not the pipeline itself .... And so, there's a different risk-reward balance that's been set up with that requirement. For some parties, they can come in and say, "Yes, I can commit to do that." Other parties might say "Well, actually I'm going to be the one that might end up having to pay for that, I think that's commercially unreasonable; I'm uncomfortable with that. And so, that's the balance we're trying to find is by opening up that to bid variables, all of these up to bid variables, ... it allows you and the administration to weigh that.

MS. KING opined that ultimately there will be proposals with strengths in different areas.

[4:44:16 PM](#)

REPRESENTATIVE SEATON characterized allowing an entity to say it will spend some money without guaranteeing it will ever go to open season as problematic. The only date certain is the 36 months and the others are dates certain that the entity chooses. Representative Seaton opined that the purpose of AGIA is to obtain bids on building a pipeline and thus he said he has difficulty in determining how [progress is made] when nothing more than a monetary commitment is made.

MS. KING related that it would be unacceptable to ConocoPhillips' management to spend funds to get nowhere.

However, there needs to be a commitment to spend dollars in a certain manner in order to ensure that the project is being diligently advanced. She said that she understands that the legislature needs to have a mechanism by which it sees progress is actually being made on the project. She then reiterated concern with regard to a schedule-driven project.

[4:48:14 PM](#)

REPRESENTATIVE SEATON commented that the problem in the last proposal was that funds were being spent without advancements. He then asked if the 36 months to go to open season is a deal killer for ConocoPhillips.

MS. KING reiterated that fixed dates are problematic. She again stated that ConocoPhillips believes it can bring meaningful work commitment proposals to the legislature.

[4:50:01 PM](#)

CO-CHAIR GATTO remarked that it would be helpful if Ms. King had some suggested language to replace the specific date requirements that are of concern for the company.

MS. KING reiterated that she has been involved in other areas in which there were fixed-date requirements. However, they were not mega-projects that were the largest private construction projects in North America. She emphasized that she finds it particularly problematic that comparisons are made to really small projects. In further response to Co-Chair Gatto, Ms. King clarified that ConocoPhillips is willing to make different commitments. She then reiterated that the legislation includes very prescriptive commitments, some of which will be paid for by some parties while others will be passed through to the shippers. Ms. King said that making these commitments variable is one change that would address this concern such that the various aspects of the proposals could be weighed.

CO-CHAIR GATTO said he seriously questions whether there would be five votes from this committee to forward such a change.

[4:52:57 PM](#)

REPRESENTATIVE WILSON asked if Ms. King could provide the committee with the language utilized in the mega-projects with which she was involved.

MS. KING clarified that this proposed project is the largest project she has worked on for ConocoPhillips. She informed the committee that ConocoPhillips' market cap is about \$100 billion, but this project amounts to a firm shipping commitment of \$26 billion. Sometimes the difficulty ConocoPhillips has in attempting to bridge the gap such that ConocoPhillips can manage the project most effectively is interpreted as stalling. However, that's not ConocoPhillips' intent, rather it's attempting to find a framework by which it can advance the project.

[4:56:31 PM](#)

CO-CHAIR GATTO recalled from last year's presentations on a proposed gasline, that one mustn't confuse high risk with high value. Since this project is so risky and expensive, ConocoPhillips doesn't want to establish firm time commitments, he surmised.

MS. KING said that's exactly the concern of ConocoPhillips. She questioned whether the legislature would want to at least see a bid in which it didn't meet all the 20 requirements, but offered creative alternatives to the few it didn't meet.

[4:58:03 PM](#)

MS. KING, continuing with slide 7, turned to the resource package that begins on page 19 of CSHB 177(O&G). She opined that the resource risks on this project have always posed the greatest obstacle to a gas pipeline due to the nature of the long-term shipping commitments. The predominant resource risk that the state can control, she relayed, relates to taxes and royalties. "Long-term clarity on the state taxes and royalties is critically important to reducing the risk on these long-term shipping commitments. Addressing these issues remains essential to making this pipeline project a reality," she stated. Although the administration doesn't want to negotiate on these terms, there needs to be a vehicle to work through these resource terms. Ms. King relayed ConocoPhillips' appreciation of the recognition and importance of the resource issues for a proposed gas pipeline project as well as the administration's recognition of stability as a critical resource issue. Ms. King specified:

We have always understood that the issue of fiscal stability would likely be decided by the Alaska Supreme Court. The specific resource provisions in

the bill ... do not provide adequate clarity or predictability. The present bill makes some changes to the royalty contracts but rather than negotiate the changes to the contracts, the bill would force the lessees to accept some future regulations. The bill also promises a degree of protection against potential changes to the gas production tax, which is a start. However, it does not identify what the production tax rate is going to be and the period of relative stability is insufficient for a project of this magnitude. In addition, there is no protection against other taxes that might be aimed at circumventing that protection. We suggest that the resource package be converted to a bid variable where resource owner applicants can propose the resource terms and the public and the legislature can review them. This will provide an option by where the public and the legislature can see an entire package, both the midstream and the resource, and provide the foundation for the project to be advanced.

[5:00:35 PM](#)

MS. KING, in response to Representative Wilson, suggested that it would be an alternative in which a resource package could be bid or planned for the terms in proposed AS 43.90.300-43.90.320. The public and the legislature could review that resource package. She characterized the aforementioned as a good starting point of a bid variable as part of a bid package.

REPRESENTATIVE WILSON, recalling similar situations in the past, interpreted that to mean years of negotiation, which is unacceptable.

MS. KING related her agreement that she didn't want to go through that same duration of time that it took to go through those issues before. She then related her belief that the process by which resource issues are worked through can be sped up. However, she said she struggled to see how that can be accomplished in the format before the committee.

REPRESENTATIVE WILSON asked if ConocoPhillips wants to lock in all the taxes and royalties for a certain amount of time.

MS. KING replied, not necessarily, adding that she is referring to the package of tax and royalty terms. Ms. King opined that there isn't one solution as each of the lessees are impacted

differently. Although ConocoPhillips may view things with an exploration eye, it still is trying to find the fastest way to reach a package that works for those who may be asked to make long-term shipping commitments. She reiterated the need to find a balance. Ms. King then expressed concern with making a long-term shipping commitment if the state hasn't decided whether to take its gas in-kind or in-value. Furthermore, the area of production taxes is an area in which work will be required because it's dependent upon the rate. Therefore, having a bid variable allows a dialogue.

5:05:30 PM

REPRESENTATIVE ROSES said he could understand this conversation and the concern of a producer as it impacts the costs. However, he questioned how any other entity wanting to bid would be helped by such a proposal if one of the three major producers isn't involved in the pipeline. Therefore, it seems that two different conversations are occurring. Firstly, someone needs to obtain a license to begin the open season as opposed to the producers wanting a fixed commitment before the gas gets out of the ground. It seems, he opined, to be the conversations that occur as part of the open season process rather than the permitting process.

MS. KING opined that the aforementioned conversation needs to occur prior to an open season because the issues are those that sit behind whether a party can make a long-term shipping commitment. The conversations related to whether the state will take its gas in-kind or in-value and the production tax rates over time are conversations that should occur prior to making a 20-year shipping commitment. Therefore, ConocoPhillips, she opined, believes that the timing prior to an open season is critical. Although the legislation talks about some of the midstream issues, it also includes provisions about the resource issues and at this time, the legislation provides the only framework by which the resource issues can be worked through. The challenge, she opined, is to find a way in which to work both sides of the equation within this legislation.

5:07:21 PM

REPRESENTATIVE ROSES asked if it would be more predictable and palatable if the state decided not to tax the gas or charge corporate or production tax, but merely took a certain percentage of the gas.

MS. KING responded that the aforementioned is one solution that ConocoPhillips would definitely want to consider and work through if the administration and legislature wanted to consider that. She likened the situation mentioned by Representative Roses to a fixed percentage system. If the project is becoming more profitable or struggling, everyone would have an equal percentage in the results. She mentioned that in some forums people have interpreted fiscal predictability as fixing the actual payments that would be made. The idea of the state taking its gas and converting that as payment is something ConocoPhillips is willing to explore.

5:09:09 PM

REPRESENTATIVE SEATON related his understanding that ConocoPhillips would like to take the resource issues out of HB 177 entirely. Representative Seaton inquired as to whether ConocoPhillips has specific [language/provisions] that it would like removed from the royalty inducement section of the legislation.

MS. KING said that her request wasn't to convert this to a resource as she recognized that HB 177 is predominately a pipeline proposal. In fact, the legislation attempts to mitigate some of the risk on the pipeline side and proposed AS 43.90.300-43.90.320 attempt to mitigate some of the risk on the upstream side. The aforementioned is very complex and a framework to do so is still forthcoming. Ms. King clarified that ConocoPhillips isn't proposing that AGIA be modified to include all the terms into HB 177, but rather place it as a bid variable that specifies that a resource owner applicant can propose resource terms that the state can review. Furthermore, a process can be established by which resolution of those terms can be reached.

5:12:34 PM

REPRESENTATIVE SEATON surmised that only certain applicants, the producers, will be able to use the line. The only bids that would be acceptable to review for comparison would be from resource owners. Therefore, it's a bid variable that only applies to a few of the potential applicants and the others will be "thrown away" because the applicants with that ability are those with the ability to deny gas to any of the other licensee's proposals. He questioned how making it a bid variable results in any competitive bids from anyone for a pipeline.

MS. KING pointed out that a pipeline bid can still exist and the two components of the project can be compared. However, it's particularly problematic with existing leases to have non-resource owners bid on what should be the lease terms. Ms. King reiterated that ConocoPhillips is trying to find a way in which to use HB 177 as a vehicle, while work is still necessary on the resource side. Again, ConocoPhillips views the resource terms as a one-line item on which the resource owner applicants could bid.

[5:14:19 PM](#)

REPRESENTATIVE SEATON opined that the problem with having it as a bid variable is just that. As currently written, it's not a bid variable but rather conditions on which all bids will be equal. If the upstream [conditions] can be made part of the bid, it means that the bids are no longer comparable.

MS. KING said, "I wouldn't even know how to bid with those." She then pointed out that proposed AS 43.90.300-AS 43.90.320 doesn't include a production tax rate and no assurances with regard to royalty in-kind and royalty in-value switching as the legislation merely says that some regulations and a contractual arrangement will be developed prior to an open season. She opined that there are too many questions with regard to the resource terms.

[5:15:56 PM](#)

REPRESENTATIVE SEATON asked whether ConocoPhillips would have more comfort if the resource terms weren't part of the pipeline bid, but were addressed separately before open season.

MS. KING said that she would have to talk with her team regarding that possibility. The preference is, at this time, to have the resource terms as a bid variable.

[5:17:58 PM](#)

MS. KING then moved on to the final area under the bid variables, expansions and rolled-in rates. She directed attention to slide 8, which illustrates the wells that ConocoPhillips has drilled on the North Slope from 2000-2007, the wells that were permitted, and non-ConocoPhillips wells. She reminded the committee that ConocoPhillips is the state's largest explorer and continues to explore in a region that's gas

prone, NPR-A. Therefore, ConocoPhillips wants to ensure that the pipeline can accommodate new gas on a reasonable and fair basis. ConocoPhillips believes, she related, that the most effective way to encourage exploration on the North Slope is to actually get a pipeline project built in the first place. She then pointed out that it's clear that FERC will determine how rates are set for the initial pipeline and the terms for expansion for that pipeline.

MS. KING again highlighted that ConocoPhillips has actively worked since 2000 to advance a gas pipeline project and put in place the government framework. The explorer issues have been debated once with the federal legislation, which resulted in the Alaska Natural Gas Pipeline Act. She noted that the aforementioned Act included a provision related to mandated expansions. The explorer issues were also debated before FERC, Orders 2005 and 2005A, but both times there has been no drilling. The aforementioned is of concern. She questioned why a company would drill when the state continues to push to provide guaranteed subsidized rates for those deferring drilling. If some of these companies had actually drilled wells in their gas prospects, they may have been able to find gas that would help improve the project viability now, she stressed. As mentioned earlier, the U.S. Congress already created an unprecedented provision with the mandated expansion provisions. The Alaska Natural Gas Pipeline Act, Section 105, clearly states that a shipper who is willing to sign up for firm shipping commitments, pay for an expansion, and can demonstrate that such an expansion won't require a subsidy; FERC has an unprecedented right to order an expansion of this natural gas pipeline. The aforementioned isn't the case for any other pipeline in the Lower 48. She then pointed out that there is absolutely no issue with an explorer taking a firm shipping commitment on spec for a gas pipeline project if the explorer hasn't found the gas.

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MS. KING, in response to Representative Wilson, clarified that under Section 105 [of the Alaska Natural Gas Pipeline Act] FERC can mandate an expansion. Therefore, two vehicles by which parties can obtain expansion of the pipeline already exist. There is voluntary expansion and FERC can order expansion under Section 105. Ms. King clarified that ConocoPhillips isn't in opposition to Section 105. Therefore, she questioned why the provisions in AGIA are necessary. Ms. King opined then that the real issue isn't access to the pipeline but rather the cost for the access and who will pay for it. ConocoPhillips, she

related, is concerned because it doesn't want the original project to be loaded with additional requirements, such as subsidies for others, that place additional commercial burdens on the project. She related ConocoPhillips' interest in having partners. Ms. King clarified that ConocoPhillips doesn't oppose the application of rolled-in rates for some expansions, the concern is mandating that application for all potential expansions if a subsidy were to be found.

[5:25:31 PM](#)

MS. KING, in response to Representative Seaton, opined that to her knowledge the language of CSHB 177(O&G) doesn't say anything about subsidy. The language [page 6, line 21, subparagraph (A)] refers to supporting and proposing rolled-in rates up to 15 percent. In further response to Representative Seaton, Ms. King clarified that ConocoPhillips' position is that FERC should be the adjudicator of any rate treatment for an expansion. The pipeline [company] will propose something for rate treatment, and if shippers aren't happy with that, they will protest it before FERC, she said. The balance struck by FERC is related in the quote from Order 2005 on slide 9.

[5:27:39 PM](#)

REPRESENTATIVE SEATON surmised that slide 9 is saying the same thing as on page 6 [subparagraph (A)] of CSHB 177(O&G). He related his understanding that the language says that the pipeline owner/entity will propose to FERC rolled-in rates up to but not more than 15 percent above the initial recourse rate.

MS. KING noted her agreement with Representative Seaton's assessment, adding that the language specifies that the pipeline entity is being obligated to propose rolled-in rates even if it would be a subsidy. She highlighted the following from Order 2005: "to adopt rolled-in treatment up to the point that would cause there to be a subsidy of expansion shippers by initial shippers, if any subsidy were to be found." Ms. King specified, "So, if the pipeline entity thought this looks ... like a subsidy, this would still require the pipeline entity to propose that even though it didn't meet this rebuttable presumption of rolled-in rates." There is a mirror clause on the resource terms, which attempts to obligate the shippers to not protest the 15 percent rolled-in rate on the other side, she noted.

[5:29:11 PM](#)

REPRESENTATIVE SEATON related his understanding that FERC has to determine whether there's a subsidy or not. Therefore, [the language in subparagraph (A) on page 6] merely says that up to 15 percent, the pipeline company has to propose to FERC rolled-in rates. The FERC, under its rules, will determine whether it's a subsidy. If there is a subsidy, FERC may not approve rolled-in rates.

[5:30:14 PM](#)

MS. KING opined that a pipeline entity would be able to determine whether it believes there's been a subsidy and make a proposal to FERC about how they think the rate treatment for the pipeline should be handled. The aforementioned can be accomplished with the language in Order 2005. Ms. King opined that she could foresee scenarios in which the state might be very uncomfortable with rolled-in rate treatment. She explained, "What is attempting to be done here is to say the 15 percent becomes a 'proximity' for a defined term of what the subsidy is." The FERC was very careful in the deliberations in Order 2005 and 2005A to say that it doesn't have a clear definition of a subsidy and will review the specific instances in the future and weigh the incremental costs, systemwide benefits, and the incremental cost of fuel of that expansion to strike a balance. She indicated that FERC's bias will be that for the Alaska natural gas pipeline, it's rolled-in rates. However, if an entity can demonstrate that there's a subsidy, the policy will be reversed, she said.

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MS. KING then moved on to slide 10, titled "ANS Exploration Potential." She highlighted the 83 tcf in NPR-A, the 72 tcf in the Beaufort Sea, and 210 tcf in the Chukchi Sea. Those are the three largest exploration potentials shown on slide 10. She pointed out that within NPR-A the state doesn't have a direct royalty as those are federal lands for which there is a shared federal royalty after the royalty is paid out to the federal government. The state, she noted, would have the right to have production taxes on NPR-A. Within the Beaufort Sea and the Chukchi Sea there are no royalty or production taxes for the state. She posed a situation with Prudhoe Bay gas in which the state has a one-eighth royalty and some production tax revenue. If the Prudhoe Bay toll that's going to Chicago is \$4 and the 15 percent clause comes into play, the toll increases to \$4.60. In that scenario, it's clear that under the state's netback system the state will receive less money from its Prudhoe Bay gas on

both royalty and production taxes. That might be acceptable, she opined, if the field is coming from a state field. "The reason there was an expansion that caused that rate to go up; if that was coming from a state field, then you might be receiving more royalties and production taxes from that state field, and more gas," she said.

[5:34:01 PM](#)

MS. KING then posed an example in which the [expansion] comes from the Beaufort Sea or the Chukchi Sea. The aforementioned may result in the state receiving less money for the state's Prudhoe Bay royalty gas and production taxes and the state wouldn't receive any additional revenues from the Chukchi field. Therefore, the state may question why it should subsidize the federal government. "Why should the federal government get higher value for its royalty based upon a rolled-in rate treatment here, if there's truly a subsidy to be found," she pointed out. Ms. King then turned to an example as an explorer when the toll is \$4. She posed a situation in which ConocoPhillips and its partner in NPR-A find a field in NPR-A that it wants to expand, and it's an [\$]800 million a day expansion on the pipeline. The toll then decreases to \$3.80, which ConocoPhillips and its partner review as an exploration appraisal prospect. The two decide that for a toll of \$3.80, they can make that development decision and develop that field due to the expected cost to get to market. However, if five years later another expansion occurs from the Beaufort Sea, in which ConocoPhillips doesn't have any equity, the toll could increase to as high as \$4.60. Ms. King emphasized that ConocoPhillips may not have made that investment decision and developed that field had it known the toll was going to increase.

[5:35:54 PM](#)

CO-CHAIR GATTO pointed out that this gas is very expensive to produce. Co-Chair Gatto opined:

If Prudhoe Bay and Point Thomson are delivering gas, that anybody ... who even thinks there's a find offshore is going to be exploring and not ... for five to ten years. So, I'm not expecting that gas to come in at zero royalty and no production tax because all the low hanging fruit is there. Who wants to go out for the top of the tree offshore?

MS. KING said that she wasn't going to anticipate what other companies' exploration strategies might be. Slide 10 illustrates that some of these large figures are present based on assumptions regarding what might be available in the Beaufort Sea and the Chukchi Sea. The state may be in a position in which it isn't the leaseholder because the field could be on federal lands. Furthermore, the state may not even have the right to get production taxes from some of [these fields].

[5:37:02 PM](#)

MS. KING provided another example in which during an initial open season, consumers in Fairbanks decide that they would like to take some short-haul service. Short-haul service means a shorter toll is taken to take some gas off in Fairbanks. For example, she suggested that it costs \$.50 to get gas from the North Slope to Fairbanks. There was then an expansion of the pipeline and the rolled-in rate treatments caused the rates to increase. Therefore, suddenly a customer in Fairbanks that was paying \$.50 may now be paying \$.56. Ms. King opined that it may be difficult to explain to consumers in Fairbanks that they're paying more to subsidize someone else's exploration volumes that may be in the pipe going to the Lower 48 markets. The aforementioned examples illustrate how the state may want to at least preserve the right to have a debate before FERC regarding whether there has been a subsidy.

[5:38:27 PM](#)

MS. KING, speaking to expansions, specified that ConocoPhillips has particular areas of concern, such as in the case of a small marginally economic expansion for which the incremental costs of fuel and capital costs could be higher. Therefore, ConocoPhillips isn't sure that a small marginal expansion would provide a systemwide benefit. She pointed out that the cost of fuel at the cost of expansion is of concern because the fuel has to be paid in-kind. Furthermore, the incremental capital and operating costs [are of concern] because of the uncertainty with regard to future costs of various items. Ms. King questioned, "If everyone believed that the numbers ... always were going to result in lower tolls ... why would everyone be pushing for this language so hard? If it was always going to be rolled-in rates that benefited the entire system, the FERC policy would cover that." Therefore, ConocoPhillips proposes that FERC should be the adjudicator with expansions. She mentioned that FERC has a process by which parties can argue the rebuttable presumption of rolled-in rates and the state has many tools to incentive

exploration while weighing the situation in regard to the full impacts to the system.

[5:42:09 PM](#)

CO-CHAIR GATTO related his understanding that Ms. King is saying that it's possible that rolled-in rates increase the rates. However, he pointed out that rolled-in rates mean that more gas is being sold and thus more money is coming in "on the bottom end." If rolled-in rates reduce the shipping price, then it results in more gas and a lower price per unit. Even if the rolled-in rates increase, the entity would still have more gas. "So, it isn't a one way where the rates just go up," he surmised.

MS. KING pointed out that the new gas might be gas in which the state or ConocoPhillips has no value [or interest]. She reiterated the preference of preserving the option of debating the issue before FERC.

[5:43:07 PM](#)

REPRESENTATIVE SEATON said that he doesn't see anything from the perspective of ConocoPhillips, as a producer, that prohibits ConocoPhillips from arguing before FERC that there's a subsidy. Furthermore, he said that the legislation doesn't seem to prohibit the state arguing against the rolled-in rates as a subsidy. The legislation merely says that the pipeline has to propose rolled-in rates so long as it's not 15 percent above the initial recourse rate.

MS. KING directed the committee's attention to page 20, lines 26 through page 21, line 5 and on page 21, lines 31 through page 22, line 9. She specified that the legislation does include provisions that specify that the 15 percent treatment of rolled-in rates can't be protested if the inducement package is desired on the resource side. Therefore, the legislation was drafted to obligate the pipeline entity and the shippers to act a certain way before FERC, she opined.

[5:45:19 PM](#)

REPRESENTATIVE SEATON directed attention to line 31 and said that if FERC doesn't have the policy in effect, the presumed rolled-in rates apply. Therefore, if there is a policy that rolled-in rates do apply, [the pipeline entity] could argue however it wants. If that policy has been terminated such that

there isn't a presumption of rolled-in rates, then [the pipeline entity] would argue for it.

MS. KING noted her agreement, and reiterated that this legislation is trying to obligate the parties, both as shippers and as pipeline entities, to act a certain way before FERC that isn't following FERC policy. The aforementioned is of concern for ConocoPhillips, she reiterated.

[5:46:23 PM](#)

REPRESENTATIVE SEATON related his understanding that if FERC reversed its rate, [the state] has the obligation and [desire] to have exploration take place. If incremental rates are utilized, the exploration and utilization won't go forward. The language of concern for ConocoPhillips perseveres the expansion and exploration capability of the state, she surmised.

MS. KING acknowledged that it's a policy call. She specified that her hope is to provide examples by which the state may be placed in a position that subsidizing an expansion may be something that the state may want to reconsider. Ms. King then mentioned that many have pointed out that the application of rolled-in rates in Canada by the NEB is different from the FERC policy and that [the NEB's policy] has proven a successful way to open that basin. However, she opined that FERC's policy has done a good job of opening up the Lower 48 basins as illustrated by the existing interstate pipelines as well as those that are being built and expanded. The legislation as currently written, she reiterated, is trying to obligate [the pipeline entity and the shipper] to argue before FERC for the application of rolled-in rates, even if it's a subsidy.

[5:49:38 PM](#)

REPRESENTATIVE ROSES recalled that Mr. Palmer, TransCanada, testified that in Canada rolled-in rates are used whether it increases or decreases. He further recalled that Mr. Palmer said that in the U.S. rolled-in rates are used when it increases but not when it decreases. Therefore, if Mr. Palmer's statement is correct, any savings are incremental and only increases are rolled in. He asked if that's FERC policy.

[5:50:32 PM](#)

MS. KING said that she can't attest to what Mr. Palmer said. However, she reiterated that FERC policy is that if there's a

systemwide benefit, then the expansion will be treated as a rolled-in expansion. If the incremental costs outweigh what the initial shippers are paying, then it will be treated as an incremental expansion and the parties would have to pay the incremental rate. That has been FERC policy since 1999. However, she pointed out that with Order 2005A FERC deviated from its policy by saying that for the Alaska natural gas pipeline, FERC's bias will be a rebuttable presumption of rolled-in rates up to the point of a subsidy. The FERC was trying to strike a balance for the Alaska natural gas pipeline, she opined. Ms. King clarified that ConocoPhillips is requesting that the language [in Order 2005A] be the language under which ConocoPhillips is able to operate. Although there are a number of cross-border pipelines even though the NEB and FERC have different systems, she pointed out that the U.S. policy has been successful in opening basins as well. Therefore, she said she is confident that pipelines are being built today under FERC policy.

[5:52:16 PM](#)

CO-CHAIR JOHNSON asked if Canada caps its return on investments for a pipeline company.

MS. KING said that she hasn't personally researched the return on equities allowed by NEB. She offered to follow up on that point if ConocoPhillips has information on it.

[5:53:20 PM](#)

CO-CHAIR GATTO opined if a rolled-in rate is offered, it's difficult to compete with the old pipelines that are fully depreciated. Therefore, the environment is different for an existing pipeline in the Lower 48 and the proposed Alaska natural gas pipeline.

MS. KING noted her agreement, but pointed out that new interstate pipelines are being built with the policies of both FERC and NEB.

[5:55:28 PM](#)

REPRESENTATIVE SEATON related his understanding that FERC changed its policy in the Lower 48 where there are many pipelines since new pipelines weren't being built because they couldn't offer competitive rates unless incremental rates were required in the old pipelines in order to create a competitive

environment. Therefore, the incremental costs had to be borne by the gas going through the old pipeline so that there was competition and new pipelines could be built. The situation, however, in Alaska is trying to open a basin pipeline rather than competition with an older existing pipeline. He related his further understanding that the new FERC policy in Alaska is present because of the lack of competition in Alaska. He surmised that the aforementioned is why FERC had the rolled-in rate presumption.

MS. KING said that she definitely doesn't have all the history of every pipeline. However, she pointed out that some of the older pipelines can use much fuel for their compression. She highlighted that ConocoPhillips continues to carry a cost estimate for the Alberta to Lower 48 part of the project in order to know the next best alternative. The choices are as follows: building new, expanding existing pipelines, and utilizing existing capacity. To compare the aforementioned choices one would review the incremental costs and incremental fuel [costs] of each option at the time the commercial decision is made.

[5:58:14 PM](#)

MS. KING continued with slide 11, titled "Suggested Changes to AGIA." She highlighted that ConocoPhillips recommends converting AGIA bid requirements to bid variables. The aforementioned, she opined, will allow other proposals as well as other commitments and inducements to be put forward for consideration. Further, such a conversion would allow resource-owner applicants to propose packages with resource terms and foster greater quantity and quality of proposals. She then pointed out that ConocoPhillips suggests amending the exclusivity provisions to protect Alaska's options because the treble damages provision is particularly problematic for the state if it wanted to advance an alternative project if the licensed project has stumbled. Moreover, the exclusivity provisions impair the state's ability to agree on resource terms in the future. She related that ConocoPhillips likes and supports the state coordinator/streamlined permitting model with the federal legislation and that should be something similar for Alaska and it should be available to all parties.

[5:59:54 PM](#)

MS. KING concluded her presentation as follows:

We want to achieve a framework that promotes the development of the ANS gas resources and addresses the legitimate interests of all parties. The project is difficult; it is a challenge for us to work through these issues. ... we think it's important that we all try to get on the same team and find a way to compromise. Like most major decisions in life, compromise is necessary for all parties to advance things going forward. We have to keep focus on what it takes to get the project moving forward, and we can't lose sight that the costs are going up on this project. I know from my own perspective, the recent announcement of the McKenzie Delta project, the cost increases on that, causes at least me to want to take a step back and pause.

[6:01:03 PM](#)

MS. KING, in response to Co-Chair Gatto, said that she doesn't know the exact wording being used by the McKenzie Delta partnership. However, she related her understanding that the project is on hold. To her knowledge, she didn't believe that project has reached the point of laying pipe. In further response to Co-Chair Gatto, Ms. King opined that the cost increases have impacted the project. Therefore, ConocoPhillips is concerned that costs for the Alaska gas pipeline project have increased similarly. Ms. King emphasized the need to keep in mind the real prize: the tens of billions of dollars in new tax and royalty revenues, the countless jobs, and the new economy. In order to achieve the aforementioned, the risks must be realistically addressed and the risk and rewards balanced. "No company will work harder than ConocoPhillips to make this project a reality," she said.

[6:02:57 PM](#)

REPRESENTATIVE ROSES directed attention to the language on page 12, line 5, of CSHB 177(O&G) and asked if that would allow ConocoPhillips to put in some of the criteria Ms. King has discussed.

MS. KING said that the language might allow a company to provide something additional. However, if that company hadn't met the basic requirements, she still questioned whether [FERC] would be able to reject the bid as a nonconforming bid.

[6:04:01 PM](#)

CO-CHAIR JOHNSON, regarding exclusivity, opined that there needs to be a winner. He then inquired as to Ms. King's view of the exclusivity if the resource terms were eliminated and the coordinator and the state agencies were made available to anyone interested, but the treble damages were maintained.

MS. KING said she would want to see the specific language and how the elimination of the resource terms would link with the treble damages clause. However, she stated that ConocoPhillips supports having the coordinator and streamlined permitting to apply to any project. She noted that Co-Chair Johnson's proposal is intriguing. In further response to Co-Chair Johnson, Ms. King said that she would be happy to work with him on some language.

6:07:10 PM

REPRESENTATIVE SEATON related his understanding that if there are too many evaluation criteria, the chances are that there won't be very many bids because those interested won't know how the project will be evaluated. He related his further understanding that Ms. King disagrees with the aforementioned notion.

MS. KING clarified that most of her testimony today has been in regard to the list of requirements rather than the evaluation criteria.

REPRESENTATIVE SEATON opined that Ms. King wants to move things from requirements to bid variables for evaluation, and therefore the requirements specified under proposed AS 43.90.130 (3)-(20) would be moved into evaluation criteria and the only must-have then is to complete an application. He questioned how moving the conditions to bid variables creates an environment in which no one knows what to put forward because it's based on the subjective evaluation on 30 criteria.

MS. KING opined that bid variables clearly send a signal of what's important to the state. Furthermore, bid variables allow the discretion to the parties to say which variables they can meet. Ms. King then emphasized that the state already has a significant challenge in regard to how to evaluate [the criteria]. Since the project hasn't been defined, it's likely that there won't be exact apples-to-apples comparisons on these projects. Therefore, the state will be left to develop criteria that best fits the interest of the state.

REPRESENTATIVE SEATON pointed out that bid variables could be evaluated in many different ways, which is different than specifying that an entity must meet certain criteria and the evaluation occurs on the net present value of the product and the probability of success.

[6:12:08 PM](#)

REPRESENTATIVE SEATON recalled discussions regarding the gas treatment plant (GTP) and the presence of carbon dioxide. He asked if ConocoPhillips were bidding on the project, would it consider reviewing the GTP. He further asked what ConocoPhillips would do with the carbon dioxide, questioning whether it would be sold to a field for enhanced recovery.

MS. KING explained that ConocoPhillips has always envisioned the GTP being part of the midstream of the project. She opined that the GTP is a critical portion of the project and is a significant portion of the cost of the project. She recalled that \$2.5-\$3 billion in 2001 for the project. The GTP would offer the services to remove the impurities, find a location to dispose of them, and would be the first compressor station where it would compress and chill the gas. She then turned specifically to the actual disposal of the impurities, and pointed out that it's a process by which the GTP could make arrangements with working interest owners in an existing field and find a zone in which to inject [the impurities] in a nonproductive zone. She highlighted that there is much technical work to be done to determine whether it's worthwhile to dispose [impurities] and the true cost of doing so. In further response, Ms. King confirmed that it may have value or it may be a cost.

[6:14:38 PM](#)

REPRESENTATIVE SEATON drew attention to the resource components, and asked if Ms. King viewed those as being linked to initial firm transportation or available to everyone that comes along at any other time.

MS. KING related her understanding that the administration has tied it to the signing of a long-term shipping commitment. If there was going to be a stability provision, then some type of mechanism to tie it to some volume or component of gas is necessary, she opined. As mentioned earlier, Ms. King opined that there is value in having the terms apply to all working

interest owners as it creates more alignment across the North Slope. She said that there will have to be a discussion with regard to the breadth of the resource issues and ConocoPhillips is open to those discussions. "Clearly, for the initial shipping commitment period, in order to get those long-term 20-year shipping commitments is what's going to kick-start this project," she said.

[6:16:32 PM](#)

REPRESENTATIVE SEATON referred to page 6, lines 3-5, and asked if ConocoPhillips has a problem with a two-year reassessment through nonbinding solicitations or other means in order to determine if there is additional gas that needs to be shipped.

MS. KING encouraged the committee to change that particular requirement to a bid variable. She then said that she would like to think through this requirement a bit more because she anticipated that as soon as an expansion or new discovery is found under the normal course of action the pipeline would be contacted right away. A voluntary expansion process would seem to be the first course of action, she opined.

[6:18:27 PM](#)

REPRESENTATIVE SEATON posed a scenario in which the language on page 6, lines 3-5, is maintained, and asked if Ms. King would prefer the language to refer to "binding, nonbinding, or other means."

MS. KING reiterated that her focus is on making it a bid variable, and she offered to give it more thought and provide the committee with her thoughts.

[6:19:10 PM](#)

REPRESENTATIVE ROSES asked if ConocoPhillips would or would not have an interest in bidding on this project if CSHB 177(O&G) moves forward as currently written.

MS. KING answered that she would not recommend to the management of ConocoPhillips to bid on the project unless some changes are made to the legislation.

[6:19:36 PM](#)

CO-CHAIR GATTO opined that bid variables are troubling. The [goal] is to obtain some qualified applications, which means [fulfilling] 20 requirements. From that group, the desire is to have bidders. The commissioners will take the variables in those proposals from the qualified applicants and will weigh the bid variables in order to choose the licensee. At that point, there's only two requirements: the net present value to the state and the likelihood of success. Co-Chair Gatto opined that this isn't a bad plan. Co-Chair Gatto suggested that Ms. King provide the committee with a plan under which ConocoPhillips would be able to bid and specifies what a bid variable is. Co-Chair Gatto concluded by expressing the hope that ConocoPhillips will be a strong player.

[HB 177 was held over.]

[6:27:04 PM](#)

#### **ADJOURNMENT**

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 6:27 p.m.